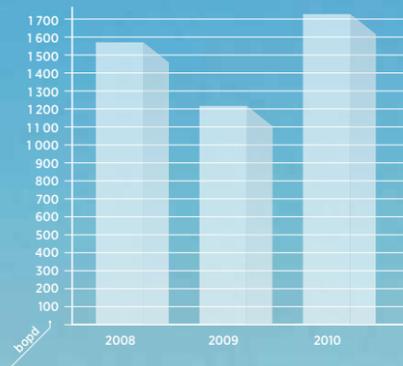


DNO INTERNATIONAL ASA
ANNUAL REPORT AND ACCOUNTS 2010



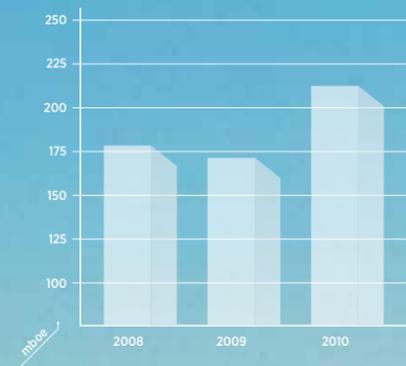
PRODUCTION WI (bopd)

17,381



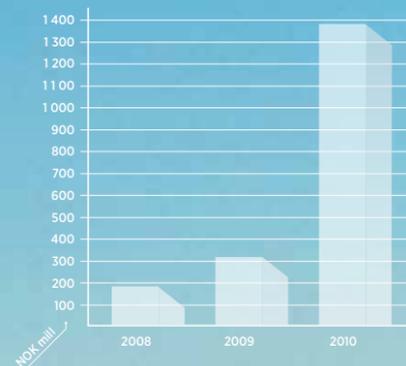
RESERVES AND RESOURCES mboe

211.2



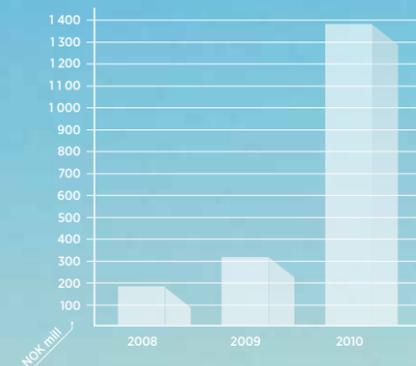
REVENUES NOK million

1,252



CASH POSITION YEAR END NOK million

1,385



5 QUESTIONS FOR HELGE EIDE

DNO's Managing Director responds.

01 Could you give a brief account of 2010, Helge Eide?

We increased the overall oil production to the Company in 2010, and delivered a solid cash flow from operations. This is the key achievement in 2010.

The increased production comes as a result of increased deliveries to the local market in Kurdistan, and still without export we were able to deliver strong cash flow from these operations.

As the fields we are currently operating in Yemen are maturing we were anticipating a continuing decline in production from Yemen, but we are pleased to note that we managed to keep production at a higher level than expected.

In Yemen we also concluded to commence the development of the Yaalen discovery in Block 47, which will add new production volumes from the country already next year.

We re-commenced exploration drilling in the second half of the year and two of the wells discovered oil, one in Yemen and one in Kurdistan. More work is required to conclude the size and significance of these new discoveries which we plan to undertake in 2011.

Our exploration efforts in Mozambique have not paid out so far. We drilled one exploration well in 2010 and a second one in the first quarter of 2011. Unfortunately, no commercial discoveries were done in these wells. Dry wells are of course disappointing, but it is important for DNO as a fully fledged E&P company to have a broad portfolio, which includes exploration in new and virgin areas.

All in all 2010 proved to be a good year to

DNO and this comes as a result of dedicated and hard work from our organization.

02 How is the company's financial situation?

DNO improved its financial position during 2010. This was a combination of solid cash flow from operations, sale of treasury shares and new equity raised. At the turn of the year, DNO's cash position had increased to around NOK 1.4 billion, an increase of around NOK 1.1 billion during the year.

Our improved financial position gives the company a good financial platform for further growth going forward.

03 How does the unrest in the Middle East affect DNO's activities?

The unrest in Yemen has not affected our operations. The safety of our employees is obviously DNO's first priority, and we have currently higher focus on security measures both at our headquarters in Sana'a and also in the fields. We are keeping a close eye on the development of the situation and we have contingency plans which can be initiated if the situation deteriorates.

In Kurdistan we have not seen signs of the unrest which we have seen in the Middle-East, and the security situation has remained unchanged

04 What has caused the strong interest that media and investors are showing in DNO?

I think it has to do with the type of Company we are, where we have a more entrepreneurial and untraditional approach both to the way, and

where we operate. The fact that we have been a frontrunner in Kurdistan has probably also contributed to the high interest from media and the financial market.

05 How will you hope to sum up 2011?

The general outlook for DNO at the beginning of 2011 is positive. We have re-commenced export from the Tawke field in Kurdistan which enable the Company to fully utilize its production capacity. We are also currently undertaking an important test program of the Bastora discovery also in Kurdistan, which could form a basis for a new field development. On the top of this we are going to drill two very exciting exploration in this region.

In Yemen we will continue our work to maintain a highest possible production level until we get new production from the Yaalen field next year. We will also hope for successful outcomes from the exploration wells to be drilled this year in Yemen such that we can initiate new fast-track developments.

In addition, we are continuously pursuing new business opportunities, with particular focus on onshore projects in the Middle-East and Africa region. We hope that these efforts will materialize in 2011 forming a platform for a more diversified growth going forward.

In summary I think that 2011 has the potential to be a "break-through" year for DNO where we finally can fully capitalize on our past investments. This will create a solid platform for further growth and thus creating additional shareholder values in the years to come.



2011 has the potential to be a "break-through" year for DNO where we finally can fully capitalize on our past investments.

Highlights 2010

DNO's working interest (WI) production in 2010 was 17,381 bopd compared with 12,285 bopd in 2009. The WI production from the Tawke field in the Kurdistan region of Iraq was 10,661 bopd in 2010. Deliveries from the Tawke field include both crude oil to the local market as well as to the Tawke refinery. In Yemen the WI production in 2010 was 6,720 bopd, an expected decline from 7,749 in 2009. A successful Godah-12 infill well improved production from the Godah field in Block 32 and the well Godah-11 is delivering gas to the gas-for-fuel project in the same block. The infill well Bayoot-10 (Block 53) contributed significantly to and increase in production from the Basement formation.

The partners in Block 47 in Yemen approved the first phase of the field development plan for the Yaalen discovery towards the

end of 2010. DNO commenced the drilling of three exploration wells in three countries in the last quarter of 2010. Hydrocarbons were discovered in two of these wells.

DNO was in 2010 awarded exclusive rights to negotiate for substantial new exploration acreage in Mozambique and Yemen. In Yemen, a Memorandum of Understanding (MoU) for Block 48 was signed in October, and a first draft of a PSA has been received. The negotiations commenced in the first quarter of 2011. In Mozambique, DNO will in 2011 start negotiations for the Lower Zambesi block, located north of the Inhaminga block, in an unexplored area.

Operating revenues for 2010 were NOK 1,252 million, an increase of 44% from 2009, mainly due to higher production from the Tawke field and higher achieved oil prices

in Yemen. Operating profit for 2010 was NOK 157 million and netback was NOK 380 million. Provisions for special items have affected the net result for 2010 negatively by NOK 525 million (NOK 330 million in arbitration costs and NOK 195 million in impairment of the investment in Det norske oljeselskap ASA), and the net loss for 2010 was NOK 283 million compared to a loss of NOK 270 million in 2009. Adjusted for these provisions the net profit for 2010 would have been NOK 242 million.

The Company has increased its cash position during 2010 by tight capital discipline, solid operations and proceeds from divestment of treasury shares. New equity was raised in November, where the gross proceeds were NOK 360 million. The cash position at year end 2010 was NOK 1,385 million.

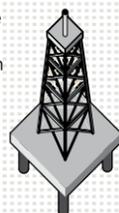
Condensed tables

NOK mill	2010	2009
Income statement		
Sales	1,251.8	869.0
Gross profit	633.1	209.7
Profit/(-loss) from operating activities	156.8	-179.1
Net loss	-282.9	-269.6
Balance sheet		
Non-current assets	3,503.5	3,732.6
Current assets	1,889.2	659.8
Total assets	5,392.7	4,392.4
Equity	2,109.1	1,578.7
Non-current liabilities	2,024.2	2,565.3
Current liabilities	1,259.4	248.4
Equity and liabilities	5,392.7	4,392.4
Cash flow		
Net cash from operating activities	524.9	-53.3
Net cash used in investing activities	-178.3	392.1
Net cash (used in)/from financing activities	714.3	-183.5
Net increase/ (decrease) in cash	1,061.1	155.5
Cash at beginning of the period	303.4	176.1
Exchange gain/ (losses) on cash	20.2	-28.2
Cash at end of the period	1,384.7	303.4

Key figures

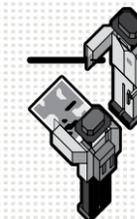
NOK mill	2010	2009
Key financials		
EBITDA	473.7	121.9
Netback	379.6	29.8
Acquisition and development cost	151.6	672.8
Exploration cost expensed	56.2	155.8
Price and production		
Working interest production (mboe)	6,344	4,484
Working interest production per day (boe)	17,381	12,285
Net entitlement production (mboe)	4,099	3,064
Net entitlement production per day (boe)	11,229	8,394
Achieved sales price, (USD/bbl) net entitlement	51.49	47.37
Key performance indicators		
Lifting cost, (USD/bbl)	8.05	13.05
DD&A, (USD/bbl)	12.96	16.10
Netback (USD/bbl)	10.13	0.61

1971 DNO ASA was founded in 1971 under the name Det Norske Oljeselskap AS to engage in petroleum exploration and production activities. It was the first Norwegian oil company to be listed on the Oslo Stock Exchange. DNO's exploration and production activities in the first ten years were at the British and the Dutch part of the North Sea, and in 1974 the first revenues were generated from the Heather field on the UKCS. The company was also involved in drilling activities, building mini refineries in the US, and investing in several rigs in collaboration with the Odfjell group and their deep-water rigs. As the operations in the US failed in 1977, the financing of other activities became difficult, and in 1979, the number of employees was therefore reduced to five people.



1984 The oil prices skyrocketed from USD 12 to over USD 30 from 1978 to 1980, saving DNO, which began its battle for a piece of the action on the Norwegian Continental Shelf (NCS). In 1984, DNO was one of four companies to be awarded license interests on the NCS by the Norwegian Parliament.

1996 In 1991, DNO sold all its petroleum licenses, and in order to appear as a pure investment company, changed its name to DNO AS. A fluctuating market resulted in short-term strategies and various interests tried to control the company. In 1995, Berge Gerdt Larsen bought 30% of the shares and with new management and board the company changed its strategy to focus on development of small oil fields and tail-end production. In 1998, the company became operator and full owner of the Heather Block (UKCS), and expanded its activities into the Middle East where it started operations onshore in Yemen.



2000 In 2000, the presence in the Norwegian part of the North Sea was re-established with five licenses, and in 2002 the company was approved by the Norwegian authorities as operator. In Yemen, the first production was initiated in 2000 from the DNO-operated Tasour field. In 2003, DNO divested its assets in the UK and certain Norwegian assets through a sale and purchase agreement with Lundin Petroleum.

Strategies

The overall objective is for DNO to deliver increased shareholder value and significant growth within its business areas.

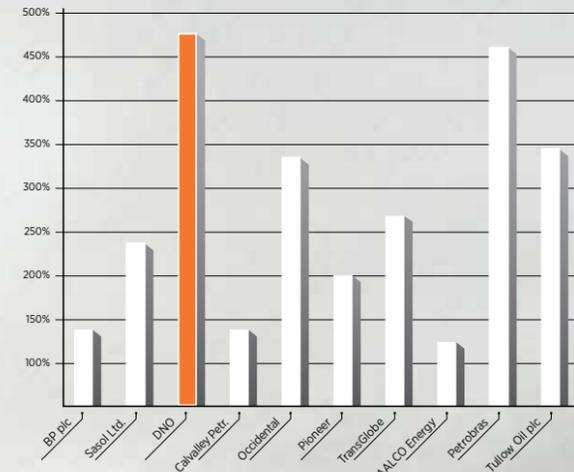
Such growth shall come from a more diversified portfolio of petroleum assets, as well as a restructuring of the asset portfolio. DNO has a proven track record of value creation through smart exploration, fast track/low cost development and cost efficient operations of petroleum assets. The Company's strategy is based on these key success factors during the past growth cycles.

- DNO's operational focus shall be onshore exploration and production activities
 - DNO shall preferably operate its licenses or alternatively act as an active participating partner
 - DNO will pursue and assess various opportunities for increased shareholder value creation through asset restructuring and/or optimisation
 - DNO shall use best practice approach from E&P companies and contractors in the Company's operations
- DNO shall maintain a solid financial position, providing sufficient resources to reach its operational and financial goals
 - DNO's organisation shall be lean with in-house core competence in selected disciplines such as subsurface, field development and drilling technology
 - DNO shall operate under a no-blame culture, and the Company's organisational philosophy shall be based on open communication and full loyalty to the line of command

Market/Competitors

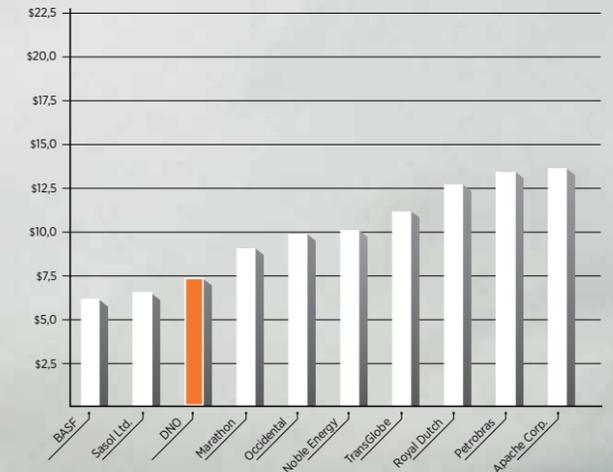
DNO has its main activities in the Middle East and currently holds oil and gas assets in Yemen and the Kurdistan region of Iraq, in addition to the UK Continental Shelf, Mozambique and Equatorial Guinea.

Reserve replacement ratio in % - 3 year 2007-2009



Source: IHS Herold, 2010 Global Upstream Performance Review, Middle East and Africa

Finding & Development Costs USD/bbl - 3 year 2007-2009



Source: IHS Herold, 2010 Global Upstream Performance Review, Middle East and Africa

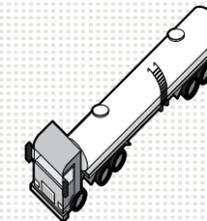


2004 In 2004, DNO signed production sharing contracts with the Kurdistan Regional Government in Northern Iraq. Further on, 9 new licenses in Norway and Yemen were secured. DNO delivered significant value to the shareholders in 2005 through two dividend payments in cash and treasury shares. 2005 was also an important year for the Yemen operations, with startup of production from the Nabrajah field.

2006 An important breakthrough for DNO came in 2006 with the Tawke oil discovery in the Kurdistan region of Iraq. DNO also opened an office in Dubai, from where the Northern Iraq operations are managed. DNO also participated in a discovery at the Goliat field in the Barents Sea (Norway), adding significant volumes to the reserve and resource base.

2007 In June 2007 test production commenced from the Tawke field in Kurdistan, and DNO drilled its first well as operator on the NCS. Later that year, DNO listed its subsidiary NOIL Energy ASA and signed an integration agreement with Pertra ASA, to create a new oil company "Det norske oljeselskap ASA". DNO changed its name to DNO International ASA.

2009 During 2008 and into 2009, the Tawke phase 1 development and the tie-in to Iraq's northern pipeline were finalized and in May 2009 DNO was given formal notice from KRG to start export from the field. However, the export period only lasted a few months, and the export was stopped in September - awaiting agreement between the federal government in Baghdad and the KRG. During 2009, DNO divested part of its shares in Det norske oljeselskap and the ownership share fell below 20%.



2010 During 2010, Tawke crude oil was delivered to the local market, awaiting an agreement on the payment mechanism for export. In December 2010, the partners in Block 47, with DNO as operator, committed to the first phase field development of the Yaalen field in Yemen. DNO divested all of its treasury shares in March and raised new equity in November, bringing the cash position up to approximately NOK 1.4 billion at year-end.

The Kurdistan region of Iraq

DNO has three production sharing contracts (PSC) in the Kurdistan region of Iraq. A major milestone was reached when the Tawke discovery was made in 2006. DNO has built production facilities capable of delivering more than 50,000 bopd. DNO has a local office in Erbil in the Kurdistan region of Iraq, and an office in Dubai from where the activities are managed.

Key figures:

Sale of oil 2010	NOK 545.5 million
Netback 2010	NOK 112.8 million
Production local market 2010 (working interest)	10,661 bopd
Lifting cost 2010	USD/bbl 3.64
Producing wells at year-end 2010	11

Yemen

DNO participates in five blocks in Yemen, whereof three are producing blocks. DNO is the operator on two of the producing blocks. DNO has been present in Yemen for over 10 years, and has an office in the capital Sana'a.

Key figures:

Sale of oil 2010	NOK 706.3 million
Netback 2010	NOK 390.9 million
Production 2010 (working interest)	6,720 bopd
Lifting cost 2010	USD/bbl 15.27
Producing wells at year-end 2010	50

Africa

DNO has a license interest in the Inhaminga block in Mozambique, which expires in June 2011. DNO was in the fourth licensing round in 2010 awarded the right to negotiate an Exploration and Production Contract for the block Lower Zambesi. The Lower Zambesi block is located north of the Inhaminga block in a previously unexplored area. DNO has an office in Maputo.

DNO has a 5% interest in the offshore Block P in Equatorial Guinea. Work is ongoing related to obtaining approval of a license extension period, in addition to a work program for the drilling of 1-2 wells.

UK

DNO's license P1067 on the UK Continental Shelf is located in a mature area of the North Sea. The P1067 license contains the Mulle discovery in the Brent reservoir, currently under evaluation for a possible appraisal well to high grade the resource potential.

DNO is represented in the UK with an office in London.



DNO is an independent pioneer oil company and serves as operator and active license partner. Our main focus areas are onshore in the Middle East and Africa, but we also have interest in an offshore license on the UK Continental Shelf. Currently, our production is generated from oil assets in Yemen and in the Kurdistan region of Iraq.

Pioneering in Kurdistan

The Kurdistan region of Iraq is regarded as highly prospective and DNO expects continued growth through exploration and field development.

DNO entered Kurdistan in 2004 as one of the first international oil companies to secure a production sharing agreement in the region. The first oil discovery at the Tawke field was made in 2006 and a fast track development commenced. A total of 14 wells have been drilled to date, of which most are now connected to the Central Processing Facility (CPF). In addition, a topping plant/refinery producing diesel, fuel oil and naphtha has been installed at the CPF. Test production of oil from the Tawke field started in 2007, representing a break-through for the growth of the petroleum industry in the region. In 2009, the field was connected to the existing northern pipeline system through Iraq, and export of crude oil started in June with a test period of approximately 3 months. During 2010, the crude oil production has been sold to domestic buyers together with refinery products from the Tawke refinery. Export re-commenced in February 2011 with a gradual increase to more than 50,000 barrels of oil per day. The facilities have been tested at 65,000 barrels of oil per day.

Exploration drilling

DNO has interests in two other licenses in the Kurdistan region of Iraq. During 2010, a test of the Benenan discovery in the Erbil license was carried out, and a new exploration well; Bastora-1, was started. A commercial evaluation of these discoveries is ongoing and will be completed and filed in a report to the authorities during 2011. In the Dohuk license, studies were undertaken in 2010 as preparations for

drilling of the exploration commitment well Summail-1, planned to be spudded in April 2011. In addition, the exploration well Peshkabar-1 on the west structure of the Tawke license area will be drilled in 2011.

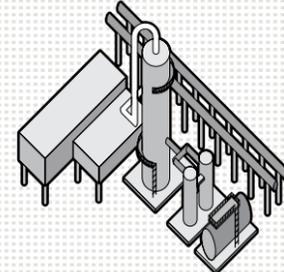
DNO's net entitlement revenues from the Tawke oil production in 2010 was NOK 546 million vs. NOK 167 million (excluding export) the year before. The gross profit consequently increased to NOK 288 million (vs. NOK 16 million in 2009) but due to accruals related to third party claims (reference is made to the note on arbitration page 82), there was a loss for the Kurdistan segment of NOK 66 million (vs. a loss of NOK 122 million in 2009).

Ambitious program

DNO regards the Kurdistan region of Iraq as highly prospective and the field development of Tawke has been a major milestone for the Company. DNO has an ambitious work program for this region in 2011. This include increased production from the Tawke field and drilling of two high-impact exploration wells in Dohuk and Tawke PSC agreement areas, in addition to receiving test results of the Bastora-1 exploration well in the Erbil PSC, which may trigger a possible field development. Further on, we expect to record crude oil export and see a significant increase in sales and profits when a payment mechanism and the Petroleum Law and Revenue Sharing are effective.

The activities in the Kurdistan region of Iraq are managed from a business unit head office in Dubai, with a local office in Erbil, and subsurface expertise in Oslo.

KURDISTAN FAST FACTS 2010



Annual production WI (bopd)

10,661

Remaining reserves and resources (mboe) at 31 December 2010

193.5

Number of licenses/PSCs

3

Total workforce at year-end

253



Export re-commenced in February 2011 with a gradual increase to more than 50,000 barrels of oil per day.

Oil is an important part of Yemen's economic foundation, and DNO will continue working closely with the authorities to further develop the oil resources in the country.

Fast track, low cost

In Yemen the fields are mature, but low cost development of recent discoveries will add new revenues in 2012.

DNO entered Yemen in 1998 and was approved as operator in the same year. The Company quickly expanded the operations in the country through successful exploration and fast track development. Currently, DNO has an interest in 5 licenses in Yemen, all of them located in the prospective Sayun-Masila basin. Three of the blocks are producing and these have been a growth engine for DNO enabling the Company to finance and expand exploration activities in the country. During 2010, DNO and the partners committed to a new field development in Block 47. The Yaalen phase 1 development will be developed with local processing facilities with a capacity of 5,000 bopd. In phase 2 the capacity will be increased to 10,000 bopd with pipeline tie-in to the neighbouring Nabrajah field. In November 2010, DNO commenced drilling of the exploration well Gabbain-1 in Block 72. Oil was encountered in a Jurassic sandstone (Kohlan Fm), and the well was tested early in 2011. Further appraisal work will be undertaken.

Increased oil prices
DNO's net entitlement revenues

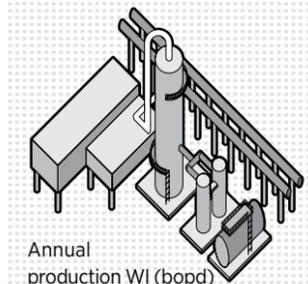
from Yemen in 2010 were NOK 706 million versus NOK 702 million the year before. The production was lower than the year before, but the oil prices increased by 33%. The gross profit consequently increased to NOK 363 million (vs. NOK 210 million in 2009). Due to the higher gross profit and lower exploration costs, the segment result for Yemen was NOK 347 million (vs. NOK 22 million in 2009).

New wells

Oil is an important part of Yemen's economic foundation, and DNO will continue working closely with the authorities to further develop the oil resources in the country. Three new exploration wells are expected to be drilled in 2011. Further infill drilling will hold back the natural production decline and new production is added when Yaalen field development is completed in 2012. Through successful infill drilling and the field development commitment of Yaalen in 2010, we have been able to replace all produced reserves during the year.

The activities in Yemen are managed from the DNO office in Sana'a, with subsurface and managerial expertise in Oslo and Bergen.

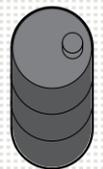
YEMEN FAST FACTS 2010



6,720

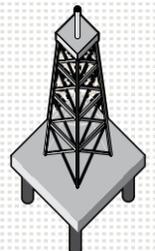
Remaining reserves and resources (mboe) at 31 December 2010

12.9



Number of licenses/PSCs

5



Total workforce at year-end

269

A solid recovery

DNO strives to maintain a strong financial position and ensure solid return of investments.

The DNO share is traded on the Oslo Stock Exchange (OSE). The share price increased 73% in 2010, providing a solid recovery throughout the year. Share trading liquidity remains strong, as the total number of trades in 2010 reached almost 252 million. No dividend was paid in 2010. Market capitalization as of 31 December 2010 increased to NOK 8.6 billion from NOK 4.6 billion at the end of 2009.

DNO enjoys wide analyst coverage and the Company is currently actively followed by 14 securities firms in Oslo and London.

Share capital and shareholder structure

At year-end 2010 the share capital was NOK 237.5 million consisting of 949 856 912 shares with a par value of NOK 0.25. All shares are fully paid.

Currently, DNO has approximately 14 000 private and institutional shareholders, where the largest shareholder is RAK Petroleum Public Company Limited, an oil and gas company based in the United Arab Emirates, holding a 30 % ownership interest. International ownership has increased in recent

years and currently 65% of the shareholders are based outside of Norway.

Private placement of equity

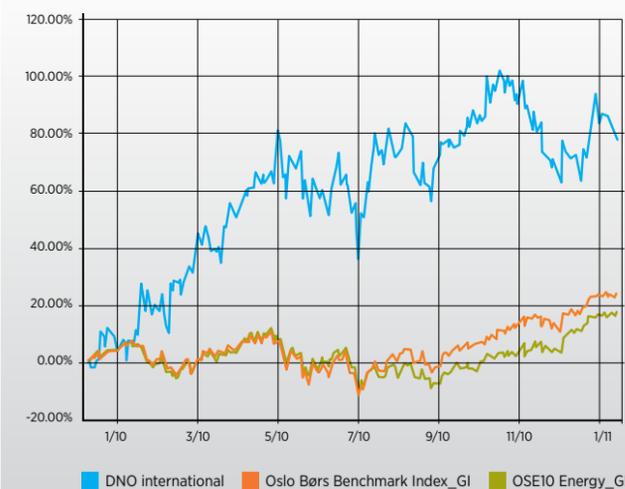
New equity was raised in November 2010, when 45 million new shares were issued at a subscription price of NOK 8 per share. The private placement was more than 100 % oversubscribed.

The proceeds from the private placement will be used for development and appraisal drilling, new license entries and general corporate purposes. The Board of Directors in DNO resolved to waive pre-emptive rights for existing shareholders in the private placement to utilize an opportunity to capitalize the Company under positive capital market conditions, based on an accelerated book building process.

Dividend policy

In its annual dividend proposal, the Board of Directors will, in addition to financial results, take into consideration DNO's investment plans and financial requirements related to the Company's license portfolio.

Share price development 2010



Key figures per share/ Share price development

	2010	2009
Share price at 31 December	9.07	5.07
Lowest closing share price	4.97	3.61
Highest closing share price	9.78	8.57
Total trades on OSE (NOK 1,000)	251,932	329,809
Marked cap at 31 December (NOK billion)	8.62	4.58
Number of shareholders	14,387	16,660

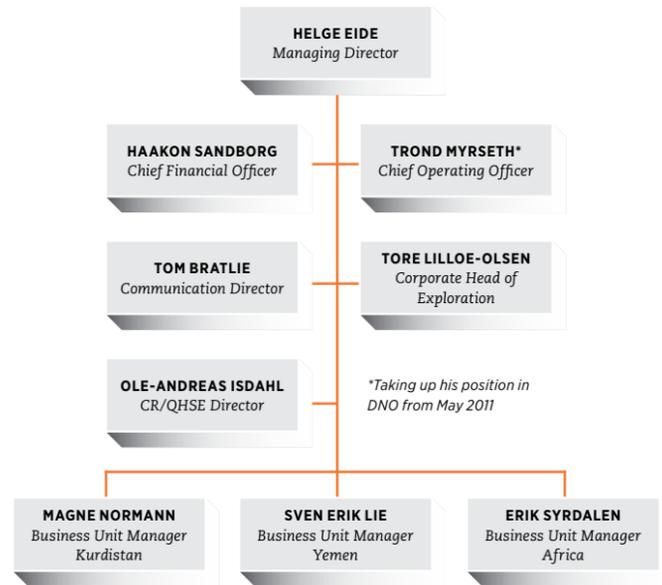


DNO enjoys wide analyst coverage and the Company is currently actively followed by 14 securities firms in Oslo and London.

DNO's standard of ethics and core values comprise a solid platform for good corporate governance.



CORPORATE MANAGEMENT



Management presentation

The management group in DNO International ASA is comprised by the corporate management team consisting of five people and the heads of the three business units. The corporate functions are monitoring and managing DNO's business activities at the group level, and with a specific and centralized responsibility for communication, finance and QS-HSE activities.

The business activities have been organized in three geographical business units, each headed by a business unit manager. They are responsible for the day-to-day running of operations. In addition, there are three expertise staff managers with specific company-wide responsibility within the geological, geophysical and petroleum engineering areas.

The management group of DNO has extensive experience from leading positions in companies engaged in all phases of the oil and gas business.

The legal structure of the group consist of the parent company DNO International ASA with five 100% owned subsidiaries; DNO Iraq AS, DNO Yemen AS, DNO Mozambique AS, DNO Invest AS and DNO UK Ltd.

MANAGEMENT TEAM



Helge Eide (1954)
Managing Director,
has served as Managing Director since 2000 and has more than 30 years of experience from the oil industry. He holds a Bachelors Degree in Petroleum Engineering.



Haakon Sandborg (1958)
Chief Financial Officer,
joined DNO in 2001, and has more than 25 years of experience from financial positions in the oil industry and in banking. He holds a Masters Degree in Business Administration.



Tom Bratlie (1967)
Communication Director
Tom Bratlie took up the position as Communication Director of DNO International in 2010. Tom has twenty years various experience from PR and Corporate communication positions.



Tore Lilloe-Olsen (1956)
Corporate Head of Exploration,
has been with DNO since 2007, he has over 20 years of experience from the oil industry. He holds a Master of Science in Geology and Geophysics.



Ole-Andreas Isdahl (1962)
CR/QHSE Director,
has been with DNO since 2006 and has extensive experience from Norwegian and international operations in the oil and gas industry.



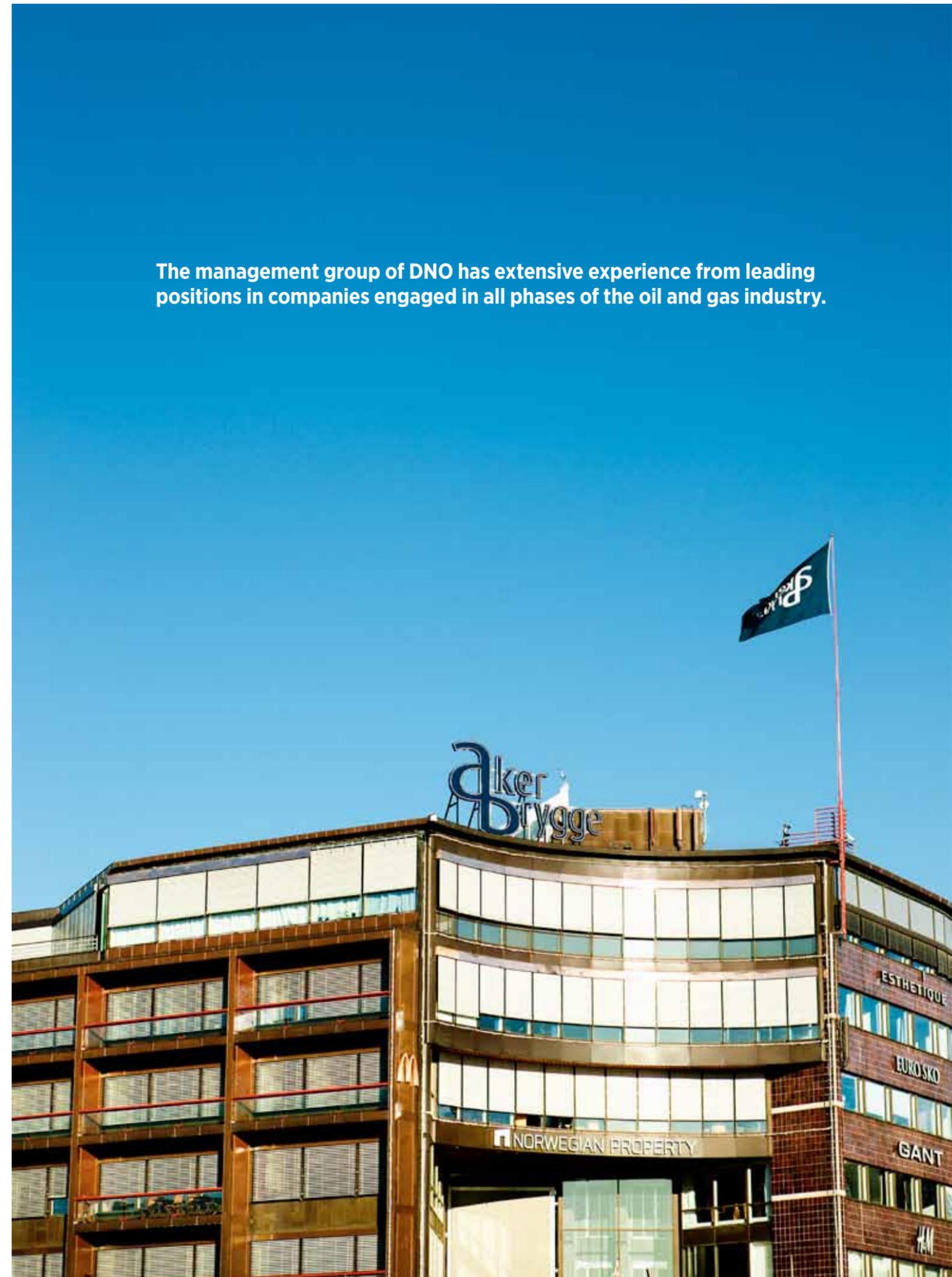
Magne Harold Normann (1948)
Business Unit Manager Kurdistan,
Executive Vice-President for DNO's international activities from 1999 to 2003 and has since then been in charge of DNO's activities in Kurdistan region of Iraq.



Sven Erik Lie (1954)
Business Unit Manager Yemen,
has been conducting all of DNO's activities in Yemen since 1998, and has more than 20 years of experience from the oil industry. He holds a Master of Science in Geology.



Erik Syrdalen (1962)
Business Unit Manager Africa,
has been with DNO since 2005 and has more than 20 years of experience from the oil industry. He holds a Masters degree in Geophysical Engineering.



The management group of DNO has extensive experience from leading positions in companies engaged in all phases of the oil and gas industry.



BOARD OF DIRECTORS

Berge Gerdt Larsen

Chairman of the Board

Berge Gerdt Larsen has served as the Executive Chairman since 2002. Mr Larsen has more than 30 years experience from the oil and offshore industry and he holds a BSc in chemical engineering and a masters degree in business administration. Berge Gerdt Larsen is due for re-election in 2011.



Shelley Watson

Deputy Chairman

Shelley Watson is Group Commercial Director in RAK Petroleum Public Company Limited. She was elected to the Board of Directors at the AGM in June 2010. Shelley Watson holds a First Class Honors degree in Chemical Engineering along with a Bachelor of Commerce degree. Ms Watson is due for re-election in 2011.



Bijan Mossavar-Rahmani

Non-Executive Director

Bijan Mossavar-Rahmani is Chairman of the Board of Directors and Chief Executive Officer of RAK Petroleum Public Company Limited. He is a graduate of Princeton (AB) and Harvard Universities (MPA). Mr. Mossavar-Rahmani was elected to the Board of Directors at the EGM in March 2011 and is due for re-election in 2011.



Marit Instanes

Non-Executive Director

Marit Instanes was elected to the Board of Directors at the Extraordinary General Meeting in November 2007. In addition, she is a member of the Audit Committee. Ms Instanes has many years of experience in management, and holds a degree in general management. Ms Instanes is due for re-election in 2011.



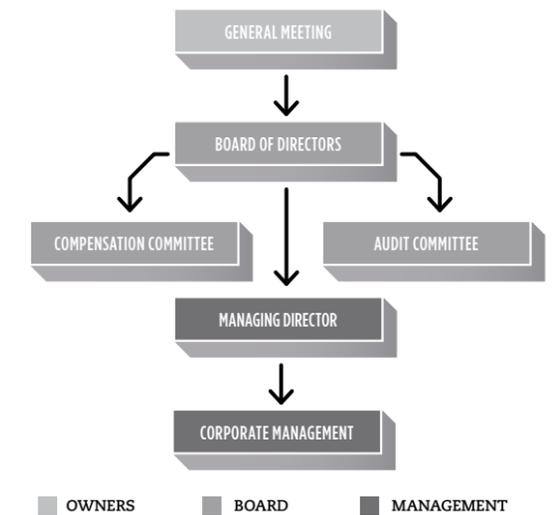
Gunnar Hirsti

Non-Executive Director

Gunnar Hirsti was elected to the Board of Directors at the Extraordinary General Meeting in November 2007. In addition, he is a member of the Audit Committee. Mr Hirsti has many years of experience in the oil industry and holds a degree in drilling engineering. Mr Hirsti is due for re-election in 2011.



CORPORATE GOVERNANCE STRUCTURE



Governing bodies in DNO Board of Directors

The operation of the Board is governed by Norwegian laws and other legislation, and the board members have a personal responsibility for such compliance. In addition, the operation of the Board is governed by the Company's Articles of Association and the decisions of the General Meeting of DNO. The Board represents all shareholders, and shall manage the business of DNO with the aim of achieving highest possible return on invested capital for the shareholders. The Board of Directors is responsible for decisions within; strategic, organizational, financial, operational and shareholder matters, and appoints the Company's managing director.

At year-end 2010, the Board of Directors in DNO consisted of members with broad experience from the international oil and gas industry.

A new board member, Bijan Mossavar-Rahmani, was elected in March 2011, bringing the total board members to five.

Audit Committee
DNO has since 2008 had an audit committee, and it currently consists of two non-executive directors with financial expertise and experience. The committee is nominated by the Board and the main responsibilities are related to quality control of the Company's financial reporting, and the monitoring of internal control arrangements and risk evaluation systems.

Compensation committee
DNO's compensation committee is nominated by the Board and consists of two board members. The committee considers questions related to the compensation to the managing director and key management.

Corporate Governance statement

Corporate governance deals with the interaction between the owners, the Board of Directors and the management of a company. Good corporate governance enables maximizing shareholder value and reducing business risk, and at the same time ensuring that the Company's resources are utilized in an optimal way.

DNO aspires to comply with the Norwegian Code of Practice (NUES) regarding corporate governance and which comprises 15 main points. On an annual basis, the Board of Directors performs a review of the points, and the section below describes DNO's compliance of the NUES' principles of corporate governance in detail. The review is based on the latest version of the Code which was issued in October 2010.

01 Implementation and reporting on Corporate Governance

DNO has drawn up a special policy on corporate governance, and the Board has decided to comply with the Norwegian Code of Practice. As DNO shares are listed on the Oslo Stock Exchange, the Company is subject to Norwegian securities legislation and stock exchange regulations. The Company aims to comply with all requirements related to the stock listing, and in addition DNO's goal is to meet the expectations of the international capital market.

The foundation for good corporate governance are DNO's value platform and the principles for code of conduct. These outline the corporate standard of ethics and other core values. The DNO code of conduct is a guideline to all employees on how to represent the Company in a prudent and ethical manner.

Further on, the Company's attitude towards corporate responsibility has been defined in detail in the corporate responsibility policy, and is anchored in the ethical guidelines. DNO

is committed to promote sustainable social development by operating in compliance with responsible business principles, carrying out systematic improvement work relating to the external environment, climate and energy and by investing in profitable business projects that can generate positive effects for the society. DNO seeks to align to international standards – such as the UN Global Compact – in its approach towards corporate responsibility.

02 Business

DNO International ASA is an independent international upstream oil and gas company. The articles of association and the Norwegian Public Limited Liability Companies Act form the legal corporate framework for DNO's business operations. The articles of association (can be found on www.dno.no) describes the objectives of the Company's activities, along with provisions for the annual general meeting (AGM) and the Board of Directors. The Company's goals and visions are anchored in a strategy document, which is updated on a timely basis. Through quarterly presentations and other market presentations, DNO reports status on the business activities.

03 Equity and dividends Shareholder's equity

One of DNO's objectives is to maintain a strong credit rating and to ensure healthy capital ratios. DNO monitors capital on the basis of its book equity ratio, and has a policy that this ratio should be 30% or higher. As of 31 December 2010, this ratio was 39.1%. The Board of Directors finds this satisfactory given the Company's business, strategies and risk profile.

Dividend policy

A review is made annually to assess whether payment of dividend should be proposed. The review takes into consideration both planned capital expenditures and cash flows for future periods.

Capital increase

The Board of Directors has been authorized by the AGM to increase the Company's share capital by up to NOK 20 million by issuing up to 80,000,000 shares with a face value of NOK 0.25, at a price and other subscription terms to be stipulated by the Board. The authorization also covers a capital increase against contributions in kind, including in connection with mergers, and is valid for two years from the date of the AGM. In November 2010, DNO International ASA made a private placement of 45 million new shares at a subscription price of NOK 8 per share, covered by this authorization.

Purchase of own shares

The Board of Directors has been authorized by the AGM to buy treasury shares within the framework of the Public Limited Companies Act. Purchases and sales of treasury shares are made when the Board of Directors regards the transaction as favorable for the shareholders.

At 31 December 2010, DNO holds no treasury shares.

Any repurchase of treasury shares is made through the Oslo Stock Exchange.

04 Equal treatment of shareholders and transactions with close associates

DNO has one class of shares and each share gives one vote at the AGM. The articles of association contain no restrictions regarding the right to vote.

Transactions with close associates

Close associates are defined as all parties that have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also close associates if they are subject to common control or common significant influence. All transactions between close associates are based on the principle of 'arms length', which are estimated market prices.

For more information about close associates, please refer to Note 22 in the consolidated financial statements for 2010.

05 Freely negotiable shares

DNO's shares are listed on the Oslo Stock Exchange and are freely negotiable. The articles of association do not contain any restrictions on the negotiability.

06 General Meetings

The AGM is the Company's highest authority. DNO's articles of association and the Norwegian Public Limited Liability Companies Act stipulate the role and mandate of the AGM.

The AGM is to be held by the end of June each year. For the last few years, DNO's AGM has been held in the middle of June. The minutes of general meetings are available on the Company's website.

The AGM shall be convened by written notification to all shareholders with a known address. The notice shall be sent no later than 21 days before the meeting is to be held. The right to attend and vote at the general meeting may only be exercised if the acquisition has been entered in the register of shareholders on the fifth working day before the general meeting (the registration date). When documents relating to issues that are to be dealt with at the annual general meeting have been made available to the shareholders on the Company's website, then the law's requirement that the documents are to be sent to the shareholders does not apply. This also applies to documents that according to the law are to be included in or attached to the notice convening the meeting. A shareholder may nonetheless require printed general meeting documents.

In accordance with Norwegian law, an auditor or a shareholder representing at least 5% of the share capital may request an extraordinary gen-

eral meeting (EGM) to discuss a particular matter. The Board must ensure that the meeting is held within one month of the request being submitted. Beyond this, only the Board of Directors has a mandate to call an EGM.

07 Nomination committee

The Company continuously evaluates whether a nomination committee should be established. At this stage, it has been concluded that such a committee is not needed.

08 Corporate assembly and Board of Directors; composition and independence

According to current Norwegian legislation, DNO is not required to elect a corporate assembly. As stated in the Company's articles of association, the Board of Directors shall have three to five members. All members of the Board, including the Chairman, are elected by the annual general meeting. At 31 December 2010 the Board consisted of four members who have wide competence and experience from both the oil industry and within finance. In an extraordinary general meeting in March 2011, a fifth member was elected. Two of the five board members are female, in line with Norwegian legislation that requires 40% female representation.

09 The work of the Board of Directors

The Board members are elected for two years. The role of the Board of Directors is to supervise the management and the Company's strategic development, and to ensure that the long-term interests of all the shareholders and other stakeholders are being served.

The Board has approved rules of procedures, including its responsibilities and which matters are to be discussed at the Board level. The Board prepares an annual plan for its work, and performs an annual review of its own work. The Board has also established work instructions for the Managing Director.

The Board of Directors normally meets 11 times

per year. Additional meetings are held when required. The meetings may be undertaken by telephone or video conference.

The Board has nominated an audit committee consisting of two non-executive directors with financial expertise. There is a mandate for the audit committee which describes its responsibilities for the quality control of the Company's financial reporting. The committee will also monitor the internal control arrangements and the risk evaluation systems.

DNO's compensation committee is nominated by the Board and consists of two board members. The committee considers questions related to the compensation to the managing director and key management and prepares and presents this to the Board. The work of the committee is described in a mandate approved by the Board. Reference is also made to page 25.

10 Risk management and internal control

Risk management in DNO is based on the principle that risk management is an integral part of all business activities and is a continuous process. Every senior manager in DNO is responsible for monitoring and managing risk within their business area, and an evaluation of business risk shall be carried out prior to any major decision in the Company.

The Company has formalized a risk management policy with identification and assessment of risks, including risk rating and mitigation, corrective measures and establishment of barriers. There is a centralized function in DNO with responsibility of analyzing and evaluating the Group's total risk exposure. This function is also responsible for facilitating and streamlining the processes across business units, in order to have unified and standardized approach to the risk subject.

Reporting and reviewing is done on a regular basis to corporate management and the Board. In addition, the audit committee plays an impor-

tant role in reviewing and follow-up of the risk areas. The main risk factors resulting from the risk reviews are underlined and focused in the coming year's audit plan.

For internal control purposes, the Group has, as previously mentioned, established policies and procedures in an integrated Business Management System. The aim is to increase quality in all processes and strengthen the control environment in the Company. The Company also has an internal audit function with annual audits of the main business units.

Refer to the following section on Risk management and internal control for a more comprehensive description of risk and risk management in DNO.

11 Remuneration of the Board of Directors

The remuneration of the Board of Directors is decided by the AGM and is not linked to the Company's performance. No share options have been granted to members of the Board. In 2010, the following fees have been distributed to the Board members based on their service from the AGM in 2009 to the AGM in 2010:

Chairman of the Board, Berge G. Larsen	NOK 283 000
Deputy Chairman, Shelley Watson	NOK 0
Board member, Gunnar Hirsti	NOK 288 000
Board member, Marit Instanes	NOK 318 000
Former board member, Elin Karfjell	NOK 318 000
Former board member, Trygve Bruvik	NOK 288 000

12 Remuneration of executive personnel

Remuneration of DNO's key personnel including the managing director is evaluated and recommended by the compensation committee as described in their mandate. The remuneration for the managing director is evaluated annually and approved by the Board. The managing director is entitled to an annual bonus based on

an evaluation by the Board of Directors and the bonus is determined at the Board's discretion.

The Board of Directors also approves, on a general basis, the remuneration and terms of employment for senior executives reporting to the managing director. Some of these employees have bonus arrangements which are determined at the discretion of the Board of Directors.

The remuneration of key management is presented in the notes to the annual accounts.

The shareholdings by the Board of Directors are also specified in notes to the accounts.

13 Information and communication

DNO is committed to treating its investors equally and ensuring that it provides timely information so that a value assessment of the Company can be performed on the best possible basis.

DNO's financial accounts are transparent and in accordance with IFRS as adopted by the EU, and industry standards relevant for the oil and gas sector. The interim reports and other relevant information are published on DNO's website and on the Oslo Stock Exchange.

Further on, DNO publishes an annual financial calendar showing important dates and events. All information to shareholders is published on the website at the same time as it is sent to the shareholders.

DNO's investor relations policy encourages open communication with the capital market and the shareholders. DNO regularly holds presentations for investors and analysts, as well as the scheduled quarterly presentations.

14 Takeover

The Board has not established any specific guiding principles for how it will act in event of a take-over bid situation. However, in the event of a bid situation, the

Board has a responsibility to ensure that all shareholders are treated equally and that the business activities are not disrupted unnecessarily. The Board has a particular responsibility to ensure that shareholders are given sufficient information and time to judge the bid. The Board will in this situation evaluate the bid and make a statement and a recommendation as to whether the shareholders should accept or not. The statement should clearly state whether the evaluation from the Board is unanimous.

15 Auditor

DNO's external auditor is elected by the AGM, which also approves the auditors' fees for the parent company.

The auditor annually presents an audit plan to the audit committee. According to mandate for the audit committee, the auditor has at least one meeting with the audit committee per year where the administration is not present, and participates in audit committee meetings for review of the Company's internal control and risk management system.

The auditor participates in board meetings where the financial statements are discussed and other meetings where it is considered appropriate.

Information about the auditor's fees, including a split between audit and other services, is included in the notes to the financial statements according to the Norwegian Accounting Act.

Currently DNO's external auditor is Ernst & Young AS.

Risk management and internal control Risk profile and risk areas

For DNO, gaining access to oil reserves and developing discoveries to production at the lowest possible cost is the most important value-creating factor. Due to this fact and the nature

of the international oil and gas industry, DNO is faced with sometimes challenging conditions in frontier and under-developed areas of the world. Steps are however taken in order to balance the risk with increasing the diversity of the oil and gas asset portfolio.

The main areas of risk are briefly summarized below:

➤ **Strategic risk:** Risks related to few core areas/low diversification and access to exploration acreage. The Company is continuously evaluating new business opportunities where we can utilize our knowledge and competence in order to mitigate this risk.

➤ **Political and contractual risk:** Risks related to the political situation and contractual/legal changes in contracts in the countries where DNO operates. The Company carries out political risk assessment of the countries and areas in question, and in addition makes use of governmental bodies and contacts in order to monitor and mitigate these risks.

➤ **Operating risk:** Risks relating to drilling activities, development projects and operational incidents. Increased focus on professional project management and monitoring of high-risk operations are carried out to mitigate and control these risks.

➤ **Market risk:** Risk mainly related to fluctuating oil prices. Derivative financial instruments are from time to time used to hedge this exposure.

➤ **Financial risk:** Risks related to refinancing and liquidity, fluctuating interest rates and currency. Financial risk management is carried out by a central treasury function and seeks to minimize the adverse effects on the Group's financial performance. Derivative financial instruments are from time to time used to hedge the exposure.

➤ **Reputational risk:** Risk related to loss of reputation, negative media articles etc. Corrective communication strategy measures have been taken to reduce the risk of loss of shareholder value in this connection.

Some of the identified risks are outside of the Company's control. At the time of reporting, this is mainly related to political and contractual issues in the Kurdistan region of Iraq, and to the security situation in Yemen. However, measures are being taken to reduce the impact of possible negative effects for DNO.

Risk measurement

DNO has established an integrated system for risk management throughout the group of companies and which is described in a risk management policy approved by the Board of Directors. The principles for risk management is based on the framework in COSO (Committee of Sponsoring Organisations of the Treadway Commission) and recognized international industry standards within the area of internal control and risk management.

The purpose of DNO's risk management process is to identify, assess, control and mitigate risks related to the achievement of the Company's strategic goals and annual objectives. As defined in the Company's procedures the components for providing an effective internal control system consist of:

➤ **A control environment** with established company procedures, ethical guidelines (DNO's code of conduct) as well as management expectations and "tone at the top".

➤ **An annual risk assessment** within each business area and at corporate level, with risk identification and ranking of the main risks based on the Company's strategic goals and objectives, as well as descriptions of control systems and mitigation and compensating measures. This results in a risk matrix with classification of risks

and description of barriers. The risk assessment process is facilitated by a team at corporate level with special focus on internal control and risk management, enabling a standard format and approach for the whole Company.

➤ **Control activities** include audit plans for the follow-up of the main critical risk factors. At the business level, the risk matrix with systems for barriers is followed up and reported in quarterly review meetings with the corporate management. Another fundament for control is the Company's Business Management System with a hierarchical and complete system of procedures, guidelines, responsibilities and delegation of duties as well as work descriptions for all business areas within the Company. The Company has established an internal audit function which performs an annual audit of the main business units. The internal audit concludes in a report with findings within the financial reporting and compliance area, and is communicated to the corporate management and to the audit committee.

➤ **Information and communication** include reporting on a quarterly basis from the business units and to corporate management, as well as reporting of the main issues to the Board. All employees are informed about and have access to the Business Management System via the Company's intranet.

➤ **Monitoring and review** is taken care of by the corporate management and the Board in follow up of the business units as well as feedback for improvement of the process. At the board level, the audit committee has a specific responsibility for follow up and monitoring of risk and internal control as described in the mandate.

The risk management and internal control system is a continuous process and it is the Company's opinion that an effective risk management and internal control system contribute to safeguarding the Company's assets and the shareholders' interests.

No man is an island

We see responsibility to the people, our employees, the surrounding environment and the society around us.



In line with good corporate governance, we have established systems and routines to govern our systems, activities and behavior.

2010 was a productive and good year for the work with corporate responsibility (CR) in DNO. We progressed on several important issues based on a close and fruitful cooperation between internal and external stakeholders.

We established an ambitious plan for implementation of good CR standards in 2010. The plan is owned and governed by the Managing Director. DNO's CR standards are integrated in the Company's business management system (BMS). A good and open dialogue with key investors and rating agencies like the Norwegian KLP Kapitalforvaltning contributed significantly in the process of establishing focus on the following key areas:

- Dialogue with local communities and authorities
- Management of third parties and our supply chain
- Business ethics and anti corruption
- Health, safety and environment
- Reporting

Through activities conducted in 2010, we met all action points outlined in the plan. A third party has verified these results in December 2010.

In previous years we have invested in bringing competence and knowledge into the Company, mostly from the knowledge and competence environments within the industry, but also from other stakeholders surrounding DNO. One important goal in 2010 has been to move systems and gain CR competence in the actual business units.

Stakeholder communication

Our stakeholder universe develops from year to year, and we make every effort to improve our communication with them.

We concentrate our stakeholder dialogue efforts towards local communities and authorities as this is expected to provide the best results. Several key CR projects have been formalized through these interfaces. For DNO, Corporate

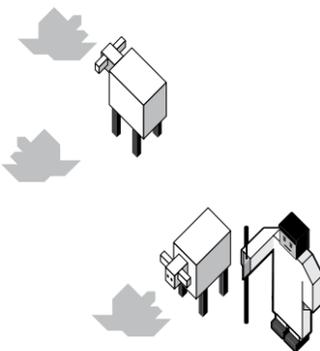
Responsibility involves identifying, understanding and addressing the needs of such stakeholders in their encounters with the Company. By listening to our stakeholders, we can more easily distinguish challenges, opportunities and weaknesses related to our business operations. Information provided by stakeholders includes questions concerning integrity program and governance situation, climate change issues, social projects, equality policies and competence building. In 2010, several CR projects were identified and formalized through the contact with various stakeholder groups.

We also formally acknowledge and relate to the contributions made by organizations and NGO's such as UN Global Compact, the ILO convention, OECD Guidelines, GRI, Amnesty International, EITI and Transparency International which all contribute to strengthen human rights and transparency within our industry. DNO will formally acknowledge these organizations during 2011. We continue to maintain an open and transparent communication, as we believe this is beneficial to those involved and the community at large.

Our formalized approach to CR

In line with good corporate governance we have established systems and routines to govern our systems, activities and behavior. Our systems are based on international standards like COSO, NUES, ISO:26000 and international conventions and shall guide us in our efforts to run a sustainable operation. We have developed system guidelines for our business units to ensure a uniform approach and compliance with our policies and objectives.

DNO's code of conduct and corporate responsibility systems formalize our values and expected behavior of DNO employees in our relations and interaction with internal and external stakeholders. These systems make it possible to monitor and document any development or deviation, and simultaneously maintain an open and transparent dialogue with our stakeholders. ➤





Rating agencies

The rating agencies have played an important role in shaping standards and baselines for our industry's CR performance, and have assisted the industry in staying focused.

DNO has over years developed competence, systems and routines for managing corporate responsibility. We are happy to see the establishment of industry standards, which can guide us in our efforts to improve.

Global Reporting Initiative

The Global Reporting Initiative (GRI) has played a key role in standardizing CR reporting. DNO will not be able to meet all GRI-requirements in the 2010 report, but is committed to continue using the standard to improve. An Internet based GRI table will be launched on www.dno.no during 2011.

Using GRI requirements for reporting has proved to have a significant effect on our CR focus as we realize the importance of transparency and predictability. DNO is also meeting the reporting requirements set by EITI.

Business ethics and anti corruption

DNO has a formalized set of ethical regulations and procedures anchored with the Board of Directors. The system is in compliance with practices for good corporate governance and meet every aspect of NUES and relevant laws relevant to accounting, transparency and auditing of such. As previously mentioned, the Company has an Audit Committee, which monitors the Company's compliance with internal and external requirements.

During 2010 we developed a separate business ethics and anti corruption program that was rolled out to employees both at the corporate headquarters and in the business units. The program is aiming at developing competence and understanding required to comply with Norwegian and international anti corruption and penal codes, and include dilemma training relevant to the various units.

The program was held in Norway, Yemen, UAE, Mozambique and Kurdistan and was veri-

fied by an external third party. The program opened for an open and constructive two-way communication and improved mutual understanding of our challenges.

Based on the feedback and learning points made during the roll out, it is decided to arrange similar programs in 2011.

Our approach to sustainability

DNO is operating under significant cultural diversity. Our objective is to ensure environmental, social and ethical sustainable operations wherever we operate. The requirements for sustainability are set by ourselves, national and international laws and regulations and recommendations from selected NGOs.

Formal legal requirements and contracts have to take priority over expectations not formalized with our partners. Through dialogue and competence sharing we are involving our partners and associates in our efforts for sustainable operations and positive development towards good global standards for corporate responsibility.

Quality, Health, Safety and the Environment

Quality and safety in our operations is a key element of our efforts to succeed. DNO has in 2010 produced the following HSE results:

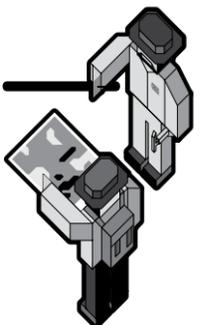
LTIF (Lost Time Incident Frequency)	1.04
TRIF (Total Recordable Incident Frequency)	2.58
VIF (Vehicle Incident Frequency)	0.93

The results for 2010 are satisfactory and prove a continued positive development. Good results in QHSE are good business due to less failures and reduced downtime. These results are produced through strong ownership in the line organization, supported by a Business Management System. DNO has representation of QHSE competence in all business units and fields, and manage to identify and mitigate risk to the benefit of regularity and business continuity.

Technical and operational safety

We regard quality as a prerequisite to success in all phases of our operations. During 2010 we ➔

During 2010 we developed a separate business ethics and anti corruption program that was rolled out to employees both at the corporate headquarters and in the business units.



Our policy is to invest in projects promoting sustainable growth and competence building. DNO's values and policies are clearly communicated to all relevant stakeholders involved in such projects.

have further developed this philosophy to ensure deliveries on time, on budget and at low cost.

In order to develop our quality focus, we emphasize the importance of cross border cooperation and exchange of competence and experience.

Success on high quality standards requires development of talent, courage and capacity combined with focus on compliance.

Our impact on the external environment

Our environmental performance is governed by competence, systems, international standards and formal requirements dictated by our Production Sharing Contracts (PSC). All licenses are with reference to the applicable PSC covered by an Environmental Impact Assessment developed in accordance with the World Trade Bank Standard.

The working environment

DNO International ASA has a sound, active and sustainable working environment. The Company has in accordance with the Norwegian Working Environment Act established systems and routines designed to govern a sustainable working environment. All designed to further improve by use of activities, dialogue and meetings. The Company has established a wide range of activities and services that benefit the staff and their families.

Working environment survey

DNO performed a working environment survey in 2010. In order to obtain the maximum ownership, the survey was developed internally with reference to the survey performed in 2008. A team consisting of a management representative, the safety delegate and two other employees developed the survey which was quality controlled by a third party. The results from the survey have been subject to follow up during the annual team building and internal work sessions including the safety delegate and staff. This work will continue until the next survey is completed.

Recruitment

DNO has throughout its history had a low turnover. The total DNO workforce was significantly expanded in 2010, from 513 to 565. The Company has during the recruitment campaigns had good access to relevant competence.

Development opportunities

DNO is operating assets and acreage in prosperous areas holding substantial oil resources. Exploration and production of oil and gas call for highly developed and competent staff and enable us to offer attractive challenges, good career opportunities and personal growth.

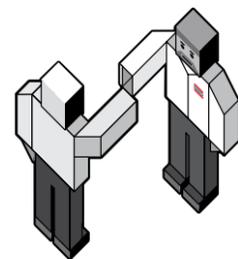
CR projects

The business units drive our involvement in social initiatives and corporate responsibility projects. All projects and initiatives have been closely coordinated with local authorities and key stakeholders. The initiatives range from refurbishment of schools to investments in large scale water purification projects and are carefully monitored by our Business Unit Managers.

Our policy is to invest in projects promoting sustainable growth and competence building. DNO's values and policies are clearly communicated to all relevant stakeholders involved in such projects.

During 2010 our investments in Mozambique have been concentrated around development of competence, refurbishment of two schools and health services to locals. Our investments in Kurdistan have continued with the water purification project in Dohuk Governate, competence exchange programs between Kurdistan and Norway, financial support to education of students participating in oil industry related studies, scholarships and investments in infrastructure in the local communities.

Our efforts in Yemen remain with the Yemen Smile initiative where we help children born with open clefts needing surgery. DNO has supported this program over a long period. In addition to this project we have continued to invest in competence development programs including well developed training and exchange programs.



Board of Directors Report

Introduction

DNO International ASA (DNO) is an independent international upstream oil and gas company.

The Company currently holds oil and gas assets in Yemen, the Kurdistan region of Iraq, the UK North Sea, Mozambique and Equatorial Guinea. As of 31 December 2010, DNO has an 11.66% ownership share in Det norske oljeselskap ASA (DETNOR), operating on the Norwegian Continental Shelf (NCS).

Strategy focused on growth

DNO has a proven record of value creation through smart exploration, fast track/low cost development and cost efficient operations of petroleum assets. During the past years, the Company has focused on organic growth of reserves, restructuring the Company's Norwegian offshore portfolio, tight capital discipline and preparations for increased production.

After a limited period focused on consolidation and cash generation, we are now entering a new cycle with the overall objective of delivering further growth and shareholder values.

Developing operations and diversifying the portfolio. New growth shall come from a more diversified portfolio of petroleum assets, as well as a restructuring of the asset portfolio.

The Company's producing assets today are in Yemen, using facilities built from DNO's entry in 1998, and in Kurdistan using facilities developed over the last seven years. DNO has gained solid competence and track records through these operations and shall actively pursue new opportunities within the Middle East and Africa with the view of developing at least one new core area of operations.

DNO's operational focus shall be onshore exploration and production activities. The Company shall preferably operate its licenses or alternatively act as an active partner in licenses we participate.

DNO will pursue and assess various opportunities for increased shareholder value creation through legal re-structuring of the group and through asset restructuring or optimization.

Maintaining a solid financial platform. DNO shall maintain a solid financial position, providing sufficient resources to reach its operational and financial goals. The Company shall maintain maximum access to relevant financial markets and secure funding at competitive terms. DNO shall seek to cover exploration investments from

cash flow and equity, while development CAPEX shall preferably be covered from cash flow and debt financing.

A focused organization. DNO's organization shall be "lean and mean", and utilize the advantages created by the strong in-house competence combined with a well established external network.

DNO shall seek to outperform on key competence such as all sub-surface disciplines, drilling and well technology and field development in order to deliver new reserves and resources at low costs, and execute fast track/low cost field developments.

DNO shall be perceived as open, honest and reliable through professional investor relations activities and trustful and open communication.

Highlights 2010

2010 was a positive year for DNO, with increased production and improved financial results. Increased production from the Kurdistan region of Iraq and increase of oil prices in Yemen contributed to a 44% increase in operating revenues for 2010 compared with 2009. The Company has increased its cash position during 2010 through solid operations and new equity proceeds in addition to divestment of treasury shares.

Provisions of special items have affected the net result for 2010 negatively by NOK 525 million, and the net loss for 2010 was NOK 283 million compared to a loss of NOK 270 million in 2009. Adjusted for these provisions the net profit for 2010 would have been NOK 242 million.

Operational review 2010

Exploration. Drilling of the Bastora exploration well commenced in September and hydrocarbons have been observed while drilling through several of the prospective intervals. An extensive test program with six production tests in various intervals have been undertaken in the well, with an oil flow of 500-600 bopd achieved in the most productive intervals. Drilling of a horizontal section into the most productive test interval with the objective of achieving increased production rates in this zone commenced in March 2011. This information will be essential for the further evaluations of the development plans for the Benenan/Bastora discoveries in the Erbil license, and a commerciality plan will be submitted to the authorities by 25 June 2011.

In the Dohuk PSC area in the Kurdistan region of Iraq, technical studies related to maturing the Summail prospect continued during the year. The rig which was seconded to another opera-

tor throughout 2010, was returned to DNO in January 2011. The rig will commence drilling of the Summail-1 well in April 2011, as part of the commitment work program of the license.

Following drilling of this commitment well, the rig will be moved to the Tawke PSC area to drill the exploration well Peshkabar-1. A 2D seismic campaign was acquired during the year and has assisted in selecting the well site.

In Yemen, three exploration wells were drilled during the year. Anas-1 in Block 52 was drilled as the last well in the committed program in the block and the targeted Qishn reservoir was found water-bearing. The block has now been relinquished and handed back to the authorities. The Safa-1 exploration well in Block 32 tested a small closure west of the Godah field. The Qishn reservoir was found dry and the well plugged and abandoned, but the well costs are recoverable under the cost oil in Block 32. In Block 72, the drilling of the Gabdain-1 well commenced 19 November. The well encountered hydrocarbons in the Kohlan/Basement formations. The well was immediately followed by Gabdain-2 (spudded in February 2011) which targeted a Qishn reservoir prospect, but was found dry. The oil discovery in Gabdain-1 will now be further analyzed prior to any further appraisal plan.

A Memorandum of Understanding (MoU) for the new Block 48 was signed in October, and a first draft of a PSA has now been received. The negotiations started in the first quarter of 2011.

In Mozambique, DNO completed a farm-out process assigning a 5% interest to Harmattan Uruguay S.A. and a 41% interest to New Age (African Global Energy) in the Inhaminga Block. The Chite-1 exploration well was spudded on 19 November. No hydrocarbons were detected in the well. The second well, on the Inhaminga High location, was spudded on 13 February 2011. No commercial discoveries were made in this well. DNO was awarded the rights to negotiate an EPC for the Block "Lower Zambesi" in the fourth licensing round in Mozambique. The Lower Zambesi Block is located north of the Inhaminga Block in a previously unexplored area. Negotiations of Lower Zambesi will commence in 2011.

Screening of new opportunities has continued during the year with regional geological studies and monitoring of the transaction markets, targeting Middle East and Africa regions. These are considered as high potential onshore areas that fit well with the DNO strategy of achieving new fast track developments at low cost.

Appraisal and field development. At the Tawke field in the Kurdistan region of Iraq, construction of flow lines to connect the T3 and T12 wells with the Central Processing Facility (CPF) were completed during the year.

In the Erbil PSC in Kurdistan, testing of Erbil-2 appraisal well was completed with preliminary results confirming oil in the Najmeh reservoir.

In Block 47 in Yemen, drilling of the Yaalen-3 well was undertaken in the second quarter and was successfully tested in two Qishn intervals. It is anticipated that the combined flow capacity of these two intervals would reach 8,000 -10,000 bopd. Further on, the drilling of the Sharnah-2 well which took place in June/July penetrated the reservoir 20 meters deeper than prognosis, and the reservoir sands were water bearing. Based on the results of these two wells together with the Yaalen-1 and Sharnah-1 wells, in addition to engineering and feasibility studies, the partners have now agreed and approved to develop the Yaalen/Sharnah discoveries. Phase 1 of the Yaalen development will be based on the concept of local processing facilities with capacity of 5,000 bopd and trucking of oil to the Nabrajah installations in the neighbouring Block 43 for further export into the existing pipeline system. The project schedule indicates that first oil will be exported in the first quarter of 2012. Sharnah is planned to be connected to the facilities at a later stage.

In Block 43, a gas injection pilot project in the Nabrajah-10S well was undertaken. The results together with reservoir simulation studies indicated potential for further drilling in the Nabrajah Qishn oil accumulation and a new well is planned in 2011.

Costs saving projects in Block 43 in Yemen were commenced during the year. Gas engines are scheduled to be installed at the power generators to use produced gas for fuel and reduce the consumption of diesel. This will contribute to operational cost savings in addition to positive environmental effects.

Production. DNO's total average working interest production increased in 2010 by more than 40% from the previous year (17,381 bopd versus 12,285 bopd). There was no export of crude oil from the Tawke field during the year and the comparable figures are excluding export in 2009.

The Tawke field delivered crude oil to the local market and the Tawke refinery, with a total working interest production of 10,661 bopd in 2010. The local sales have been based on short term contracts, with significant fluctuations in lifted quantities depending domestic demands. Truck loading from the loading station at Fishkhabor commenced in September, whilst previously the lifting took place at the Tawke oil field. This new arrangement enables increased loading capacity and shorter distance to the local market without passing through the city of Zakho. On 2 February 2011, export of crude oil from Tawke recommenced with gradual ramp-up of production to more than 50,000 bopd by 12 February. The facilities have been tested at 65,000 bopd.

DNO has been advised by the KRG that there will be an interim period until a Federal Petroleum Law for Iraq has passed the Iraqi parliament later this year. All crude oil exported by DNO via the North Oil Company (NOC) operated export pipe line facilities is subject to fiscal metering and all quantities are monitored by NOC, KRG and DNO. DNO has been advised that these quantities will form the basis for payment instructions to be submitted by the KRG to the Ministry of Finance in Baghdad for processing as per the payment mechanism as agreed between the KRG and the Federal Government.

In Yemen, there is an overall decline in production as expected, but production is maintained at a higher level than forecasted. On an average yearly basis, the WI production from Yemen was 6,156 bopd - a reduction from 7,749 bopd last year. In Block 32, the Godah-11 and Godah-12 infill wells improved production from the Godah field. In Block 53, three new infill wells in the Bayoot field contributed to an increase in production from the Basement formation.

Reserves. DNO's total remaining oil reserves (P50) are estimated to 194.2 million barrels of oil equivalents at the end of 2010, compared to 149.4 mboe the year before. Including contingent resources, the volumes are 211.2 mboe versus 172.8 mboe in 2009, with all produced reserves in Yemen being more than replaced, partly from new discoveries in Block 47 and revisions of previous estimates in Block 32.

The recovery factor at Tawke has increased from 16.6% to 21.3% primarily based on updated geological and reservoir technical evaluations which have resulted in improved reservoir properties. Based on the increased recovery factor, the gross ultimate recoverable P50 reserves at Tawke is estimated at 306 mboe. The reserves in Tawke are confirmed by a third party reserves audit.

Financial performance 2010

Total operating revenues for 2010 were NOK 1,252 million. This represents a 44% increase from the NOK 869 million reported for 2009. The increase is a result of higher production and higher achieved oil prices. Achieved oil prices for 2010, averaged 51.49 USD/bbl (net entitlement), up from 47.37 USD/bbl in 2009.

As previously reported, DNO Iraq AS, a subsidiary of DNO International ASA, was involved in arbitration proceedings related to certain third party interests in Kurdistan. A preliminary arbitration ruling was received in October 2010 and a total provision of USD 65 million plus provisions for legal expenses have been recorded in the financial statements for 2010. The arbitration case has now been settled outside of the arbitration process, with no additional material effect to the financial statements for 2010 or future accounts.

Provision for arbitration costs of NOK 330 million and impairment of the investment in Det norske oljeselskap ASA of NOK 195 million have negatively affected this year's result. Without

the arbitration costs and the impairment charge the net profit for 2010 would have been NOK 242 million. DNO has shown a strong net cash flow in 2010. The net cash flow from operating activities for 2010 was NOK 525 million (2009: -53 million) and cash flow after tax, as shown by netback, was NOK 380 million (2009: NOK 30 million). Total investments in 2010 were NOK 152 million, mainly related to the completion of infill wells in Block 32 and Block 53, and drilling of the Gabdain-1 well in Block 72, the Sharnah-2 and Yaalen-3 in Block 47 in Yemen.

DNO's cash balances increased during 2010 through solid operational cash flow and proceeds from new equity. In addition, DNO sold its treasury shares in 2010. Cash at year-end was NOK 1,385 million, which together with financial assets are considered sufficient for the investment program planned for 2011.

All DNO's assets have been reviewed for impairment at year-end 2010. No impairment is required for the producing assets in Yemen or Kurdistan or for any other block. Impairment of NOK 204 million for the financial assets has been recorded for 2010. This relates to the investments in Det norske oljeselskap ASA (NOK 195 million), Petrolia ASA (NOK 6 million) and Rocksourc ASA (NOK 3 million) and reflects the significant decrease in share prices during 2010 compared to the cost prices.

Total assets were NOK 5,393 million at year-end. The equity ratio was 39% and the ratio between current assets and current liabilities was 213%. Net interest bearing debt was NOK 428 million. DNO's current bond loans mature mainly in 2012. In March 2011, the loan maturity was extended by 5 years through the completion of a new bond issue of approximately USD 240 million. The new bond issue has a five year tenor and carries a floating interest rate of LIBOR/NIBOR + 7.50%. DNO agreed in connection with the bond issue to purchase the aggregate of USD 170 million and NOK 308 million of its various outstanding bond issues.

The Board of Directors confirms that the annual financial statements have been prepared based on the going concern assumption, in accordance with § 3-3a of the Norwegian Accounting Act.

Corporate Governance

DNO's corporate governance is based on the principles in the Norwegian Code of Practice for Corporate Governance (NUES). Good corporate governance is a responsible interaction between shareholders, Board of Directors and executive management in order to develop long-term value. DNO acknowledge the role corporate governance plays in growing shareholder value, retaining the confidence of investors and maintaining a low cost of capital. The Corporate Governance statement, included in this annual report and also posted on our website, outlines key principles and guidelines for DNO's corporate governance, approved by the Board of Directors. The statement is reviewed annually or more often if deemed necessary. ☺

Work of the Board. In 2010, the Board of Directors engaged in frequent meetings and discussions to handle several key strategic and operational issues, including:

- Close monitoring of QS-HSE, operational and financial performance of the group.
- Strategies to position the Company to engage in new opportunities in the oil and gas sector.
- Progress and results of development investments and exploration expenditures in DNO's key projects.
- Measures to strengthen the Company's financial flexibility, including completion of a private placement of new equity and divestment of treasury shares
- Changes in the composition of the Board of Directors, through resignation of two Directors and election of one new Director.
- Arbitration proceedings in the London Court of International Arbitration
- Supervision of risk management processes and internal control reporting
- Communication policy, including recruitment of a Communication Director

In all, the Board of Directors convened for 23 meetings in 2010.

The Board has two subcommittees. The audit committee consists of two Board Members and held three meetings in 2010. The audit committee reviewed quarterly and annual reports, risk management and reporting and internal and external audit work. In addition, the audit committee evaluated the internal control related to the financial reporting. DNO's compensation committee is nominated by the Board and consists of two Board Members. The committee considers questions related to compensation to the Managing Director including key management and prepares and presents this to the Board. The work of the committee is described in a mandate approved by the Board. The remuneration committee held one meeting in 2010.

Risk management. DNO has established an integrated system for risk management throughout the group of companies, which is described in a risk management policy approved by the Board of Directors. The principles for risk management are based on the framework in COSO (Committee of Sponsoring Organizations of the Treadway Commission) and recognized international industry standards within the area of internal control and risk management.

Risk management and internal control systems, development and implementation is a continuous process and it is the Company's view that an effective risk management and internal control systems contribute to safeguarding the Company's assets and the shareholders' interests.

Due to the nature of DNO's business some of the identified risks are outside of the Company's direct control. This is mainly related to political and contractual issues (controlled by govern-

ments) in the Kurdistan region of Iraq, and the security situation in Yemen.

Financial risk. Risks related to oil price, interest rates and currency constitute financial risks to the Group. Financial risk management is carried out by a central treasury function and seeks to minimize the potential adverse effects on the Group's financial performance. Derivative financial instruments are used to hedge certain risk exposures.

Political risk. The stability in parts of the Middle East has deteriorated due to political protests starting in the latter part of 2010 and are continuing into 2011. DNO operates in the Middle East, in the Kurdistan region of Iraq, in Yemen and in Dubai.

In the Kurdistan region of Iraq, the political situation and general stability has remained good and the security is maintained at a satisfactory level.

The head office is located in Dubai, which has remained stable and unaffected by the political protests experienced in other parts of the region. In Yemen, there has been severe unrest, mainly located in the capital Sana'a, but also other cities.

DNO has taken several measures to improve security for DNO employees in Yemen, e.g. temporarily transferring expats from Sana'a to Dubai. DNO has managed to maintain production and continue the exploration and development projects in Yemen according to plan. The security developments are closely monitored, both at business unit and corporate level. At present, the situation is manageable for DNO in Yemen. Further information about the financial risk management objectives and policies and other risks, see Note 9 in the consolidated accounts and the section on risk on page 29.

CR – Corporate Responsibility

DNO has throughout 2010 continued the development of every aspect within CR. General risk-focused approach towards key CR-issues sits well with the new recommendations from NUES and also the suggested additions in the Norwegian Accounting Law set forth by the Ministry of Finance in 2010. The Board believes that to be fully effective, corporate responsibility must go beyond the formulation of policies and procedures and be an integral part of the corporate culture. As the company spent 2009 developing and refining policies and systems, the focus for 2010 was implementation and dialogue with stakeholders. In particular we chose to work with business ethics and anti-corruption, where we developed and implemented a competence building program involving corporate functions as well as all Business Units. Relevant policies and related management systems, as well as status and future targets, are further described on DNO's web page.

The program, which was based on Norwegian anti corruption and penal laws, set the direction for our five focus areas for 2010:

- Dialogue with local communities and authorities
- Anti-corruption
- Responsible management of third parties

- and our supply chain
- Management of Risk and HSE
- Reporting

The program involved top and middle management and was verified by a third party. In order to further improve the management of CR, we established a CR plan at the corporate level of the Company with and interface to the Company's systems on Corporate Governance and Risk Management.

Key factors in our progression have been:

- Competence development
- Consider and agree on the formal acknowledgement of Global Compact which will commence in 2011
- Consider and agree on the formal acknowledgement and dialogue with EITI and TI
- Alignment with the GRI index on reporting and development
- Management of third parties/contractors
- Develop consistency in the interface between CR, Corporate Governance, Risk Management, business monitoring and reporting

Our people - diversity and equal opportunities

DNO acknowledges international law and standards for human rights, including the OECD guidelines. Our policies are aimed at supporting the belief that all employees and job applicants shall be treated equally, regardless of age, gender, religion or any other factor.

DNO values cultural diversity and a high degree of responsibility amongst staff. The Company fosters a "no blame" culture and stimulates people to learn and utilize their skill base. Our policy is to attract talented people through exposure to a challenging however rewarding environment that motivate each individual. DNO aims at employing local staff and focuses on competence development. The Company has a strong cultural and national diversity amongst the workforce at the head office in Oslo. Our equal opportunity statistics show that women accounted for 26% of the overall workforce in Norway. At the end of 2010, two of the four board members were women.

Organisation and Personnel. At the end of 2010, DNO had a total workforce of 565 people: 43 are based in Norway and 522 in our international operations. This compares with a total workforce of 513 at the end of 2009.

Quality, Health, Safety and Environment (QHSE)

DNO has during 2010 worked systematically to produce results in accordance with our goals for the year. Efforts have been made to move competence and knowledge out to the sharp end of our operations in order to produce expected results. In order to succeed in implementation of systems, techniques and knowledge we have established arenas where we discuss and share best practice. DNO has furthermore developed staff exchange

programs that enable us to capitalize on learning and experience across the group.

Being professional in all aspects of the work is key in the process of achieving business continuity and high regularity. Every effort is therefore made to identify and mitigate risk. DNO has managed to get representation of HSE competence within all Business Units, which is of importance in the process.

We realize and acknowledge that the nature of the business expose certain risk to the environment. However, we believe that the control environment, commercial and legal framework in combination with our Business Management System makes it possible for us to manage these risks in line with industry expectations.

DNO has registered 26 environmental incidents during 2010, of which none were of a serious character by volume or toxicity. DNO has continuously and in line with the formalized Production Sharing Contracts developed Environmental Impact Assessments (EIA) for all licenses. The EIA's produced comply with the standard developed by the World Trade Bank, and identify sensitivities and risks relevant to the license. The risks identified are mitigated through environmental programs governed by an Environmental Plan. DNO report environmental performance in accordance with local regulations, GRI and rating agencies like CDP.

Our Management system has been reviewed by a third party and allowed for an improved understanding of possible improvement points on the quality side. Initiatives have been made to initiate a step change on how to improve the quality and effect of our systems. We use international standards like ISO 9001:2008 to pursue this issue.

At year-end 2010, the status within the HSE performance was as follows (incident frequency per one million man-hours):

Lost time incident frequency (LTIF goal 1.0):	1.04
Total recordable incident frequency (TRIF goal 3.0):	2.58
Vehicle incident frequency (VIF goal 3.0):	0.93

Sickness absence in DNO was 3% in 2010, up 0.5% compared to 2009, mainly due to long term sick leave.

Technical and operational quality. The Company has established a strict operational standard that effectively supports business regularity and business continuity. DNO has a continued strong focus on operational regularity and technical integrity as key success factors. Our QHSE network and resources has become most efficient in their way of supporting these objectives and outstanding results have in this way been achieved.

Quality of the work performed at all levels of the organization are in focus to avoid any type of incidents; that being damage to plant equipment which potentially could result in injuries to personnel, health issues, and/or negative effects to the environment.

Security. The stability in parts of the Middle East has deteriorated due to political protests starting in the last part of 2010 and continuing into 2011.

DNO has a good intelligence system enabling the development and implementation of effective plans and mitigating measures. These plans allow us to minimize the exposure to staff and assets and secure business continuity. We continuously monitor, analyze and report in order to tailor and improve our plans and procedures.

Main events since year end

The main events affecting Company since year-end have been:

- In February 2011, export of crude oil from the Tawke field commenced.
- In March 2011, DNO completed new bond issue of approximately USD 240 million.
- An extraordinary general meeting in March 2011 elected Bijan Mossavar-Rahmani as new Board Member in DNO.
- The arbitration was settled outside of the arbitration process in March/April 2011
- On 18 April 2011, DNO filed the Annual Statement of Reserves, disclosing the hydrocarbon reserves as of 31 December 2010.

Outlook

In 2011 DNO expects to see increased production from the Tawke field in the Kurdistan region of Iraq. Work will also be undertaken to evaluate options to increase the production capacity through fine-tuning and modifications of our current facilities once full scale production is achieved for a sustainable period. Our key priority going forward is to fully utilize and sustain our current production capacity, and also to seek to further increase the capacity through optimization of current facilities as well as from fast-track development of new discoveries.

Our production in Yemen is expected to continue to decline somewhat until we add new production from the Yaalen development. This project is planned to be completed during 2011 and with first oil in 2012. The recent oil discoveries made in the Erbil license in Kurdistan and in Yemen will be further evaluated to conclude possible commerciality, which in turn could initiate new development projects.

The exploration drilling program for 2011 includes at least 6 wells, of which 2 wells in Kurdistan, 3 wells in Yemen and 1 well in Mozambique. Our investment program for 2011 include NOK 450 million in committed investments and NOK 420 million in contingent investments. Increased exploration efforts will be maintained going forward with the objective to add new reserves and resources at low cost.

Our financial position was strengthened during 2010 and we expect to cover our committed investments for 2011 from operating cash flow. To further position the Company for future growth, DNO will pursue various re-financing options in 2011, and completed a new bond

issue in March 2011 of USD 240 million. DNO will seek to diversify its portfolio and assess onshore opportunities through new entries primarily in the Middle East and Africa regions.

DNO re-commenced export from the Tawke field on 2 February 2011 at an initial gross rate of 10,000 bopd, increasing to approximately 50,000 bopd in 10 days. We expect that a payment mechanism and settlement for the export of crude oil from the Tawke field will be in place during the first half of 2011.

Parent company

The Parent Company's net loss for 2010 was NOK 60 million, compared to a loss of NOK 101 million for 2009. Total assets as of 31 December 2010 were NOK 4,878 million, up 24% from 2009 mainly due to an increased cash balance. The long-term intercompany receivables were NOK 2,074 million at year end 2010. The long-term intercompany receivables at the end of 2009 were at the same level. The Company's cash balance at year-end 2010 was NOK 1,328 million compared to NOK 267 million for 2009, mainly increased by strong operational cash flow, proceeds from new equity and divestment of treasury shares. Total shareholders' equity at 31 December 2010 was NOK 2,219 million compared to NOK 1,563 at the end of 2009. The equity ratio increased to 45% from 39% in 2009. No ordinary dividend is proposed for 2010 as the Board believes that investment in the Company's exploration and development program will deliver increased shareholder returns in the future.

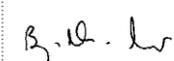
The Company's unrestricted equity as of 31 December 2010 totaled NOK 1,612 million.

The Board proposes that the annual loss of NOK 60 million is transferred from other equity.

Oslo, 29 April 2011



Berge Gerdt Larsen
Chairman of the Board



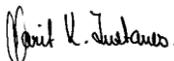
Bijan Mossavar-Rahmani
Board Member



Gunnar Hirsti
Board Member



Shelley Watson
Deputy Chairman



Marit Instanes
Board Member



Helge Eide
Managing Director

Responsibility statement

We confirm to the best of our knowledge that the consolidated financial statements for the period 1 January to 31 December 2010 have been prepared in accordance with IFRS and give a fair view of DNO's and the Group's assets, liabilities, financial position and results for the period viewed in their entirety, and that the Board of Directors report includes a fair review of any significant events that arose during the period and their effect on the financial report, any significant related parties' transactions, and a description of the significant risks and uncertainties for the Group.

Oslo, 29 April 2011

Berge Gerdt Larsen
Chairman of the Board

Shelley Watson
Deputy Chairman

Bijan Mossavar-Rahmani
Board Member

Marit Instanes
Board Member

Gunnar Hirsti
Board Member

Helge Eide
Managing Director



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Consolidated Statements of Comprehensive Income

1 January - 31 December

NOK mill	Note	2010	2009
Sales	2, 3	1 251,8	869,0
Cost of goods sold	4	-618,7	-659,3
Gross profit		633,1	209,7
Other operating income		8,9	8,1
Tariffs and transportation		-22,8	-36,9
Administrative expense/Other operating expenses	5	-406,3	-204,3
Exploration cost expensed	6	-56,2	-155,8
Net gain / (loss) from sale of PP&E	10	0,1	-
Profit / (loss) from operating activities		156,8	-179,1
Share of profit / (loss) from associates	7, 11	-	-62,9
Financial income	7	44,7	522,3
Financial expenses	7	-407,7	-252,4
Profit / (loss) before income tax		-206,2	28,0
Income tax expense	8	-76,6	-297,6
Net loss		-282,9	-269,6
Other comprehensive income			
Currency translation differences	15	0,8	-289,8
Fair value changes available-for-sale financial assets	12	96,8	-10,3
Total other comprehensive income, net of tax	8	97,6	-300,2
Total comprehensive income, net of tax		-185,2	-569,8
Net loss attributable to:			
Equity holders of the parent		-282,9	-269,6
Total comprehensive income attributable to:			
Equity holders of the parent		-185,2	-569,8
Earnings per share, basic	20	-0,31	-0,31
Earnings per share, diluted	20	-0,31	-0,31

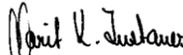
Consolidated Statements of Financial Position

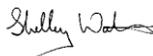
As at 31 December

ASSETS (NOK mill)	Note	2010	2009
Non-current assets			
Other intangible assets	10	930,7	851,0
Property, plant and equipment	10	2 212,8	2 402,4
Available for sale investments	12	360,0	478,4
Derivative financial instruments		-	0,8
Total non-current assets		3 503,5	3 732,6
Current assets			
Inventories	4	211,6	157,4
Trade and other receivables	13	290,3	197,2
Other financial assets at fair value through P&L	14	2,6	1,8
Cash and cash equivalents, unrestricted	14	1 377,5	297,2
Cash and cash equivalents, restricted	14	7,2	6,2
Total current assets		1 889,2	659,8
TOTAL ASSETS		5 392,7	4 392,4
EQUITY AND LIABILITIES			
Equity			
Share capital	15	237,5	213,7
Other reserves	15	870,1	80,6
Retained earnings		1 001,6	1 284,4
Total equity		2 109,1	1 578,7
Non-current liabilities			
Interest-bearing liabilities	16	1 555,5	1 785,3
Deferred income tax liabilities	8	65,5	94,2
Provisions for other liabilities and charges	17	403,2	685,8
Total non-current liabilities		2 024,2	2 565,3
Current liabilities			
Trade and other payables	19	552,2	191,0
Income taxes payable	8	13,9	-
Current interest-bearing liabilities	16	257,5	-
Provisions for other liabilities and charges	17	435,8	57,3
Total current liabilities		1 259,4	248,4
TOTAL EQUITY AND LIABILITIES		5 392,7	4 392,4

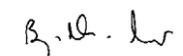
Oslo, 29 April 2011


Berge G. Larsen
Chairman of the Board


Marit Instanes
Board Member


Shelley Watson
Deputy Chairman


Gunnar Hirsti
Board Member


Bijan Mossavar-Rahmani
Board Member


Helge Eide
Managing Director

Consolidated Cash Flow Statements

NOK mill	Note	Years ended 31 December	
		2010	2009
Operating activities			
Profit / (loss) from operating activities before income tax		-206,2	28,0
Adjustments to add (deduct) non-cash items:			
+/- Net interest expense (-income)		95,2	106,0
Previously capitalized exploration and evaluation expenses	6	17,2	56,2
Depreciation of PPE	4	317,0	300,9
(Gain)/loss on PPE		-0,1	-
(Gain)/loss on shares		-8,3	-3,0
Impairment/Reversal impairment of financial assets	12	204,6	-400,4
Other *		90,6	270,4
<i>Changes in working capital:</i>			
- Inventories	4	-54,2	20,9
- Trade and other receivables	13	-93,2	-23,1
- Other financial assets at fair value through profit and loss	7, 12	-0,8	-0,7
- Trade and other payables	19	361,3	-197,9
- Provisions for other liabilities and charges		4,2	-5,2
Cash generated from operations		727,2	152,1
Income taxes paid		-94,0	-92,2
Interest paid	7	-108,3	-113,1
Net cash (used in) / from operating activities		524,9	-53,3
Investing activities			
Purchases of intangible assets	10	-95,1	-
Purchases of tangible assets	10	-115,0	-215,7
Proceeds from sale of tangible assets		0,1	-
Purchases of available-for-sale financial assets	12	-7,3	-
Proceeds from sale of available-for-sale financial assets	12	25,9	600,8
Interest received		13,1	7,2
Net cash (used in) / from investing activities		-178,3	392,1
Financing activities			
Repayment of borrowings	15	-1,4	-55,9
Purchase of treasury shares, including options	15	-	-127,5
Proceeds from sale of treasury shares	15	367,1	-
Proceeds from issuance of shares, net	15	348,6	-
Net cash (used in) / from financing activities		714,3	-183,5
Net increase / (decrease) in cash and cash equivalents			
Cash and cash equivalents at beginning of the period		303,4	176,1
Exchange gain / (losses) on cash and cash equivalents		20,2	-28,2
Cash and cash equivalents at end of the period	14	1 384,7	303,4
Hereof restricted cash		7,2	6,2

* Included in the line Other under Operating activities are foreign currency related to interest-bearing loans and equity, acquisition/disposals of PP&E with non-cash effect, change in accruals of long-term liabilities with non-cash effect and other non-cash items from investing and financing activities.

Consolidated statements of changes in equity

NOK mill	Note	Share Capital	Other Reserves	Retained Earnings	Total Equity
Balance at 1 January 2010					
		213,7	80,6	1 284,4	1 578,7
Fair value gains, net of tax:					
- available-for-sale financial assets		-	96,8	-	96,8
Currency translation differences		-	0,8	-	0,8
Other comprehensive income / (loss)		-	97,6	-	97,6
Profit for the period		-	-	-282,9	-282,9
Total comprehensive income		-	97,6	-282,9	-185,2
Issue of share capital					
		11,3	337,3	-	348,6
Purchase of treasury shares					
		-	-	-	-
Sale of treasury shares					
		12,5	354,6	-	367,1
Derivative contracts treasury shares					
		-	-	-	-
		23,8	691,9	-	715,7
Balance at 31 December 2010	15	237,5	870,1	1 001,6	2 109,1

NOK mill	Note	Share Capital	Other Reserves	Retained Earnings	Total Equity
Balance at 1 January 2009					
		225,2	42,6	1 854,2	2 122,0
Fair value gains, net of tax:					
- available-for-sale financial assets		-	-	-10,3	-10,3
Currency translation differences		-	-	-289,8	-289,8
Other comprehensive income / (loss)		-	-	-300,2	-300,2
Profit for the period		-	-	-269,6	-269,6
Total comprehensive income		-	-	-569,8	-569,8
Issue of share capital					
		-	-	-	-
Purchase of treasury shares					
		-58,0	-1 542,6	-	-1 600,6
Sale of treasury shares					
		46,5	1 111,9	-	1 158,4
Derivative contracts treasury shares sold					
		-	468,8	-	468,8
		-11,5	38,0	-	26,5
Balance at 31 December 2009	15	213,7	80,6	1 284,4	1 578,7

Note disclosures

NOTE 1 || Summary of IFRS accounting policies

Principal Activities and Corporate Information

DNO International ASA (DNO) is an international exploration and production company engaged in the acquisition, development and operation of oil and gas properties. DNO is a public limited company incorporated and domiciled in Norway at Stranden 1, Aker Brygge, N-0113 Oslo. DNO International ASA is the ultimate parent of the Group and the Company's shares are listed on the Oslo Stock Exchange. DNO International ASA has its registered office in Oslo. The Group's operating activities are mainly undertaken in the Middle East, Africa and in the UK.

With effect from 2010, DNO has obtained approval from the Tax authorities to publish its annual report in English only.

Statement of Compliance

The consolidated financial statements of DNO have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The financial statements of the parent company and all subsidiaries have been prepared in accordance with the Norwegian Accounting Act. The consolidated financial statements were approved by the Board of Directors on 29 April 2011.

Basis for Preparation

The consolidated financial statements have been prepared on a historical cost basis, with the following exemption:

- All derivatives, financial assets and liabilities held for trading,
- Liabilities related to share-based payments, financial assets that are classified as available-for-sale and inventories as a result of the net entitlement method, are recognised at fair value.
- As permitted by IAS 1, the statement of comprehensive income is presented on a mixed basis as a blend of expenses by nature and function, as this gives the most relevant and reliable presentation for the Group.

Changes in Accounting Policies and Disclosures

New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the group (although they may affect the accounting for future transactions and events)

- IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The adoption of the standard did not have any effect on the financial statements.
- IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. IAS 27 (revised) has had no impact on the current period.
- IFRIC 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009).
- IFRIC 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009.
- IFRIC 9, 'Reassessment of embedded derivatives and IAS 39, Financial instruments: Recognition and measurement', effective 1 July 2009.

- IFRIC 16, 'Hedges of a net investment in a foreign operation' effective 1 July 2009.
- IAS 1 (amendment), 'Presentation of financial statements'.
- IAS 36 (amendment), 'Impairment of assets', effective 1 January 2010.
- IFRS 2 (amendments), 'Group cash-settled share-based payment transactions', effective from 1 January 2010.
- IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'.

Significant Accounting Estimates and Assumptions

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods.

Accounting estimates are employed in the financial statements to determine reported amounts, including the possibility for realisation of certain assets, the useful lives of tangible and intangible assets, and income taxes. Although these estimates are based on management's best knowledge of historical experience, current events and actions, actual results may differ from these estimates. The estimates and the underlying assumptions are reviewed on an ongoing basis. Changes in estimates will be recognised when new estimates are available and at least every balance sheet date.

The key sources of estimation uncertainty for DNO relate to the following:

- estimates of proven and probable reserves
- timing of export payment for production from Tawke field and payment related to the Water Purification Project
- net realisable amount Tawke export inventory
- operating costs, including asset retirement costs, and other expenses
- deferred tax assets and liability
- impairment assumptions such as WACC, timing of cash flows and future investments

In addition to the above, there is general uncertainty related to seismic and geological models. Risk related to political issues in the countries DNO operates, may also influence management judgements and estimates.

See below for further details on important areas affected by estimation uncertainty;

Reserves and resources – All estimates of oil and gas reserves and resources involve uncertainty. In its estimation, DNO has applied deterministic or scenario based methods. The figures represent a most likely quantity of oil and gas that will be recovered from a field or reservoir given the information available at the end of the year (refer to Note 24).

Important factors that could cause actual results to differ from the estimates include among others: technical, geological and geotechnical conditions, economic and market conditions, oil prices and changes in governmental regulations, interest rates and fluctuations in currency exchange rates. Specific parameters of uncertainty related to the field/reservoir include, but are not limited to; reservoir pressure and porosity, recovery factors, water cut development and production decline rates, gas/oil ratios and oil properties.

Analogy to similar fields and reservoirs has been applied when production history and information is limited and/or the field/reservoir has a complex structure. It is important to underline that the uncertainty span

is larger for fields/reservoirs with limited field information and production history, compared to fields/reservoirs with longer production history.

The estimates for reserves and resources are made in accordance with the guidelines advised by the Society of Petroleum Engineers (SPE) and are in conformity with requirements from the Oslo Stock Exchange for reporting of reserves.

Provisions and litigations - Management must use judgement to evaluate certain provisions and litigations, in order to ensure the correct accounting treatment. This also includes the evaluation of future asset retirement obligations.

Impairment of oil and gas assets – Management must determine whether there are circumstances indicating a possible impairment of the Company's oil and gas assets. The estimation of the recoverable amount for the oil and gas assets include evaluations in relation to expected future cash flows and future market conditions, including production and oil price and risk factors (discount rate)

Deferred tax assets and liability – Deferred tax assets are recognised for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax asset to be recognised. Specifically, the uncertainty is related to the timing and value of tax planning activities, as well as the general uncertainty related to the budgeting process. Deferred tax is also calculated for the activities in Yemen and the Kurdistan region of Iraq. To the extent that the government take includes a portion assigned to cover DNO's corporate tax eligible for classification as tax according to the IAS 12 definition, DNO presents this element as an income tax expense with a corresponding increase in revenue. A deferred tax liability is also recorded. For further details see Note 8.

Net realisable amount Tawke export inventory – In absence of an IFRS standard that applies to the export sale from the Tawke field in 2009, management has based on IAS 8.10 used its judgment to find a relevant and reliable accounting policy relevant for the economic decision makers and that represents faithfully the financial position and financial performance of DNO's share of the production in the specific period in accordance with PSC.

It is the management's best judgment that DNO will receive settlement for the export production when a payment mechanism is in place. As such, management has concluded that an analogy to the sales method and measuring underlift to production cost best reflects DNO's position during the production period without a payment mechanism is the best way of accounting for this.

The alternative would be to consider payment for the export as a contingent asset, in which case nothing could have been capitalized as export inventory and the full revenue would be recognized at the time of payment. It is managements judgment that this does not faithfully represent DNO's financial position and financial performance in the period with export sale.

Group Accounting and Consolidation Principles

Basis for consolidation

The consolidated financial statements comprise the financial statement of DNO and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed during the year are included in the consolidated financial statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intercompany balances and transactions have been eliminated upon consolidation.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at the acquisition date's fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

The purchase consideration is allocated to the identifiable assets, liabilities and contingent liabilities (identifiable net assets) on the basis of fair value at the date of acquisition. These provisional estimates are finalised within 12 months of the acquisition date with adjustments being recorded against goodwill.

Goodwill is initially measured at cost, being the excess of the cost of the business combination over the Company's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

If the fair value attributable to the Company's share of the identifiable net assets exceeds the fair value of the consideration, DNO reassesses whether it has correctly identified and measured the assets acquired and liabilities assumed. Any additional assets or liabilities that are identified in that review are recognised. If excess over fair value of the consideration remains after reassessment, the Company recognises the resulting gain in the Statement of Comprehensive Income on the acquisition date.

After initial recognition, goodwill is measured at cost, less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the DNO's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Transaction costs related to business combinations are expensed. Transaction costs include costs related to the transaction, such as corporate advisors' fees, legal fees, due diligence fees, stamp duties, and accounting services.

Acquisitions made by the Company which do not qualify as a business combination under IFRS 3 "Business Combinations", are accounted for as asset acquisitions.

Where necessary, the accounting policies of subsidiaries have been adjusted to ensure consistency with the policies adopted by DNO.

All intercompany transactions, receivables, liabilities and unrealised profits, as well as intra-group profit distributions, are eliminated.

Investment in an associate

The Group's investment in an associate is accounted for under the equity method of accounting. An associate is defined as an entity in which the Group generally holds between 20% and 50% of the voting rights and over which the Group has significant influence, but not overall control. Share options, convertible instruments and other equity instruments are taken into consideration when assessing whether an entity is under significant influence.

The investment in an associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value. The income statement reflects the share of the results of operations of the associate as financial income/expense.

NOTE 1 || Summary of IFRS accounting policies continued

Where there has been a change recognised directly in the associate's equity, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity.

Impairment is assessed at each balance sheet date. A significant or prolonged decline in fair value of the investment indicates that the cost of the investment may not be recovered, and the investment is impaired. A decline in fair value of more than 20% measured against original cost price is considered to be significant, while a decline in fair value between 10% and 20% will be assessed specifically in each case. A decline in fair value less than 10% is considered to be insignificant. The decline is considered to be prolonged if it has lasted more than 12 months, while a decline lasting less than six months is not considered prolonged. A decline for a period between six and 12 months will be assessed specifically in each case. Further declines following an impairment is recorded in profit or loss.

The impairment loss can be reversed in a subsequent period if there is evidence that the impairment no longer exist.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal are recognised in profit or loss.

Interest in joint ventures

The Group accounts for joint ventures, including jointly controlled operations (oil and gas licenses), by recording its share of the arrangement's assets, liabilities and cash flows. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements.

The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it divests the assets to an independent party. However, if a loss on the transaction provides evidence of a reduction in the net realisable value of current assets or an impairment loss, the loss is recognised immediately.

Foreign Currency Translation and Transactions

Functional currency

The consolidated financial statements are presented in Norwegian Kroner (NOK), which is the functional and presentation currency of the Parent Company.

Items included in the financial statements of each subsidiary in the Group are initially recorded in the functional currency, i.e. the currency that best reflects the economic substance of the underlying events and circumstances relevant to that subsidiary.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Receivables and liabilities in foreign currencies are translated into functional currency at the balance sheet date exchange rates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Foreign exchange differences arising in respect of operating business items are included in operating profit in the appropriate statement of comprehensive income account. Those arising in respect of financial assets and liabilities are recorded net as a financial item.

Foreign exchange gains or losses resulting from changes in the fair value of financial investments classified as available-for-sale, are recognised directly

in other comprehensive income until the investment has been disposed of.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in profit or loss as part of the gain or loss on sale.

Group companies

Income statements and cash flows of subsidiaries, associated companies and joint ventures, whose functional currency is not NOK, are translated to NOK at average exchange rates each month. Balance sheets are translated at the balance sheet date exchange rate, and the translation differences are taken directly to other comprehensive income. When a foreign entity is sold, such translation differences are recognised in profit or loss as part of the gain or loss on sale.

Balance Sheet Classification

Current assets and short-term liabilities include items due less than a year from the balance sheet date, and items related to the operating cycle, if longer. The current portion of long-term debt is included under current liabilities. Investments in shares held for trading are classified as current assets, while strategic investments are classified as non-current assets. Other assets are classified as non-current assets.

Property, Plant and Equipment

General

Property, plant and equipment acquired by Group companies are stated at historical cost and adjusted for impairment charges, if any. The carrying value of the property, plant and equipment on the statement of financial position represents the cost less accumulated depreciation and any impairment charges. Other fixed assets in use (excluding oil and gas properties) are depreciated on a straight-line basis, at rates varying from three to five years. Expected useful lives of long-lived assets are reviewed at each balance sheet date and, where there are changes in estimates, depreciation periods are changed accordingly. Any change is accounted for prospectively. For oil and gas properties, expected useful life is the period of production.

Ordinary repairs and maintenance costs, defined as day-to-day servicing costs, are charged to profit or loss during the financial period in which they are incurred. The cost of major work overs is included in the asset's carrying amount when it is probable that the Group will derive future economic benefits in excess of the originally assessed standard of performance of the existing asset. Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in operating profit. Assets to be disposed of are reported at the lower of the carrying amount and the fair value less selling costs.

Borrowing costs

Interest costs related to financing construction of property, plant and equipment are capitalised during the period of time that is required to complete and prepare the asset for its intended use, which is defined as the development phase. Other borrowing costs are expensed when incurred. The capitalisation of borrowing costs is made monthly based on the average interest rate for the Group in the period.

The basis for the monthly capitalisation is accumulated average capitalised assets for each project. The capitalised borrowing costs can not exceed the actual borrowing costs in each period.

Exploration and development costs for oil and gas properties

DNO uses the 'successful efforts' method to account for exploration and development costs, where exploration costs are charged to expense as incurred.

However, drilling costs of exploration wells are temporarily capitalised pending the determination of oil and gas reserves. If reserves are not found, or if discoveries are assessed not to be technically and commercially recoverable, the drilling costs of exploration wells are expensed. Costs of acquiring licenses are capitalised, and assessed for impairment at each reporting date. 3D seismic acquisitions over a discovery area are capitalised if the objective is to learn more about the reservoir and to support the determination of new well locations within the discovery area.

For accounting purposes, the field enters the development phase when the partners in the license declare the field commercial. All costs of developing commercial oil and/or gas fields are capitalised, including direct costs. Pre-operating costs are expensed as incurred. Capitalised development costs are classified as tangible assets.

Oil and gas properties

Capitalised costs for oil and gas properties are depreciated using the unit-of-production method. The rate of depreciation is equal to the ratio of oil and gas production for the period over the estimated remaining proven and probable reserves (expected to be recovered during the concession or contract period) at the beginning of the period. The future development expenditures necessary to bring those reserves into production are included in the basis for depreciation, and are estimated by the management. Any changes in the reserves estimate that affect unit-of-production rates, are dealt with prospectively.

Component cost accounting / decomposition

The Company allocates the amount initially recognised in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part over its useful life. For oil and gas assets, the Company uses field as the level of aggregation as this represents the lowest level where separate cash flows can be identified. This means that there is no decomposition beyond field level. A plan for development is usually defined for each field, taking into consideration both exploration wells, production wells and infill wells. The field reserves are evaluated according to the chosen production plan.

Intangible Assets

Amortisation of intangible assets is based on the expected useful lives.

Exploration and evaluation assets

IFRS 6 Exploration for and Evaluation of Mineral Resources requires exploration and evaluation assets to be classified as tangible or intangible according to the nature of the assets.

Some exploration and evaluation assets should be classified as intangible, for example license acquisition costs and capitalised exploration assets. When technical feasibility and commercial viability of the assets are decided upon, the assets are reclassified to tangible assets and depreciated. The exploration and evaluation assets which are classified as intangible are assessed for impairment before reclassification.

Drilling costs of exploration wells are temporarily capitalised pending the determination of oil and gas reserves. If reserves are not found, or if discoveries are assessed not to be technically or commercially recoverable, the drilling costs of exploration wells are expensed. Costs of acquiring licenses are capitalised and assessed for impairment at each reporting date.

Other intangible assets

Payments related to acquisition of licenses and subsequent payments are capitalized as license acquisition cost and depreciated using the unit of production method.

Impairment of Long-Lived Assets

Property, plant and equipment and other non-current assets are reviewed for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Indications of impairment may be decline in oil price, changes in future investments or changes in reserve estimates.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows. An oil and gas field is considered one cash generating unit; all other assets are assessed separately. An impairment loss is the amount by which the carrying amount of the assets exceeds the recoverable amount. The recoverable amount is the higher of the asset's net selling price and its value in use. The value in use is determined by reference to discounted future net cash flows expected to be generated by the asset. Cash flows are discounted using a pre-tax discount rate that reflects current market assessments of the time-value of money and the risks specific to the asset.

A previously recognised impairment loss is reversed through profit or loss only if there has been a change in the estimates used to determine the recoverable amount. It is not reversed to a higher amount than if no impairment loss had been recognised. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Farm In and Farm Out

A farm in / farm out is when the owner of a working interest (the farmor) transfers all or a portion of its working interest to another party (the farmee) in return for the farmee's performance of some agreed upon action. If the farmee agrees to undertake exploration, drill well(s), or develop the property, the farmor transfers all or a portion of the working interest in the property to the farmee.

The farmee capitalises or expenses the exploration, drilling and development costs as incurred according to the accounting method it is using. The farmee does not record any receivable nor any of its costs assigned to the acquisition of the license interest. The farmee will thereby have capitalised wells and equipment costs but no capitalised property acquisition costs. The farmor does not record any well and equipment costs. There are no accruals for future commitments in farm in / out agreements in the exploration and evaluation phase, and no profit or loss is recognised by the farmor. In the development phase, a farm in / farm out agreement will be treated as a transaction recorded at fair value as represented by the costs born by the farmee.

License Swaps / Asset Swaps

A situation where one or more items of property, plant and equipment is exchanged for a non-monetary asset or assets, or a combination of monetary and non-monetary assets, should be measured at fair value.

Oil companies may exchange license interests as part of a portfolio structuring. License swaps are measured at fair value at the time of the transaction, with recognition of gain or loss.

Financial Instruments

Financial instruments, that are not derivatives, consist of investments in debt and equity instruments, trade receivables and other receivables, cash and cash equivalents, loans, trade payables and other payables. These are

NOTE 1 || Summary of IFRS accounting policies continued

initially recognised at fair value, which in most cases will be identical to cost. After initial recognition, the measurement and accounting treatment depend on the type of instrument and classification.

Cash and bank deposits, including deposits on special terms, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts, form cash and cash equivalents. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, than fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is based on broker estimates. Those estimates are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. The fair value of non-derivative financial liabilities, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Investments and other financial assets

All purchases and sales of financial assets are recognised at the transaction date.

- Investments classified as available for sale are measured at fair value. Adjustments to fair value are recognised as other comprehensive income until the investment is sold, collected or otherwise disposed of, at which time the cumulative gain or loss previously reported in other comprehensive income is included as part of net result in profit or loss. Impairment of available for sale investments is recognised in profit or loss immediately, but any subsequent reversal of the impairment is not recognised in profit or loss, but as a fair value adjustment to other comprehensive income.
- Investments classified at fair value through profit or loss are measured at fair value, with adjustments to fair value recognised immediately in the statement of comprehensive income.
- Investments classified as loans and receivables are measured at amortised cost using the effective interest rate method. This classification is used for non-derivative assets with fixed or determinable payments that are not quoted in an active market. Gains and losses are recognized when the loans and receivables are derecognised or impaired, as well as through the amortisation process.
- Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity which the Group has the intention and ability to hold to maturity. These assets are subsequently measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market prices

at the close of business on the balance sheet date. For investments where there is no quoted market price, fair value is determined by using generally accepted valuation techniques. The valuations are primarily collected from external parties (banks, other financial institutions), or, if not available, performed by the Group.

Amortised cost is calculated by taking into account any discount or premium on acquisition over the years to maturity. For investments carried at amortised cost, gains and losses are recognised in the statement of comprehensive income when the investments are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that this event has an impact on the estimated future cash flows from the asset that can be reliably estimated.

A significant or prolonged decline in fair value of an available for sale investment, indicates that the cost of the investment may not be recovered, and the investment is impaired. A decline in fair value of more than 20% compared to cost is considered to be significant, while a decline in fair value between 10% and 20% will be assessed specifically in each case. A decline in fair value less than 10% is considered to be insignificant. The decline is considered to be prolonged if it has lasted more than 12 months, while a decline lasting less than six months is not considered prolonged. A decline for a period between six and 12 months will be assessed specifically in each case. Further decline in fair value will be recorded as impairment loss in profit or loss, while increase in fair value is recorded through other comprehensive income.

If there is objective evidence of impairment for financial assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying value and the present value of future cash flows. The present value of the future cash flows are discounted using the asset's original effective interest rate. If a loan has a variable interest rate (floating interest rate), the discount rate for measuring any impairment loss is the current effective interest rate.

Derecognition of financial assets and liabilities

A financial asset is derecognised where:

- the Group no longer has the right to receive cash flows from it the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement, or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred the control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. A bond loan is derecognised when it is repurchased.

Derivative financial instruments and hedging

Derivative financial instruments are initially and subsequently recognised on the statement of financial position at fair value. Certain derivative instruments, while providing effective economic hedges under the Group Financial Policy, do not qualify for hedge accounting under the specific

rules in IAS 39. These are accounted for as financial assets or liabilities at fair value through profit and loss. Changes in fair value are classified as financial income or expense.

To the extent that derivative contracts on own shares contain an obligation to settle in cash or another financial asset, the financial liability for the redemption amount is recognised as a liability with a corresponding entry against equity.

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. Embedded derivatives are separated from the host contracts and accounted for as derivatives at fair value, only if: (a) the economic characteristics and risks of the embedded derivative are not closely related to the host contract (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss. When bond loans include a prepayment option, an evaluation is performed in order to decide whether the options are closely related to the bond loan. Whether or not the option is closely related, depends on the difference between the option premium and amortised cost at the time of repayment.

As of 31 December 2010, the Group has no hedging instruments for accounting purposes.

Other Long-Term Receivables

Other long-term receivables are measured at net present value when the payments are expected later than 12 months from the transaction date and these are not interest bearing.

Trade Receivables

Trade receivables are recognised and carried at their anticipated realisable value, which is the original invoice amount less an estimated valuation allowance for any uncollectible amounts or for extended payment terms. A provision is made when there is objective evidence that the Group will not be able to collect the recoverable amount. Bad debts are written off when identified.

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash at banks and at hand and short-term deposits with an original maturity of three months or less.

Share capital

ORDINARY SHARES

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options, are recognised as a reduction of equity, net of any tax effects.

REPURCHASE OF SHARE CAPITAL (TREASURY SHARES)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction in total equity. When treasury shares are subsequently sold or reissued, the amount received is recognised as an increase in equity and the resulting surplus or deficit of the transaction is transferred to/from retained earnings.

Financial income and expenses

Financial income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Financial expenses comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets measured at fair value through profit or loss, impairment losses recognised on financial assets and losses on financial assets that are recognised in profit or loss.

Foreign exchange gains and losses are reported as financial income or financial expenses.

Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long-term interest-bearing liabilities. Each lease payment is allocated between liability and finance, where the interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Leases where a significant portion of the risk and reward of ownership is retained by the lessor are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the period of the lease.

Inventories

Inventories, other than inventories of oil, are valued at the lower of cost and net realisable value. Cost is determined by the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises of raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated selling expenses.

Petroleum products and over- and underlift of crude oil are recorded at net realisable values.

In cases where the entitlement method cannot be used and the sales method applies, underlift will be measured at production costs, which are deferred and classified as inventory.

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business, less the estimated costs of completion and sale and a reasonable profit margin based on the effort required to complete and sell the inventories.

Interest-Bearing Liabilities

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Any difference between proceeds (net of transaction costs) and

NOTE 1 || Summary of IFRS accounting policies continued

the redemption value is recognised in profit or loss over the period of the interest-bearing liabilities. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised or impaired, as well as through the amortisation process.

Revenue Recognition

Revenues from the production of oil and gas properties are recognised on the basis of the Group's net interest in those properties, regardless of whether the production is sold (the entitlement method). The revenue recognition according to the net entitlement method is based on actual production in the period, and revenue is recognised when the title passes from the Group to its customer. The entitlement method assumes observable market prices and the risk for the seller to be minimal related to sale and distribution. To the extent that the entitlement method cannot be applied, the sales criteria from IAS 18 must be fulfilled in order to recognise revenues. Using the sales method, a liability (overlift) arises when the Group sells more than the Group's share of the production, and an asset (underlift) when the sale is less than the Group's share of the production.

Overlift and underlift of oil and gas using the entitlement method is valued at its net realisable value on the balance sheet date. Overlift and underlift are calculated as the difference between the Group's share of production and its actual sales and are classified as other current liabilities/assets. Under the sales method, overlift and underlift are recorded to cost.

Revenues from services are recorded when the service has been performed.

Revenues from lease arrangements are recognised over the life of the agreement. Revenues from other activities are recognised when the title passes to the customer.

Production Sharing Agreements / Production Sharing Contracts (PSAs/PSCs)

In many countries ownership of unexploited petroleum resources remains with the state, whereas exploration, development and production is carried out by private contractors under a specific production sharing agreement, or PSA/PSC. The PSA/PSC typically is a contract between an oil-producing company and the host government that governs the rights and duties of both parties in respect of the operations of a block. In particular it governs how the revenues from oil produced are to be shared between the government and the contracting oil producers. DNO operates currently under PSAs/PSCs in Yemen, in the Kurdistan region of Northern Iraq and in Mozambique.

Under the PSAs/PSCs, DNO, along with other working interest holders, typically bears all risk and costs for exploration, development and production. In return, if exploration is successful, DNO recovers the sum of its investment and operating costs ('cost oil') from a percentage of the production and sale of the associated hydrocarbons. DNO is also entitled to receive a share of production in excess of cost oil ('profit oil'). The sharing of cost oil and profit oil varies between the working interest holders and the government from PSA/PSC contract to PSA/PSC contract.

The sum of cost oil attributable to DNO's share of costs and DNO's share of profit oil represents DNO's entitlement to oil produced under a PSA/PSC.

Under a PSA/PSC the government typically receives portions of oil produced in several steps. Normally, there is a fraction of gross oil production (a royalty), before any attribution to cost oil and profit oil payable to a governmental body. As described above, the government will also have a specified share of profit oil and in some instances a governmentally controlled enterprise will have its share as well. The sum of royalties and governmental share of profit oil, including that of a governmentally controlled enterprise, represents the 'government take' of oil produced under a PSA/PSC.

DNO presents its operations governed by PSAs/PSCs according to the net entitlement method. The net entitlement method means that DNO recognises as revenue only its working interest of oil produced, after deduction of the government take.

According to the Company's PSAs/PSCs, the ownership of the property, plant and equipment is transferred back to the government when production ceases.

Income Taxes

The tax expense consists of taxes payable and changes in deferred tax. Taxes payable are provided based on taxable profits at the current tax rate.

Deferred tax/tax assets are calculated on all taxable temporary differences, except to the extent that both of the following conditions are satisfied:

- the Group is able to control the timing of the reversal of the temporary differences; and
- it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets related to tax losses carried forward are recognised when it is probable that the Group will have a sufficient profit for tax purposes to utilise the tax asset. At each balance sheet date, the Group carries out a review of its unrecognised deferred tax assets and the value it has recognised. The Group recognises formerly unrecognised deferred tax assets to the extent that it has become probable that the Group can utilise the deferred tax asset. Similarly, the Group will reduce its deferred tax assets to the extent that it can no longer utilise these.

Deferred tax and deferred tax assets are measured on the basis of tax rates enacted at the balance sheet date, applicable to the companies in the Group. Deferred tax and deferred tax assets are set off within the same tax regime only if the use of group contribution is available.

Deferred tax and deferred tax assets are recognised irrespective of when the differences will be reversed. They are recognised at their nominal value and classified as non-current assets (long-term liabilities) in the statement of financial position.

Taxes payable and deferred tax are recognised directly in equity to the extent that they relate to items that are charged directly to equity.

Production Sharing Agreements/Contracts (PSAs/PSCs)

DNO presents its operations governed by PSAs/PSCs according to the net entitlement method. For more information see the description under section "revenue recognition".

A PSA/PSC may also affect payment of corporate taxes. Normally, the contractor is liable for national corporate tax on taxable profits, which will be a function of its share of profit oil (taking into account that costs over time will be recovered through cost oil). However, some PSAs/PSCs include clauses for corporate taxes to be paid out of the government take. To the extent that the government take includes a portion assigned to cover DNO's corporate tax eligible classification as tax according to the IAS 12 definition, DNO presents this element as an income tax expense with a corresponding increase in revenue.

Employee Benefits

Pension obligations

The Group currently has contribution plans only. For defined contribution plans, contributions are paid to pension insurance plans and charged to profit or loss in the period to which the contributions relate. Once the contributions have been paid, there are no further payment obligations.

Share option program

The Group has a synthetic share option programme for its employees. The share

options are settled in cash and are recorded at fair value by use of the Black & Scholes method. The share options are expensed over the vesting period.

Provisions and Contingent Liabilities

A provision is recognised when: the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

The amount of the provision is the present value of the risk-adjusted expenditures expected to be required to settle the obligation, determined using the estimated risk-free interest rate as the discount rate. Where discounting is used, the carrying amount of provision increases in each period to reflect the unwinding of the discount by the passage of time. This increase is recognised as interest expense.

Contingent liabilities are not recognised, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Asset retirement obligations

Provisions for decommissioning liabilities for oil and natural gas production facilities are recognised in full. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding tangible fixed asset of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the capital costs of the production and transportation facilities. The decommissioning provision is accreted to the discounted liability, with the accretion of the discount being classified as interest expense. The discount rate used equals the Group's average interests on its debt.

The provision and the discount rate are reviewed at each balance sheet date. According to IFRIC 1.5, changes in the measurement of the decommissioning liability that result from a change in the timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or a change in the discount rate, are added to or deducted from the cost of the related asset in the current period. Changes in estimated asset retirement obligations will impact both the cost of the asset and profit or loss in the period in which the estimate is revised.

Segment Reporting

The Group identifies and reports its segments based on the reporting to the corporate management and the board. The reportable segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments. The Company has identified its reportable segments based on the nature of the risk and return within its business and by the geographical location of the Group's assets and operations.

Transfer prices between the segments and Companies are set on an arm's length basis in a manner similar to transactions with third parties.

Earnings Per Share

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders using the weighted average number of shares outstanding during the year after deduction of the average number of treasury shares held over the period. The calculation of diluted earnings per share is consistent with the calculation of basic earnings per share while giving effect to all dilutive potential ordinary shares that were outstanding during the period. That is:

- The net profit for the period attributable to ordinary shares is increased by interest recognised in the period in respect of the dilutive potential ordinary shares. It is adjusted for any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares.
- The weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares increases the weighted average number of ordinary shares outstanding.

The amount of the dilution is the average market price of ordinary shares during the period minus the issue price of the options.

Related parties

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the party in making financial or operational decisions. Parties are also related if they are subject to common control.

Transactions between related parties are transfers of resources, services or obligations, regardless of whether a price is charged. All transactions between related parties are made based on the principle of 'arm's length', which is the estimated market price.

For more information about related parties, see Note 22.

IFRS and IFRIC Interpretations Not Yet Effective

The following standards and interpretations are relevant to the Group:

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted.

- IFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Company has not yet assessed the impact of IFRS 9's.
- Revised IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. It is not expected to have any impact on the group's financial statements.
- Classification of rights issues' (amendment to IAS 32), issued in October 2009. The amendment applies to annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'. It is not expected to have any impact on the group's financial statements.
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010. It is not expected to have any impact on the group's financial statements.
- Prepayments of a minimum funding requirement' (amendments to IFRIC 14). The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. It is not expected to have any impact on the group's financial statements.

NOTE 2 || Segment information

DNO identifies and reports its segments based on the information given to the chief decision makers, defined as the management and Board of Directors. Resources are allocated and decisions are made based on this information. The reportable segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments. DNO has identified its reportable segments based on the nature of the risks and returns within its business and by the location of the Group's assets and operations. DNO primarily sells crude oil.

Inter-segment sales are based on the principle of "arm's length" and are eliminated on consolidation. Segment profit does include profit from inter-segment sales.

DNO's reporting segments consist of Northern Europe (NE), Yemen (YEM), the Kurdistan region of Iraq (KUR) and Africa (AFR).

The segment Northern Europe (NE) includes operations in the UK. The share of profit or loss from associated company has been included in NE up to November 2009 (see Note 10). The segment Africa (AFR) includes Equatorial Guinea and Mozambique, where DNO participates in one block in each country. Yemen (YEM) consists of Yemen (5 blocks). All oil in Yemen is sold to one customer, which is responsible for the further distribution. During 2010, the oil from Kurdistan has been sold locally to several customers. When the export commences from the Tawke field, the oil will most likely be sold to one customer responsible for further distribution.

NOK mill								
Twelve months ended 31 December 2010	Note	NE	YEM	KUR	AFR	Total reporting segments	Unallocated	GROUP
Income statement information								
External sales	3	-	706,3	545,5	-	1 251,8	-	1 251,8
Inter-segment sales		-	11,0	5,6	1,1	17,8	-17,8	-
Cost of goods sold	4	-	-353,9	-263,4	-0,1	-618,0	-0,7	-618,7
Gross profit		-0,6	363,4	287,7	1,0	651,6	-18,5	633,1
Other operating income		-	5,7	3,0	-	8,7	0,2	8,9
Tariffs and transportation		-	-22,8	-	-	-22,8	-	-22,8
Administrative expenses	5	-0,2	-0,7	-333,4	-	-341,1	-65,2	-406,3
Other operating expenses	5	-	-	-	-	-	0,1	-
Exploration cost expensed	6	-4,8	2,4	-23,2	-30,6	-56,2	-	-56,2
Net gain / (loss) from sale of PP&E		-	0,1	-	-	0,1	-	0,1
Finance costs - net (excl. interest, gain / (loss) on sale of shares)		-1,3	-1,6	-	-0,4	-3,2	-197,6	-200,8
Segment result		-6,8	346,6	-65,9	-36,7	237,1	-281,1	-44,0
Share of profit / (loss) from associates	10	-	-	-	-	-	-	-
Interest - net		-	-	-	-	-	-170,6	-170,6
Gain / (loss) on sale of shares		-	-	-	-	-	8,3	8,3
Income tax expense		-	-76,6	-	-	-76,6	-	-76,6
Net profit / (loss)								-282,9

NOK mill								
Twelve months ended 31 December 2010	Note	NE	YEM	KUR	AFR	Total reporting segments	Unallocated	GROUP
Balance sheet information								
Capital expenditures this period		-	130,6	17,8	128,1	276,5	-124,9	151,6
Property, plant and equipment		-	353,2	1 801,2	55,8	2 210,2	2,6	2 212,8
Inventories		-	4,8	206,8	-	211,6	-	211,6
Other assets		365,8	316,8	896,2	125,9	1 704,7	1 263,7	2 968,3
Total segment assets (excl. tax assets, interest-bearing receivables)		365,8	674,8	2 904,2	181,8	4 126,5	1 266,2	5 392,7
Unallocated corporate assets								-
Consolidated total assets								5 392,7
Total segment liabilities (excl. tax liabilities, interest-bearing liabilities)		1,0	67,3	1 263,3	0,0	1 331,6	59,6	1 391,2
Unallocated corporate liabilities								1 892,4
Consolidated total liabilities								3 283,6
Other segment information								
Net entitlement production (mboe)		-	1 504,6	2 594,2	-	4 098,7	-	4 098,7
Sale of oil		-	706,3	545,5	-	1 251,8	-	1 251,8
Lifting cost		-	-217,0	-84,7	-	-301,7	-	-301,7
Lifting cost (USD/bbl)		-	-15,3	-3,6	-	-18,9	-	-8,1
Amortisation and depreciation		-0,6	-136,9	-178,7	-0,1	-316,2	-0,7	-317,0
Netback, including asset sale proceeds *		-5,0	390,9	112,8	-36,2	462,5	-82,9	379,6

NOK mill								
Twelve months ended 31 December 2009	Note	NE	YEM	KUR	AFR	Total reporting segments	Unallocated	GROUP
Income statement information								
External sales	3	-	702,0	167,0	-	869,0	-	869,0
Inter-segment sales		-	7,5	8,0	2,2	17,7	-17,7	-
Cost of goods sold	4	-	-500,0	-158,7	-0,1	-658,7	-0,6	-659,3
Gross profit		-	209,5	16,4	2,1	228,0	-18,3	209,7
Other operating income		-	-	7,8	-	7,8	0,4	8,1
Tariffs and transportation		-	-36,9	-	-	-36,9	-	-36,9
Administrative expenses	5	-1,3	-1,6	-145,2	-	-148,0	-51,9	-199,9
Other operating expenses	5	-	-	-	-2,6	-2,6	-1,8	-4,3
Exploration cost expensed	6	-0,7	-112,3	-10,1	-32,7	-155,8	-	-155,8
Net gain / (loss) from sale of PP&E		-	-	-	-	-	-	-
Finance costs - net (excl. interest, gain / (loss) on sale of shares)		-1,3	-36,9	9,4	-	-28,8	466,8	438,1
Segment result		-3,3	21,9	-121,8	-33,1	-136,3	395,2	259,0
Share of profit / (loss) from associates	10	-62,9	-	-	-	-62,9	-	-62,9
Interest - net		-	-	-	-	-	-171,1	-171,1
Gain / (loss) on sale of shares		-	-	-	-	-	3,0	3,0
Income tax expense		-	-172,4	-10,0	-	-182,4	-115,2	-297,6
Net profit / (loss)								-269,6
Balance sheet information								
Capital expenditures this period		-	39,6	630,5	1,1	671,2	0,4	671,6
Property, plant and equipment		0,6	381,7	1 963,1	55,2	2 400,5	1,8	2 402,4
Inventories		-	-	157,4	-	157,4	-	157,4
Other assets		477,7	271,6	777,4	2,8	1 529,5	303,2	1 832,7
Total segment assets (excl. tax assets, interest-bearing receivables)		478,3	653,3	2 897,8	58,0	4 087,4	305,0	4 392,4
Unallocated corporate assets								-
Consolidated total assets								4 392,4
Total segment liabilities (excl. tax liabilities, interest-bearing liabilities)		2,3	67,6	805,0	0,0	874,9	59,3	934,2
Unallocated corporate liabilities								1 879,5
Consolidated total liabilities								2 813,7
Other segment information								
Net entitlement production (mboe)		-	1 955,6	1 108,1	-	3 063,7	-	3 063,7
Sale of oil		-	702,0	167,0	-	869,0	-	869,0
Lifting cost		-	-261,7	-96,6	-	-358,3	-	-358,3
Lifting cost (USD/bbl)		-	-15,3	-9,3	-	-24,6	-	-13,0
Amortisation and depreciation		-	-238,2	-62,1	-0,1	-300,4	-0,6	-300,9
Netback, including asset sale proceeds *		-2,0	204,9	-69,1	-33,0	100,7	-71,0	29,8

* Netback is defined as EBITDA adjusted for taxes paid

NOTE 3 || Sales

NOK mill	Years ended 31 December	
	2010	2009
Sale of petroleum products	1 251,8	869,0
Other income	-	-
Total sales	1 251,8	869,0

Since the export from the Tawke field halted in September 2009, DNO has delivered crude oil to the local market in Kurdistan and to the Tawke refinery. The crude oil has been sold to reduced prices to several customers on short-term arrangements.

The estimated export revenues from 2009 were reversed in Q4 2009 as the criteria under IFRS for revenue recognition were not satisfied at year-end 2009. The revenues from the exported crude oil will be recognized when a final sales and pricing agreement is in place and payment is received. Production costs related to the exported volumes were capitalized as inventory in 2009, see Note 4.

DNO presents its operations governed by PSAs according to the net entitlement method. For more information see accounting principles on revenue recognition.

Reconciliation sales - working interest/net entitlement

NOK mill	Years ended 31 December	
	2010	2009
Sale of petroleum products working interest	1 953,8	1 293,1
Government share of production before income tax payable	-702,0	-424,1
Sale of petroleum products net entitlement	1 251,8	869,0

NOTE 4 || Cost of goods sold/Inventory

NOK mill	Years ended 31 December	
	2010	2009
Lifting costs*	-301,7	-358,3
Depreciation, depletion and amortisation	-317,0	-300,9
Total cost of goods sold	-618,7	-659,3

* Lifting costs consist of expenses relating to the production of oil and gas, including operation and maintenance of installations, well intervention and workover activities, insurance, CO₂ taxes, royalties to the state and costs in own organisation.

NOK mill	Years ended 31 December	
	2010	2009
Spare parts	75,8	23,5
Other inventory	135,8	133,9
Total inventory	211,6	157,4

Spare parts at the Tawke field in Kurdistan are classified as inventory.

DNO has not received settlement for the export of crude oil from the Tawke field in Kurdistan in 2009. According to the PSC, DNO had the right to its share the exported oil, both at time of production and at the balance sheet date. We expect to receive settlement for our share of the export production when the Federal Petroleum Law for Iraq is passed by the Iraqi parliament which is expected later in 2011. As a consequence of the lack of settlement, other inventory of NOK 135.8 million (2009: NOK 133.9 million) consists of lifting cost of NOK 14.6 million and depreciation costs of NOK 121.2 million related to the exported volumes of crude oil in 2009. These capitalized costs will be charged as cost of goods sold when revenues can be recognized. Both timing of the Federal Petroleum Tax law and subsequent payment mechanism is uncertain, but it is management's best judgment that the settlement will exceed production costs incurred. See also Note 1 Accounting principles and Note 3 Sales.

NOTE 5 || Administrative/Other expenses

This note should be read in conjunction with Note 22 on related parties.

Years ended 31 December

NOK mill	2010	2009
Salaries and social expenses *	-29,6	-12,7
General and administration expenses **	-376,7	-187,2
Other operating expenses	-	-4,3
Total administrative / other expenses	-406,3	-204,3

* Salaries and social expenses directly attributable to operations are reclassified to lifting cost and exploration cost in the statement of comprehensive income.

** Included in General and administration expenses for 2010 are provisions for the liability and legal costs related to the arbitration proceedings of NOK 330 million (2009: NOK 140 million). See Note 19 and Note 23 for further information regarding arbitration.

Specification of salaries and social expenses

Years ended 31 December

NOK mill	2010	2009
Salaries, bonuses, etc.	-59,2	-45,2
Employer's payroll tax expenses	-7,9	-7,5
Pensions	-3,0	-2,4
Other personnel costs	-5,3	-1,7
Reclassification of salaries and social expenses to lifting costs and exploration costs	45,7	44,0
Salaries and social expenses	-29,6	-12,7
Average man-year labour	34	34

Salaries and social expenses in 2010 include an ordinary bonus and a share-based bonus scheme. The total limit for the share-based bonus scheme is NOK 17.2 million (2009: NOK 15.9 million) should the share price equal or exceed NOK 9.75 (2009: NOK 9.57) as of 30 June 2011. The threshold for payments under this scheme is a share price of NOK 7.50 (2009: NOK 7.36). Estimated value recognised as of 31 December 2010 is NOK 4.3 million (2009: NOK 0 million). All employees are included in the scheme. All other ordinary bonus payments will be deducted in a possible share-based bonus payment. Black & Scholes valuation model is used to determine the value of the option.

The share options are settled in cash and are expensed over the vesting period.

Pensions

DNO has a defined contribution scheme for employees in DNO International ASA (parent company). In 2010, a total of NOK 3.0 million was expensed under the scheme.

The corresponding figure for 2009 was NOK 2.4 million. The Group's obligations are limited to the annual contributions. DNO meets the Norwegian requirements for mandatory occupational pension ('obligatorisk tjenestepensjon').

Director and executive remuneration

Expensed remuneration to Board of Directors, Executive Chairman and Managing Director:

Years ended 31 December

NOK mill	2010	2009
Managing Director:		
Remuneration	3,37	3,26
Pension	0,06	0,05
Bonus	-	-
Other remuneration	0,22	0,31
Total compensation paid to Managing Director	3,65	3,61

Other key management:

Remuneration	10,37	9,65
Pension	0,25	0,21
Bonus	-	-
Other remuneration	4,02	4,55
Total compensation paid to other key management	14,65	14,40
Number of managers included	6	5

Board of Directors

Total director and executive remuneration	19,85	19,29
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For further specifications of remuneration to key management, reference is made to Note 22 on Related party and Note 3 in the parent company accounts.

The Managing Director is, depending on the circumstances, entitled to severance payment equivalent to three times annual salary.

Severance payment agreements (equal to one or two times annual salary depending on the circumstance) have also been entered into with the following executives in DNO International ASA: Magne Normann, Managing Director DNO Iraq AS, Tore Lilloe-Olsen, Corporate Head of Exploration, Tom Bratlie, Communication Director, Haakon Sandborg, Chief Financial Officer and Ole-Andreas Isdahl, CR/QHSE Director.

The Executive Chairman has no bonuses, share options nor severance payment agreement.

No loans have been granted and no guarantees have been issued for executives, shareholders or directors of the board.

Shares and Options held by directors, executives and key management personnel as at 31 December 2010

Directors, executives and key management personnel	Shares	Options
Berge G. Larsen, Executive Chairman incl. companies controlled by him	30 836 342	-
Shelley Watson, Non-executive Deputy Chairman *	-	-
Bijan Mossavar-Rahmani, Board Member *	-	-
Marit Instanes, Non-executive Director	18 228	-
Gunnar Hirsti, Non-executive Director incl. companies controlled by him	120 000	-
Helge Eide, Managing Director	1 515 000	-
Tom Bratlie, Communication Director	10 000	-
Tore Lilloe-Olsen, Corporate Head of Exploration	51 000	-
Haakon Sandborg, Chief Financial Officer	-	-
Magne Normann, Managing Director DNO Iraq AS	1 621 996	-
Sven Erik Lie, Managing Director DNO Yemen AS	-	-
Erik Syrdalen, Managing Director DNO Mozambique AS	15 000	-
Total	34 187 566	-

* Shelley Watson and Bijan Mossavar-Rahmani are representing RAK Petroleum, the largest shareholder which as of 31 December 2010 holds 30 % of the shares in DNO.

Auditors' fees

NOK mill (excluding VAT)	2010	2009
Auditors' fee	2,40	2,42
Other financial auditing	0,14	0,08
Tax advisory services	0,78	0,24
Other advisory services	0,07	0,05
Total fees	3,39	2,78

NOTE 6 || Exploration expenses

NOK mill	Years ended 31 December	
	2010	2009
Exploration expenses (G&G and field surveys)	-37,7	-52,9
Seismic costs	-9,4	-32,6
Exploration costs capitalised in previous years carried to cost	-	-
Exploration costs capitalised this year carried to cost	-17,2	-56,2
Impairment of capitalised exploration costs	-	-
Other exploration cost expensed	8,1	-14,1
Total exploration cost expensed	-56,2	-155,8

Seismic studies have been performed in Kurdistan (NOK 3.6 million), in Yemen (NOK 1.4 million), in Mozambique (NOK 5.6 million) and in UK (NOK 2.9 million) in 2010. A reversal and repayment of previous cost estimates in Syria of NOK 4.1 million has reduced the total expensed seismic costs in 2010. In addition, there has been field studies and geology work in all business segments.

Exploration costs capitalised this year carried to cost, include dry well costs related to Ansas-1 in Block 52 (NOK 10.9 million) and Safa-1 in Block 32 (NOK 3.6 million) in Yemen and Chite-1 in Mozambique (NOK 10.9 million). In addition, there have been adjustments for previous dry well costs in Yemen of NOK 8 million.

Other exploration cost expensed is positive in 2010 due to reversal and repayment of previous cost estimates in Syria and reversal of capitalized signature bonus on Block 84 (relinquished) in Yemen.

NOTE 7 || Net finance

NOK mill	Years ended 31 December	
	2010	2009
Share of profit / loss from associates	-	-62,9
Interest received	13,1	7,1
Other financial income	9,0	59,5
Capitalised interest	-	-
Exchange rate gain, unrealised items	22,6	39,1
Reversal impairment of financial assets	-	409,2
Financial income	44,7	514,8
Interest expense	-108,3	-113,1
Exchange rate gain, realised items	3,6	1,4
Exchange rate loss realised items	-13,4	-3,6
Fair value gain / (loss) on financial instruments - net 1)	-	-12,4
Impairment of financial assets	-204,6	-8,7
Other financial expenses	-84,9	-108,4
Financial expenses	-407,7	-244,9
Net finance	-363,0	207,1

Impairment of financial assets relates to available-for-sale shares. Reversal of impairment in 2009 was related to the investment in the associated company Det norske oljeselskap ASA. For further details on impairment and reversal of impairment of financial assets, see Note 11 and 12.

Included in other financial expenses is interest on the liability related to the Water Purification Project (WPP) in Kurdistan of NOK 75.4 million in 2010 (2009: NOK 65 million). See also Note 17 for further details.

1) Fair value gain/(loss) on financial instruments - net

NOK mill	Years ended 31 December	
	2010	2009
Interest rate derivatives	-	6,3
Oil price derivatives	-0,8	-19,4
Other financial assets at fair value through profit or loss	0,8	0,7
Fair value gain / (loss) on financial instruments, net	-	-12,4

As of 31 December 2010, DNO has no interest rate or oil price derivatives.

NOTE 8 || Taxes

Income tax expense NOK mill	Years ended 31 December	
	2010	2009
Changes in deferred taxes	31,3	-212,7
Income taxes payable related to production sharing agreements (PSAs) in Yemen	-108,0	-84,9
Total income tax expense	-76,6	-297,6

Reconciliation of the year's income tax

NOK mill	2010	2009
Profit / (loss) before income tax	-206,2	28,0
Expected income tax according to nominal tax rate (28%)	57,7	-7,8
Taxes paid in kind under PSAs exceeding 28%	-13,8	-47,2
Adjustment of previous years	5,5	-
Adjustment of deferred tax assets not recorded	-1,9	-322,7
Impairment financial assets (reversal of impairment), non deductible for tax purpose	-26,5	94,7
Non-deductible expenses / non-taxable income	-1,8	-1,5
Other items	-99,6	-13,0
Total income taxes	-76,6	-297,6
Effective income tax rate	-37,2%	1063,6%
Taxes charged to equity	-	-

Temporary differences relate to the following items:

Tax effect of temporary differences, NOK mill	2010	2009
Tangible assets	-65,3	-92,1
Other fixed items (receivables, abandonment, etc.)	60,7	90,8
Losses carried forward	334,4	304,3
Total	329,8	302,9
Deferred tax asset allowance	-395,3	-397,2
Total deferred taxes	-65,5	-94,2
Capitalised deferred tax assets	-	-
Capitalised deferred tax liabilities	-65,5	-94,2

For taxes payable related to production sharing agreements (PSAs), reference is made to Note 1 Accounting principles.

The tax losses carry forward of NOK 334,4 million as of year end is significantly influenced by historical hedging losses related to oil price contracts in the parent company. The unused tax losses can be carried forward indefinitely after Norwegian tax rules. The subsidiary DNO UK Ltd has a tax loss carry forward of approximately £ 18 million where the main part of this can be carried forward indefinitely.

Deferred tax and deferred tax assets are offset within the same tax regime only if the use of group contribution is available.

At year-end 2010, the requirements for recognizing a deferred tax asset according to IAS 12 Income Taxes, are not considered to be satisfied. A write-down of the deferred tax asset of NOK 256 million was recorded as tax expense in 2009 (2010:0). The tax losses carry forward is intact.

There are no tax consequences attached to items recorded in other comprehensive income.

DNO has applied for credit deduction (kreditfradrag) for the operations in the Kurdistan region of Iraq similar to the operations in Yemen. To date, DNO has not received the final confirmation from the authorities on this matter. When the application for credit deduction is finally approved, the recorded revenues will be higher with a corresponding income tax expense (corporate tax) and a deferred tax liability.

DNO is subject to several tax audits, see Note 18.

NOTE 9 || Financial risk management objectives and policies

Overview

The Group is exposed to a variety of risks from its use of financial instruments, including oil price risk, liquidity risk, currency risk, interest rate risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risks, and the Group's management of capital.

Risk management is carried out by a central treasury function (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas.

The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Oil Price Risk

Oil price fluctuations may have considerable impact on the Group's earnings. DNO may from time to time enter into crude oil derivative contracts to reduce the volatility of the Group's cash flows associated with anticipated sales of oil. DNO's main oil price hedging policy is to use hedging instruments (preferably put options) to meet strategic goals and to support execution of annual business plans, by focusing on securing defined cash flow levels through use of such instruments.

DNO has had a put option for 2010 with a strike price of USD 40. The put option matured at 31 December 2010 and had no value at maturity.

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business, Group Treasury aims to maintain flexibility in funding by keeping both committed and uncommitted credit lines available.

The free cash position in DNO increased during 2010 to NOK 1.4 billion at year-end, mainly due to positive cash flow from operations of NOK 525 million, proceeds from divestment of treasury shares of NOK 367 million and proceeds from new equity of NOK 360 million. After repayment of bond loan of NOK 257.5 million in March 2011 and arbitration payment the Company has sufficient free cash and funding.

The tables below summarize the maturity profile of the Group's financial liabilities based on contractual undiscounted cash flows. The table does not include interest on bond loans. See Note 16 for details on current interest terms and Note 23 for interest terms for the new bond loans.

NOK mill					
At 31 December 2010	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest bearing loans and borrowings	-	257,5	1 555,5	-	1 813,0
Other liabilities	-	-	777,5	-	777,5
Taxes payable	13,9	-	-	-	13,9
Trade and other payables	552,2	-	-	-	552,2
					3 156,6

NOK mill					
At 31 December 2009	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest bearing loans and borrowings	-	-	1 785,3	-	1 785,3
Other liabilities	-	-	685,8	-	685,8
Taxes payable	-	-	-	-	-
Trade and other payables	191,0	-	-	-	191,0
					2 662,1

Currency Risk

DNO's corporate commercial revenues are received in USD. The corporate operational costs are in USD, NOK and EUR. The currency risk of the USD costs is neutralised by the USD income. Corporate currency risk is related to the share of non-USD cash flow.

Trading in currency instruments is for hedging purposes only, to hedge underlying risk exposure linked to the Group's commercial activities.

The following table demonstrates the sensitivity to a reasonable possible change in the USD exchange rate, with all other variables held constant, of the Group's profit before tax and equity.

	Increase/decrease in USD rate	Effect on profit before tax (NOK mill)	Effect on equity (NOK mill)
31 December 2010	-/+ 10%	-/+ 34.6	+/- 0.0
31 December 2009	-/+ 10%	+/- 29.0	+/- 0.0

That is; a reduction in USD rate (weakening vs NOK) gives a negative effect on the profit.

The net investment in Yemen ceased in 2009 and a total of NOK 26 million was reversed from equity through the statement of comprehensive income.

Interest Rate Risk

The Group's interest rate risk arises from long-term debt. Debt issued at variable rates exposes the Group to cash flow interest rate risk. The main objective for interest rate risk hedging is to minimise exposure to variability of cash flows arising from changes in interest rates. The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps and by fixed interest loans.

Interest rate fixing is considered for large investments that have significant impact on the size of net liabilities. Factors such as the expected duration of the investment, its projected cash flow and DNO's ability to withstand interest rate fluctuations following the new investment will determine whether the interest rate should be fixed in such cases. Lenders may also require interest rate hedging.

At 31 December 2010, DNO has two long-term bond loans that mature in 2012, with fixed interest rates of 7.215% and 6.445% respectively.

DNO had an interest-rate swap (IRS) with a principal amount of NOK 300 million maturing on 12 October 2012, which was settled in May 2009. The fixed rate was 7.215%. Changes in fair value of the IRS during 2009 was NOK 6.2 million, recognised as financial income.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's profit before tax.

	Increase/decrease in basis points	Effect on profit before tax (NOK mill)	Effect on equity (NOK mill)
2010	+/- 100	+/- 18.8	+/- 0.0
2009	+/- 100	+/- 19.5	+/- 0.0

Credit Risk

The Group has no significant concentration of credit risk. It has policies in place to ensure that sales are only made to customers with an appropriate credit history. The Group has one customer in Yemen (same customer since inception of production) and several customers in Kurdistan. For the second half of 2010 all customers of local crude in Kurdistan prepaid the agreed crude oil volumes on a monthly basis before lifting commenced. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution. The Group has no historical losses on customers. See Note 13 for details on trade receivables.

The 2009 export related production cost was in accordance with the sales method recorded as underlift. The value is assumed to be recovered shortly after the ratification of the Iraqi oil law.

Maximal credit risk per 31 December 2010 is NOK 290.3 million.

Market risk investments

DNO is exposed to market risk on investments which are primarily classified as available-for-sale. Adjustments to fair value are recognised in other comprehensive income until the investment is sold. In case of impairment of available-for-sale investments, previously fair value changes recorded in other comprehensive income are reversed and taken through profit or loss. The Group's financial investments are all within the oil and gas sector.

Political Risk

The stability in parts of the Middle East has deteriorated due to political protests starting in the last part of 2010 and continuing into 2011. DNO operates in the Middle East in the Kurdistan region of Iraq and Yemen.

In the Kurdistan region of Iraq, the political situation and general stability has remained unchanged and the security is maintained at a satisfactory level. In Yemen, there has been severe unrest, mainly located to the capital Sana'a. DNO has taken several measures to improve security for DNO employees in Yemen and has managed to maintain the operations in Yemen according to plans. The development is closely monitored, both at business unit level, and at corporate level. At present, the situation is manageable for DNO in Yemen. See also Board of Directors Report for information on political risk.

Capital Management

The Group manages and adjusts its capital structure in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

DNO monitors capital on the basis of its book equity ratio. This ratio is calculated as book equity divided by total assets. It is the Group's policy that this ratio be 30% or higher. As of 31 December 2010, the book equity ratio was 39.1% (2009: 35.9%).

	31 December	
NOK mill	2010	2009
Total equity	2 109,1	1 578,7
Total assets	5 392,7	4 392,4
Book equity ratio	39,1 %	35,9 %

NOTE 9 || Financial risk management objectives and policies continued

Financial instruments by category

Set out below is a comparison by category for carrying amounts and fair values of all of the Group's financial instruments that are carried in the financial statements. The following estimated fair values have been determined by the Group, using appropriate market information or accepted valuation methodologies. The carrying amount of bank deposits and current interest-bearing liabilities is a reasonable estimate for their fair values. DNO's bond loans are listed on the Oslo Stock Exchange. The fair values of the bond loans are based on market quotations for these loans.

NOK mill	Notes	31 December 2010		31 December 2009	
		Carrying amount	Fair value	Carrying amount	Fair value
Financial assets					
Bank deposits	14	1 384,7	1 384,7	303,4	303,4
Derivative financial instruments (current)		-	-	-	-
Derivative financial instruments (non-current)		-	-	0,8	0,8
Other financial assets at fair value through P&L	14	2,6	2,6	1,8	1,8
Available-for-sale investments	12	360,0	360,0	478,4	478,4
Investment in associate	11	-	-	-	-
Other financial assets (current)	13	290,3	290,3	197,2	197,2
		2 037,6	2 037,6	981,6	981,6
Financial liabilities					
Current interest-bearing liabilities	16	257,5	158,8	-	-
Derivative financial instruments		-	-	-	-
Interest-bearing liabilities (non-current)	16	1 555,5	1 153,7	1 785,3	1 207,9
		1 813,0	1 312,5	1 785,3	1 207,9

Set out below are carrying values of the Group's financial assets and liabilities sorted by category according to IAS 39.

2010 - NOK mill	Notes	Assets at fair value through profit or loss	Held to maturity investments	Loans and receivables	Available for sale investments	Total
Financial assets						
Bank deposits	14	-	-	1 384,7	-	1 384,7
Derivative financial instruments (current)		-	-	-	-	-
Derivative financial instruments (non-current)		-	-	-	-	-
Other financial assets at fair value through P&L	14	2,6	-	-	-	2,6
Available-for-sale investments	12	-	-	-	360,0	360,0
Trade and other receivables	13	-	-	290,3	-	290,3
		2,6	-	1 675,0	360,0	2 037,6
2010 - NOK mill						
	Notes	Liabilities at fair value through profit or loss	Liabilities measured at amortised cost	Non-financial liabilities	Total	
Financial liabilities						
Current interest-bearing liabilities	16	-	257,5	-	257,5	
Derivative financial instruments		-	-	-	-	
Interest-bearing liabilities (non-current)	16	-	1 555,5	-	1 555,5	
Provision for other liabilities and charges (current)	17	-	-	435,8	435,8	
Provision for other liabilities and charges (non-current)	17	-	-	403,2	403,2	
Trade and other payables	19	-	-	552,2	552,2	
		-	1 813,0	1 391,2	3 204,2	

2009 - NOK mill	Notes	Assets at fair value through profit or loss	Held to maturity investments	Loans and receivables	Available for sale investments	Total
Financial assets						
Bank deposits	14	-	-	303,4	-	303,4
Derivative financial instruments (current)		-	-	-	-	-
Derivative financial instruments (non-current)		0,8	-	-	-	0,8
Other financial assets at fair value through P&L	14	1,8	-	-	-	1,8
Available-for-sale investments	12	-	-	-	478,4	478,4
Trade and other receivables	13	-	-	197,2	-	197,2
		2,6	-	500,6	478,4	981,6

2009 - NOK mill	Notes	Liabilities at fair value through profit or loss	Liabilities measured at amortised cost	Non-financial liabilities	Total
Financial liabilities					
Current interest-bearing liabilities	16	-	-	-	-
Derivative financial instruments		-	-	-	-
Interest-bearing liabilities (non-current)	16	-	1 785,3	-	1 785,3
Provision for other liabilities and charges (current)	17	-	-	57,3	57,3
Provision for other liabilities and charges (non-current)	17	-	-	685,8	685,8
Trade and other payables	19	-	-	191,0	191,0
		-	1 785,3	934,1	2 719,4

Fair value hierarchy

As at 31 December 2010, the Group held the following financial instruments measured at fair value:

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

Assets measured at fair value - NOK mill	31 December 2010	Level 1	Level 2	Level 3
Available for sale investments	360,0	360,0	-	-
Financial assets at fair value through profit or loss	2,6	2,6	-	-

NOTE 10 || Property, plant and equipment/Intangible assets

Depreciation is charged to cost of goods sold in the statement of comprehensive income.

Property, plant and equipment

2010 - NOK mill	Development assets	Assets in operation	Total oil & gas properties	Other PP&E	Total
At 1 January 2010					
Cost	54,6	4 197,3	4 251,9	18,7	4 270,6
Accumulated impairment	-	-193,7	-193,7	-	-193,7
Accumulated depreciation	-	-1 661,3	-1 661,3	-13,2	-1 674,5
Net book amount	54,6	2 342,4	2 397,0	5,4	2 402,4
Period ended 31 December 2010					
Opening net book amount	54,6	2 342,4	2 397,0	5,4	2 402,4
Exchange differences	0,8	44,1	44,8	0,1	44,9
Additions	0,2	55,0	55,2	1,4	56,6
Disposals	-	-	-	-	-
Depreciation charge	-	-288,2	-288,2	-2,8	-291,0
Closing net book amount	55,5	2 153,2	2 208,7	4,1	2 212,8
At 31 December 2010					
Cost	55,5	4 296,4	4 351,9	20,1	4 372,0
Accumulated impairment	-	-193,7	-193,7	-	-193,7
Accumulated depreciation	-	-1 949,5	-1 949,5	-16,0	-1 965,5
Net book amount	55,5	2 153,2	2 208,7	4,1	2 212,8
Depreciation method	UoP	UoP	3-5 years linear		

Intangible assets

2010 - NOK mill	License interest	Exploration assets	Total
At 1 January 2010			
Cost	535,6	342,0	877,6
Accumulated impairment	-4,2	-	-4,2
Accumulated depreciation	-22,4	-	-22,4
Net book amount	509,0	342,0	851,0
Period ended 31 December 2010			
Opening net book amount	509,0	342,0	851,0
Exchange differences	7,7	3,0	10,7
Additions	-	95,0	95,0
Disposals	-	-	-
Depreciation charge	-26,0	-	-26,0
Closing net book amount	490,7	440,0	930,7
At 31 December 2010			
Cost	543,3	440,0	983,3
Accumulated impairment	-4,2	-	-4,2
Accumulated depreciation	-48,4	-	-48,4
Net book amount	490,7	440,0	930,7
Depreciation method	UoP		UoP

In 2009, a provision for the water purification project (WPP) in Kurdistan was capitalized as license interest on the Tawke license. The WPP is depreciated over the expected period of production.

Property, plant and equipment

2009 - NOK mill	Development assets	Assets in operation	Total oil & gas properties	Other PP&E	Total
At 1 January 2009					
Cost	65,6	4 844,1	4 909,7	20,0	4 929,7
Accumulated impairment	-	-193,7	-193,7	-	-193,7
Accumulated depreciation	-	-1 604,2	-1 604,2	-12,3	-1 616,5
Net book amount	65,6	3 046,2	3 111,8	7,7	3 119,6
Period ended 31 December 2009					
Opening net book amount	65,6	3 046,2	3 111,8	7,7	3 119,6
Exchange differences	-11,5	-514,8	-526,3	-0,8	-527,1
Additions	0,5	214,1	214,6	1,1	215,7
Transfers	-	-	-	-	-
Disposals	-	-	-	-	-
Impairment	-	-	-	-	-
Depreciation charge	-	-403,2	-403,2	-2,6	-405,8
Closing net book amount	54,6	2 342,4	2 397,0	5,4	2 402,4
At 31 December 2009					
Cost	54,6	4 198,2	4 252,8	18,7	4 271,4
Accumulated impairment	-	-193,7	-193,7	-	-193,7
Accumulated depreciation	-	-1 662,1	-1 662,1	-13,2	-1 675,4
Net book amount	54,6	2 342,4	2 397,0	5,4	2 402,4
Depreciation method	UoP	UoP	3-5 years linear		

Intangible assets

2009 - NOK mill	License interest	Exploration assets	Total
At 1 January 2009			
Cost	76,4	524,2	600,5
Accumulated impairment	-4,2	-	-4,2
Accumulated depreciation	-1,0	-	-1,0
Net book amount	71,2	524,2	595,3
Period ended 31 December 2009			
Opening net book amount	71,2	524,2	595,3
Exchange differences	-24,5	-93,6	-118,1
Additions	485,0	-28,0	457,1
Transfers	-	-	-
Disposals	-	-60,6	-60,6
Impairment	-	-	-
Depreciation charge	-22,7	-	-22,7
Closing net book amount	509,0	342,0	851,0
At 31 December 2009			
Cost	535,6	342,0	877,6
Accumulated impairment	-4,2	-	-4,2
Accumulated depreciation	-22,4	-	-22,4
Net book amount	509,0	342,0	851,0
Depreciation method	UoP		UoP

UoP= Unit of Production

NOTE 10 || Property, plant and equipment/Intangible assets continued

Impairment testing

DNO has performed impairment tests for its oil and gas assets at year-end 2010, according to IAS 36 Impairment of Assets. IAS 36.9 requires that an entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If such indications exist, the recoverable amount of the asset shall be estimated. Booked values of the oil and gas assets have been compared to expected cash flows from the assets (values in use) calculated as the net present value (before tax) of the assets. DNO has defined field level as the lowest level where separate cash flows can be identified. Field level is thereby the aggregation level for depreciation purposes, and also when assessing impairment. Net present value per field is calculated by discounting the future cash flows and comparing them to the booked value. The following assumptions have been used in calculating net present value; cash flow based on best estimate production profiles (P50 estimates), the oil price is based on the forward curve for Brent as of 31 December 2010, as published by the Intercontinental Exchange (ICE), adjusted for any discounts in oil quality applicable to each field. As the monthly price goes forward only to December 2016, DNO has used a method of linear prediction (extrapolation) beyond this period. The pre-tax discount rate used is based on DNO's WACC (Weighted Average Cost of Capital) where 18.3% has been used for the assets in Yemen and 22.4% has been used for the Kurdistan assets. When calculating the WACC, a country specific risk premium has been added for Yemen and Iraq, based on the report "International Cost of Capital" from Morningstar.

Based on these assumptions no impairment is necessary for the producing blocks in Yemen or Kurdistan, or any of the other blocks. A sensitivity analysis shows that a decrease in oil price of 10% would result in an impairment charge of NOK 5 million for the producing assets. If expectations with regard to timing of cash flows are not met, this could also result in an impairment.

Capitalised interest

Interest costs on borrowings to finance the construction of property, plant and equipment in the development phase are capitalised. In 2010 or 2009 no borrowing costs were eligible for capitalization.

License expiry

In accordance with the production sharing agreements, the production facilities and the operating equipment will be transferred to the authorities when the fields are no longer commercial. The producing licenses in Yemen expire in the period 2015 to 2025. Block 53 expire in 2015, Block 32 expire in 2020 and Block 43 expire in 2025, all with the option to apply for 5 years extension. The Tawke license in Kurdistan expires in 2031 (included 5 years extension).

NOTE 11 || Investment in associate

Up to January 2009, DNO had a 36.9% interest in Det norske oljeselskap ASA (DETNOR), which is a Norwegian independent E&P company listed on the Oslo Stock Exchange. Following the sale of shares in January and November 2009, DNO's shareholding in DETNOR decreased below 20% and DNO no longer had significant influence. The use of the equity method thereby ceased with effect from 1 November 2009. The investment was revalued to market price according to IAS 28, and classified as Available-for-sale (AFS) from November 2009 (see Note 12).

The following table illustrates summarised financial information of the Group's investment in Det norske oljeselskap ASA:

Share of associate's revenue and profit:

NOK mill	Years ended 31 December	
	2010	2009
Revenue	-	45,8
Profit / (loss)	-	-62,9
Impairment of the investment	-	-
Reversal of impairment	-	409,2
Sale of shares 2009	-	-598,9
Share of loss from associate 2009	-	-62,9
Derecognition of DETNOR as associated company	-	-444,9
Carrying amount investment in associate	-	-

NOTE 12 || Available-for-sale financial assets

Available-for-sale financial assets are revalued at fair value (market price, where available) at the end of each period. Changes in fair value are included in other comprehensive income and is presented as valuation reserve under equity. Impairment will be charged to profit or loss, while reversal of impairment will be taken through other comprehensive income.

NOK mill	31 December	
	2010	2009
Beginning of the period	478,4	36,8
Additions *	7,3	460,6
Sales / Reclassifications **	-17,9	-
Revaluation surplus/deficit transfer to other comprehensive income	96,8	-10,3
Reclassification of fair value changes from other comprehensive income (impairment)	-204,6	-8,7
End of the period	360,0	478,4
Non-current portion	360,0	478,4
Current portion	-	-

* Additions in 2010 relate to purchase of shares in Rocksource ASA. Additions in 2009 relate to the reclassification of the investment in Det norske oljeselskap (DETNOR), which previously was classified as investment in associated company. See Note 11.

** Sales in 2010 relate to sale of shares in Rocksource ASA.

Impairment charges of NOK 204.6 million for the shares in Petrolia ASA (NOK 6.2 million), Rocksource ASA (NOK 3.3 million) and Det norske oljeselskap ASA (NOK 195.1 million) have been recorded in 2010 as a result of significant decline in fair values. Previous fair value changes included in other comprehensive income have been reversed through profit or loss as impairment charges. A further decline in the share prices will be recorded as impairment loss, while increase in share prices will be recorded in other comprehensive income. The impairment of the shares in Det norske oljeselskap ASA was based on a share price of NOK 20.50. The share price was NOK 27 at year-end 2010 and has further strengthened in 2011.

Available-for-sale financial assets include the following:

NOK mill	31 December	
	2010	2009
Listed securities:		
- Petrolia ASA	2,4	8,9
- Rocksource ASA	7,8	31,6
- Det norske oljeselskap ASA	349,8	437,9
Total available-for-sale financial assets	360,0	478,4

NOTE 13 || Trade and other receivables

NOK mill	31 December	
	2010	2009
Trade receivables	84,3	68,1
Less: provisions for impairment of receivables	-	-
Trade receivables - net	84,3	68,1
Prepayments	7,4	9,4
Underlift, entitlement method	83,0	8,1
VAT receivable	3,6	3,0
Other short-term receivables*	112,1	108,6
Total trade and other receivables	290,3	197,2

* Included in other short-term receivables is working capital related to the participation in oil and gas licenses.

As of 31 December, the ageing analysis of trade receivables is as follows:

NOK mill	Total	Neither past due nor impaired	Past due but not impaired			
			<30 days	30-60 days	60-90 days	>120 days
2010	84,3	-	84,3	-	-	-
2009	68,1	-	68,1	-	-	-

Trade receivables are non-interest bearing and are generally on 0-30 days terms.

NOTE 14 || Cash, cash equivalents and other short-term financial assets

NOK mill	31 December	
	2010	2009
Cash and cash equivalents, non-restricted	1 377,5	297,2
Cash and cash equivalents, restricted	7,2	6,2
Total cash and cash equivalents	1 384,7	303,4

Restricted cash relates to employees' tax deduction.

Cash held in currency

NOK mill	31 December		31 December	
	Amount in Currency	Amount in NOK	Amount in Currency	Amount in NOK
NOK	988,6	988,6	498,0	498,0
EUR	0,2	1,4	-1,2	-10,1
USD	70,1	410,9	-28,4	-164,3
GBP	-1,8	-16,2	-2,1	-20,1
Total cash and cash equivalents	1 384,7	303,4		

The negative cash balances in 2009 and 2010 have not classified as liability as DNO has a bank concentration account system.

Shares held-for-trading

Through a demerger from Rocksource ASA in May 2006, DNO acquired shares in Nordic Mining ASA. The value of the shares at the time of the demerger was NOK 7.3 million.

NOK mill	31 December	
	2010	2009
Nordic Mining ASA	2,6	1,8
Other financial assets at fair value through profit or loss	2,6	1,8

NOTE 15 || Equity

Share capital

2009 - NOK mill	Number of shares (1000)	Ordinary shares	Treasury shares	Total
At 1 January 2009	904 856	226,2	-4,7	221,5
Treasury shares purchased / sold	-	-	3,7	3,7
Share issues	-	-	-	-
At 31 December 2009	904 856	226,2	-1,0	225,2

2010 - NOK mill	Number of shares (1000)	Ordinary shares	Treasury shares	Total
At 1 January 2010	904 856	226,2	-12,5	213,7
Treasury shares purchased / sold	-	-	12,5	12,5
Share issues	45 000	11,3	-	-
At 31 December 2010	949 856	237,5	-	237,5

The total number of Ordinary Shares at 31 December 2010 is 949,856,912 with a par value of NOK 0.25 per share. All issued shares are fully paid. All shares have equal voting and dividend rights.

The Board of Directors has been authorised by the annual general meeting to increase the Company's share capital by up to NOK 20,000,000 by issuing up to 80,000,000 shares with a face value of NOK 0.25, at a price and other subscription terms to be stipulated by the Board. The authorisation also covers a capital increase against contributions in kind, including in connection with mergers, and was given for two years from the date of the general meeting.

45,000,000 new shares were issued in a private placement in November 2010, covered by the above mentioned authorization. The subscription price was NOK 8 per share. The transactions costs related to the equity offering amount to NOK 11.4 million.

The Company's Board of Directors has been authorised by the annual general meeting to acquire treasury shares within the framework of the Public Limiteds Companies act. The authorisation may be used to acquire up to 80,000,000 treasury shares within a price range of NOK 1 to NOK 200 per share. The authorisation is valid for a period of 18 months from the date of the general meeting. At 31 December 2010, the Company held no treasury shares. In addition, the Board of Directors has been authorised by the annual general meeting to issue a convertible loan limited to NOK 2,000,000,000 with a maximum capital increase of NOK 40,000,000. The authorisation is valid for two years from the date of the annual general meeting (18 June 2009).

Purchases and sales of treasury shares are made when the Board of Directors regard the transaction to be favourable for the shareholders.

Other reserves

NOK million	Share premium	Other paid-in capital	Available-for-sale investm.	Other reserves	Translation	Total
Balance at 1 January 2009	32,5	764,3	-	-596,3	-157,8	42,6
Correction of opening balance	-	29,5	-	-29,5	-	-
Treasury shares:	-	-	-	-	-	-
- Sale of treasury shares	-	-117,4	-	1 229,3	-	1 111,9
- Purchase of treasury shares	-	-	-	-1542,6	-	-1 542,6
Other paid in capital	-	-	-	-	-	-
Derivative contracts treasury shares	-	-	-	468,8	-	468,8
Share premium fund transfer	-	-337,2	-	337,2	-	-
Balance at 31 December 2009	32,5	339,2	-	-133,2	-157,8	80,6
Balance at 1 January 2010	32,5	339,2	-	-133,2	-157,8	80,6
Available-For-Sale fair value, net of tax	-	-	96,8	-	-	96,8
Treasury shares:	-	-	-	-	-	-
- Sale of treasury shares	-	8,2	-	346,4	-	354,6
- Purchase of treasury shares	-	-	-	-	-	-
Other paid in capital	337,3	-	-	-	-	337,3
Currency translation differences:	-	-	-	-	-	-
- Group	-	-	-	-	0,8	0,8
Balance at 31 December 2010	369,8	347,4	96,8	213,2	-157,0	870,1

NOTE 15 || Equity continued

The Company's shareholders at 31 December 2010	Shares	% interest
RAK Petroleum Public Company Limited	284 957 075	30,00 %
JPMorgan Chase Bank NA	71 207 993	7,50 %
Larsen Oil & Gas AS *	30 497 058	3,21 %
Clearstream Banking S.A.	21 431 155	2,26 %
JPMorgan Chase Bank	21 325 192	2,25 %
J.P. Morgan Bank LUXEMBOURG S.A	19 540 000	2,06 %
Nordnet Bank AB	14 623 215	1,54 %
Avanza Bank AB	12 224 144	1,29 %
Bank of New York Mellon SA/NV	11 162 000	1,18 %
State Street Bank & Trust Co.	8 607 600	0,91 %
Nordea Bank Denmark AS	7 022 791	0,74 %
Morgan Stanley & Co Internat. PLC	6 796 069	0,72 %
State Street Bank and Trust CO.	6 153 746	0,65 %
Danske Bank A/S	5 615 716	0,59 %
JPMorgan Chase Bank	4 795 452	0,50 %
Nomura International PLC	4 447 370	0,47 %
KLP Aksje Norge Indeks VPF	3 750 728	0,39 %
SIX SIS AG 25PCT	3 633 982	0,38 %
Vital Forsikring ASA	3 473 522	0,37 %
Independent Oil & Resources ASA	3 450 000	0,36 %
Other shareholders	405 142 104	42,65 %
Total number of shares excluding treasury shares	949 856 912	100,0 %
Treasury shares at 31 December 2010	-	
Total number of shares including treasury shares	949 856 912	

* Company controlled by Berge G. Larsen, Executive Chairman

No ordinary or extraordinary dividend has been distributed in 2010. No dividend has been proposed for 2010.

NOTE 16 || Interest-bearing liabilities

	31 December	
NOK mill	2010	2009
Non-current		
Convertible loans	-	-
Bonds	1 555,5	1 785,3
Liabilities to financial institutions	-	-
Total non-current interest-bearing liabilities	1 555,5	1 785,3
Current		
Current portion of bonds	257,5	-
Liabilities to financial institutions	-	-
Total current interest-bearing liabilities	257,5	-
Total interest-bearing liabilities	1 813,0	1 785,3

NOK mill	Ticker OSE	Cur- rency	Amount	Interest	Maturity	Effective interest rate 2010	Fair value		Carrying amount	
							2010	2009	2010	2009
Non-current interest-bearing bonds:										
Bond loan (ISIN NO0010270523)	DNO05	USD	85,0	LIBOR + 3.5%	06.06.12	3,82 %	418,2	316,7	497,8	491,0
Bond loan (ISIN NO0010283732)	DNO07	NOK	177,0	Fixed 7.215%	12.10.12	7,01 %	156,2	111,5	177,0	177,0
Bond loan (ISIN NO0010283724)	DNO06	NOK	284,0	NIBOR + 3.5%	12.10.12	5,82 %	248,5	187,3	284,0	286,0
Bond loan (ISIN NO0010302649)	DNO08	NOK	49,0	NIBOR + 2.5%	02.03.11	4,98 %	-	35,1	-	49,0
Bond loan (ISIN NO0010478027)	DNO12	USD	41,8	LIBOR + 4.0%	12.10.12	6,30 %	244,8	241,5	244,8	241,5
Bond loan (ISIN NO0010478019)	DNO11	USD	62,4	Fixed 6.445%	12.10.12	4,24 %	322,0	228,9	365,4	360,5
Bond loan (ISIN NO0010478001)	DNO10	USD	35,6	LIBOR + 3.0%	02.03.11	3,34 %	-	112,1	-	205,7
Borrowing issue costs									-13,5	-25,3
Total interest-bearing bonds							1 389,6	1 233,2	1 555,5	1 785,3

The two bond loans (DNO08 and DNO10) with maturity in 2011 (NOK 257.5 million) have been reclassified as current interest-bearing liabilities at 31 December 2010.

In June 2009, DNO made a repayment of the loans DNO03 and DNO04 with NOK 54.5 million. In November 2009, DNO made a buy-back of NOK 2 million of the bond loan DNO08. The buy-back was made at a rate of 72% of par value. The gain was recorded as financial income.

The revolving credit facility of NOK 100 million with DnB NOR Bank ASA was not renewed in October 2009. The facility was undrawn and has not been used by DNO.

There is one covenant related to the different bond loans, which requires that net interest-bearing debt should not exceed three times the booked equity. At 31 December 2010, DNO satisfies all loan agreement requirements.

There are no commitments related to further drawdown on the bond loans.

The maturity of interest-bearing liabilities is as follows:

	31 December	
NOK mill	2010	2009
0 - 12 months	257,5	-
Between 1 and 2 years	1 555,5	254,7
Between 2 and 5 years	-	1 530,6
Over 5 years	-	-
Total interest-bearing liabilities	1 813,0	1 785,3

The carrying amounts of the Group's interest-bearing liabilities are denominated in the following currencies:

	31 December	
NOK mill	2010	2009
NOK	506,6	505,7
USD	1 306,3	1 279,6
Total interest-bearing liabilities	1 813,0	1 785,3

NOTE 17 || Provisions for other liabilities and charges

NOK mill	31 December	
	2010	2009
Non-current		
Asset retirement obligations*	14,9	14,9
Other long-term obligations**	388,3	670,9
Total non-current provisions for other liabilities and charges	403,2	685,8
Current		
Other provisions and charges **	435,8	57,3
Total current provisions for other liabilities and charges	435,8	57,3
Total provisions for other liabilities and charges	839,0	743,2

* Asset retirement obligations (AROs) are related to future well closure, decommissioning and removal expenditures for oil installations in Kurdistan. The obligations are imposed and defined by national and international legal requirements. No significant removal costs are expected in connection with the onshore activity in Yemen. In accordance with the production sharing agreements, the production facilities and the operating equipment will be transferred to the authorities when the fields are no longer commercial.

** Included in other long-term obligations is provision for Water Purification Project (WPP) in Kurdistan. The WPP is capitalized and depreciated over field life. The WPP liability will not be payable until export revenues have been received by DNO. The monthly installments are contingent on defined gross revenue levels and will be fully recovered through cost oil. The WPP liability is recorded at net present value, where the unwinding of interest is charged to profit or loss. Part of the WPP liability is classified as short-term and included in Other provisions and charges at year-end 2010.

NOK mill	Asset retirem. obligation	Other non-current	Prov. treasury shares	Other current	Total
Balance at 1 January 2009	14,9	113,9	158,0	62,5	349,4
<i>Charged to consolidated statement of comprehensive income:</i>					
- Additional provisions	1,4	570,0	-	13,2	584,7
- Unused amounts reversed or reclassified	-1,5	-	-4,0	-18,4	-23,8
<i>Charged to equity:</i>					
- Unused amounts reversed	-	-	-154,0	-	-154,0
Incurring and charged against the provision during the period	-	-13,1	-	-	-13,1
Balance at 31 December 2009	14,9	670,9	-	57,3	743,2

Charged to consolidated statement of comprehensive income:

- Additional provisions	3,1	92,0	-	8,6	103,7
- Unused amounts reversed or reclassified	-3,1	-	-	-4,5	-7,6
Incurring and charged against the provision during the period	-	-374,6	-	374,3	-0,3
Balance at 31 December 2010	14,9	388,3	-	435,8	839,0

There is uncertainty related to when the monthly installments will be payable, and first payment is in DNO's calculations estimated to May 2012. Changes in the timing of the payments may change the net present value of the liability and the calculated interest.

NOTE 18 || Commitments and contingencies

a) Lease obligations

DNO rents the premises at Stranden 1, Aker Brygge. The annual rent is NOK 5.2 million and the agreement expires 30 June 2014.

DNO also rents office premises in Bergen. Annual rent is NOK 2.4 million. The rent agreement expires in 2011.

b) Legal disputes

At 31 December 2010, DNO was involved in arbitration proceedings related to certain third party interests in Kurdistan. The case has now been settled outside of the arbitration process. See Note 23 for further details related to arbitration.

c) Contractual obligations / license commitments (NOK million)

	2011
Drilling and exploration	250,0
Field development	200,0
Total contractual obligations/license commitments related to future investments	450,0

d) Guarantees at 31 December 2010

NOK mill	
Parent company guarantees to external parties on behalf of companies in the group	-
Other parent company guarantees to external parties	-
Other guarantees to external parties	0,9
Total guarantees	0,9

DNO has issued a guarantee of NOK 0.9 million related to the rented premises at Aker Brygge. In addition, parent company guarantees have been issued to the Kurdistan Regional Government and the Ministry of Oil and Minerals Yemen for PSA obligations. The parent company guarantees that it shall make available to the subsidiaries DNO Yemen AS and DNO Iraq AS, the financial and technical resources necessary for them to fulfill their obligations according to the PSAs.

e) Liability for damages/insurance

The Group's operations involves risk for damages, including pollution. Installations and operations are covered by an operations insurance policy.

f) Other

Tax audits

The parent company is subject to ongoing tax audits by the Norwegian IRS for the period 1996 - 2004 and for the period 2006 - 2009.

The Board expects no material effects from the audits.

NOTE 19 || Trade and other payables

31 December

NOK mill	2010	2009
Trade creditors	6,6	8,2
Public duties payable	6,9	6,0
Prepayment from customers	42,7	0,9
Debt to employees and shareholders	-	-
Other accrued expenses	496,0	176,0
Total trade and other payables	552,2	191,0

Prepayment from customers relates to local sales contracts at the Tawke field in Kurdistan.

Other accrued expenses include provision for the potential liability and legal costs related to the arbitration proceedings of approximately NOK 330 million for 2010 and NOK 140 million for 2009. See Note 23 for further information on arbitration.

Other accrued expenses also include working capital related to participation in oil and gas licenses.

Terms and conditions of the above financial liabilities:

Trade payables are non-interest bearing and are normally settled on 30 to 60 day terms.

Other payables are non-interest bearing and have an average term of one to two months.

NOTE 20 || Earnings per share

Years ended 31 December

NOK mill	2010	2009
Net profit attributable to ordinary equity holders of the parent	-282,9	-269,6
Weighted average number of ordinary shares (excluding treasury shares)	899,5	854,9
Effect of dilution:		
Options	-	-
Weighted average number of ordinary shares (excluding treasury shares) adjusted for the effect of dilution	899,5	854,9
Earnings per share, basic	-0,31	-0,31
Earnings per share, diluted	-0,31	-0,31

Basic earnings per share is calculated by dividing the profit attributable to equity holders by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased and held as treasury shares.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

NOTE 21 || Group companies

NOK mill	Business address	Ownership and voting interest (in %)	Company's equity
DNO Yemen AS	Oslo	100,0	1 346,7
DNO UK Ltd	London	100,0	-172,6
DNO Invest AS	Oslo	100,0	54,4
DNO Mozambique AS	Oslo	100,0	-17,2
DNO Iraq AS	Oslo	100,0	-212,7

NOTE 22 || Related party disclosures

The following table provides details of the Group's related party transactions in 2010. See also Note 5 on remuneration.

Years ended 31 December

Related party (NOK mill)	Transaction	2010	2009
Increased Oil Recovery Ltd	Business development sub lease of DNO London office (Terminated in 2009)	-	0,8
Increased Oil Recovery AS / Ltd	Project consulting agreement/ Business development agreement	4,2	4,2
Kver AS	Bergen Representative office - rent/administration agreement	2,8	2,4
Petrolia ASA	Drilling and well advisory services	0,6	-
Other	Coverage of legal costs of tax audit	1,3	5,7
		8,9	13,1

Description of transactions with related parties:

Increased Oil Recovery AS (IOR AS) - Related party

At 31 December 2010, Berge G. Larsen indirectly holds approximately 25% ownership interest in Increased Oil Recovery AS, and 49% is owned by a closely related party to Berge G. Larsen. DNO has a consultancy agreement with IOR AS.

IOR Ltd/AS provides DNO with business development project consulting services. The fees covering the period 2006-2010 of total NOK 21 million, have been paid to an escrow account until the ongoing tax case is resolved. IOR and DNO claim the fee is for consulting services, while the tax authorities claim the fee is salary to Berge Gerdt Larsen.

Kver AS - Closely related party

Berge G. Larsen indirectly owns 51% of Kver AS. DNO has an administrative agreement with the company. Under the agreement DNO pays a share of the office lease, ICT expenses and secretarial and travel expenses in Bergen. The office lease agreement expires in 2011.

Increased Oil Recovery Ltd (IOR Ltd) - Related party

Berge G. Larsen is part time employed by Increased Oil Recovery Ltd (IOR Ltd) and holds an indirect ownership of 32% in the company. Sub lease of the DNO London office was paid through IOR Ltd. IOR Ltd received a 5% handling fee for administration of the office agreement. The sub lease was terminated in 2009.

Petrolia ASA

DNO has entered into a consulting agreement with Petrolia ASA for drilling and well advisory services. Berge Gerdt Larsen is the chairman of Petrolia ASA and indirectly holds approximately 10 % ownership interest in Petrolia ASA.

Other

Coverage of legal costs of tax audit relates to costs incurred by DNO, DNO companies and companies associated with key personnel in DNO, in which DNO pays costs awaiting a conclusion from the tax authorities. A final settlement will be made when each case is closed. DNO has claimed Skatt Vest for reimbursement of incurred legal costs due to breach of confidentiality of the tax legislation.

In addition to the above mentioned transactions, there are also transactions between group companies.

Overhead expenses in the parent company DNO International ASA, are allocated to the subsidiaries based on how much they have used the services provided by the parent company.

NOTE 23 || Significant transactions in 2010 and Events after the balance sheet date

Significant transactions in 2010

Sale of treasury shares

In March, DNO sold all its treasury shares, providing the Company with NOK 367 million in cash.

Private placement of equity

In November, DNO completed a private placement of 45 million shares to a subscription price of NOK 8 per share. Gross proceeds amounted to NOK 360 million. Use of proceeds from the private placement will be exploration and appraisal drilling beyond the current investment plans, new license entries and general corporate purposes.

Field development – Block 47 in Yemen

In the fourth quarter the partners in Block 47 agreed and approved to develop the Yaalen and Sharnah oil discoveries. Phase 1 of the Yaalen development will be based on the concept of local processing facilities with capacity of 5,000 bopd and trucking oil to the Nabrajah installations for further export into the existing pipeline system. The project time schedule indicates that first oil will be exported in the first quarter of 2012. The project start up is subject to certain procedures and approvals by the authorities.

Events after the balance sheet date

Restart of export from the Tawke field in Kurdistan

Testing of export production from the Tawke field commenced on 2 February 2011. In close cooperation with the Kurdistan Regional Government and North Oil Company, production and flow through the Fishkabour tie-in point and the Kirkuk-Ceyhan export pipelines have been tested at levels beyond 50,000 bopd.

DNO has been advised by the KRG that an interim period will continue until a new Iraq oil law has passed the Iraqi parliament later this year. All oil delivered by DNO is measured and recorded. Commercial terms for the interim period are under evaluation and will be reported to the market in due course.

As the payment mechanism for the export is not in place yet, the production costs (lifting costs and depreciation) related to the export of crude oil in 2011 will be capitalized as inventory (underlift) in line with the accounting treatment for the 2009 export. See also Note 4 for further details.

Extraordinary general meeting

In February 2011, DNO's largest shareholder RAK Petroleum Public Company Limited, called for an extraordinary general meeting to elect a fifth board member. The extraordinary general meeting held in March 2011, elected Mr. Bijan Mossavar-Rahmani from RAK Petroleum Public Company Limited as board member in DNO.

Ongoing drilling

YEMEN: The Alsaq-1 exploration well in Block 47 spudded on 17 March 2011 and drilling is progressing according to plan.

THE KURDISTAN REGION OF IRAQ: DNO is drilling a horizontal section into the Bastora-1 well to penetrate carbonate fracture systems from a horizontal wellbore to increase production rates of this zone. This information will be essential for the further evaluation of development plans of the Bastora and Benenan discoveries. Drilling is progressing as planned.

Dry well in Mozambique

Drilling of the Inhaminga High-1 well in Mozambique was completed in Q1 2011. One test was undertaken in a possible hydrocarbon bearing interval, but no flow was achieved during this test. The well is plugged and abandoned, and the commitment program for the Inhaminga Block in Mozambique is now completed.

Bond issue

On 30 March 2011, DNO completed a senior unsecured bond issue of approximately USD 240 million, split between an USD tranche of approximately USD 140 million and a NOK tranche of approximately NOK 560 million. The new bond issue has a five year tenor and carries a floating interest rate of LIBOR/NIBOR + 7.50%. The purpose of the loan is refinancing and general corporate purposes. DNO has in connection with the bond issue agreed to purchase the aggregate of USD 170.3 million and NOK 307.5 million of its various outstanding bond issues. The new bond issue will be listed on the Oslo Stock Exchange.

Police charges against the Company and company representatives related to the sale of treasury shares in 2008

In March 2011, DNO and the company representatives Helge Eide and Berge Gerdt Larsen were informed by the police that they in 2008 had breached the disclosure obligations towards the Oslo Stock Exchange and in relation to the Securities Trading Act with respect to market manipulation allegations. Similar allegations from the Oslo Stock Exchange based on the same facts were revoked by the Oslo Stock Exchange Appeals Committee in September 2009. The board of DNO and the DNO representatives strongly disagree with these police charges. DNO will defend itself and its representatives against such unfounded charges.

Arbitration proceedings

As previously reported, DNO Iraq AS, a subsidiary of DNO International ASA, was involved in arbitration proceedings related to certain third party interests in Kurdistan. A preliminary arbitration ruling was received in October 2010 and a total provision of USD 65 million plus provisions for legal expenses have been recorded in the financial statements for 2010. The arbitration case has now been settled outside of the arbitration process, with no additional material effect to the financial statements for 2010 or future accounts.

Security situation in the Middle East

The stability in parts of the Middle East has deteriorated due to political protests starting in the last part of 2010 and continuing into 2011. DNO operates in the Middle East in the Kurdistan Region of Iraq, Yemen and in Dubai. In the Kurdistan Region of Iraq, the political situation and general stability has remained unchanged and the security is maintained at a satisfactory level. The DNO Iraq AS head office is located in Dubai, which has remained stable and unaffected by the political protests experienced in other parts of the region. In Yemen, there has been severe unrest, mainly located in the capital Sana'a, but also other cities. DNO has taken several measures to improve security for DNO employees in Yemen. DNO has managed to maintain production and continue the exploration and development projects in Yemen according to plans. The development is closely monitored, both at business unit level, and at corporate. At present, the situation is manageable for DNO in Yemen.

Class action lawsuit

A class action lawsuit by DNO and 256 shareholders against breach of confidentiality by Bergen police and the tax authorities was concluded in April 2011. It was confirmed a willful breach, but compensation was not awarded as the shareholders were only considered as secondary damaged. The latter is being appealed to the high court as this is the first class action court action in Norway, and it is important to establish the law for shareholders protection when state employees commit a criminal act against DNO and its shareholders.

NOTE 24 || Working interest proven and probable reserves and resources¹⁾ after royalty (unaudited)

Million boe	NORTHERN EUROPE		YEMEN		KURDISTAN		AFRICA		DNO GROUP		Total
	Reserves	Resources	Reserves	Resources	Reserves	Resources	Reserves	Resources	Reserves	Resources	
1 January 2009	-	10.0	9.5	3.1	153.1	1.1	-	1.5	162.6	15.7	178.3
Discoveries, additions and extensions	-	-	-	-	-	4.7	-	-	-	4.7	4.7
Acquisition of reserves/resources	-	-	-	-	-	-	-	-	-	-	-
Divestment of reserves/resources	-	-	-	-	-	-	-	-	-	-	-
Revision of previous estimates	-	-	3.3	3.0	-8.6	-	-	-	-5.4	3.0	-2.4
Other	-	-	-	-	-	-	-	-	-	-	-
Year 2009 production	-	-	-2.8	-	-5.0	-	-	-	-7.9	-	-7.9
31 December 2009	-	10.0	9.9	6.1	139.4	5.8	-	1.5	149.4	23.3	172.8
Discoveries, additions and extensions	-	-	1.6	-1.6	-	-	-	-	1.6	-1.6	-
Acquisition of reserves/resources	-	-	-	-	-	-	-	-	-	-	-
Divestment of reserves/resources	-	-	-	-	-	-	-	-	-	-	-
Revision of previous estimates	-	-6.8	1.8	-2.4	47.8	4.3	-	-	49.7	-4.8	44.8
Other	-	-	-	-	-	-	-	-	-	-	-
Year 2010 production	-	-	-2.5	-	-3.9	-	-	-	-6.3	-	-6.3
Total reserves and resources											
31 December 2010	-	3.3	10.8	2.1	183,4	10.1	-	1.5	194.2	17.0	211.2

¹⁾ Reserves according to Annual Statement of Reserves released 18 April 2011, classification as in Norwegian Petroleum Directorate class 1-3. Resources corresponds to class 4, 5 and 7 in NPD definitions. The figures represent best estimate (P50 base case).

As discussed in the accounting principles, estimation of oil and gas reserves and resources involves uncertainty. The figures above represent management's opinion of the most likely quantity of economically recoverable oil and gas estimated at year end 2010, given the information at time of reporting. The estimates have a large spread especially in fields where we have limited data. The uncertainty will be reduced as more information becomes available through production history and reservoir information. In addition, 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 time for production from the fields.

In Yemen, revision of previous estimates includes minor changes in Block 32 and Block 53 mainly related to delayed economic cut-off due to higher oil price prognosis compared to last year and modified decline rates. In Block 43, the remaining reserves in the deep formations in Nabrajah have been reevaluated based on the results from the well test in 2010 and further studies. In Block 47, the partners have committed to a field development of the Yalen field and these volumes have been updated and included in reserves at year-end (classified as discovery, addition in the table above). The resource estimate for the Sharnah field has been reduced after the appraisal well in 2010 and volumes included as resources (class 5).

2) At the Tawke PSC in Kurdistan region of Iraq, a third party audit by Beicip Franlab has been carried out as at 31 December 2010 and an increase of 33% from the previous estimate has been incorporated in the figures. The main reason for the increase is related to higher recovery rates due to improved understanding of fracture intensity especially at the top of the reservoir, and better drainage. The estimated ultimate gross recoverable reserves are now 306 million barrels (versus 230 million barrels last year). DNO's working interest share has been calculated accordingly based on the Production Sharing Contract.

The discovery at the Benenan structure in the Erbil PSC in Kurdistan has been reevaluated based on the testing of Erbil-2 during the year, and the volumes are now 22.4 million barrels gross (class 5).

At the Mulle field, reassessment of the resource estimate has been made, and the gross volume has been reduced from 20 million barrels to 6.6 million barrels.

Studies for a possible field development is ongoing.

The ICE forward curve for Brent Blend at 31 December 2010, adjusted for quality differences has been used as basis for calculation of the economical remaining reserves.

Working interest share in Yemen and Kurdistan region of Iraq includes DNO's share of cost oil resulting from carried interests.

The production figures includes diesel used as fuel.

The following table reflects DNO's net entitlement (after royalty) proven and probable reserves*

Million boe	NORTHERN EUROPE	YEMEN	KURDISTAN	AFRICA	DNO GROUP
	Reserves	Reserves	Reserves	Reserves	Reserves
31 December 2009	-	6.1	50.3	-	56.4
31 December 2010	-	7.0	56.7	-	63.7

Net entitlement reserves in Yemen and THE Kurdistan region of Iraq are based on economic evaluations of the Production Sharing Contracts and include a volume related to the notional tax paid on behalf of the contractors by the government.

*Reserves according to NPD class 1-3 only.

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Income statements

1 January - 31 December

NOK 1000	Note	2010	2009
Operating revenues			
Other operating revenues	2	132 415	3 092
Total operating revenues		132 415	3 092
Operating expenses			
Exploration expenses	4	-5 347	44 495
Ordinary depreciation	7	795	646
Payroll and payroll-related expenses	3	67 903	45 660
Other operating expenses	4	25 394	26 000
Total operating expenses		88 745	116 801
Operating profit /- loss		43 670	-113 709
Net other financial items	5	-103 448	262 978
Profit /- loss before taxes		-59 778	149 269
Income taxes	6	-	-250 000
Annual profit /- loss		-59 778	-100 731
Transferred from/to other equity		-59 778	-100 731
Total allocations		-59 778	-100 731
Earnings per share, basic	19	-0,06	-0,11
Earnings per share, diluted	19	-0,06	-0,11

Balance sheets

Per 31 December

Assets	Note	2010	2009
Assets			
NOK 1000			
FIXED ASSETS			
Tangible assets			
Oil and gas properties		60 092	59 934
Other tangible assets		2 596	2 510
Total tangible assets	7	62 688	62 444
Financial assets			
Shares in subsidiaries	8	1 050 124	1 049 624
Intercompany receivables	20	2 080 930	2 105 711
Other investments	8	349 782	437 873
Total financial assets		3 480 836	3 593 208
Total fixed assets		3 543 524	3 655 651
CURRENT ASSETS			
Trade and other receivables	9	13 267	16 196
Derivative financial instruments	15	-	756
Cash and cash equivalents, non-restricted	10	1 321 170	260 138
Cash and cash equivalents, restricted	10	7 204	6 498
Total current assets		1 341 641	283 588
TOTAL ASSETS		4 885 165	3 939 239

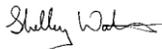
Shareholders' equity and liabilities

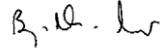
Per 31 December

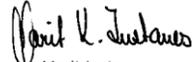
NOK 1 000	Note	2010	2009
SHAREHOLDERS' EQUITY			
Paid-in capital			
Share capital		237 464	226 214
Treasury shares		-	-12 500
Share premium account		369 756	32 456
Other paid-in capital		419 802	65 169
Total paid-in capital	11	1 027 022	311 339
Retained earnings			
Retained earnings		1 192 275	1 252 053
Total retained earnings	11	1 192 275	1 252 053
Total shareholders' equity		2 219 297	1 563 392
LIABILITIES			
Provisions for liabilities and charges			
Other liabilities and charges	12	7 643	9 812
Total provision for liabilities and charges		7 643	9 812
Other long-term liabilities			
Long-term interest bearing intercompany debt	20	771 344	504 335
Bond loan	13	1 555 485	1 785 306
Total other long-term liabilities		2 326 829	2 289 641
Current liabilities			
Interest-bearing short-term debt	13	257 488	-
Non-interest bearing short-term debt	14	67 101	76 393
Total current liabilities		324 589	76 393
Total liabilities		2 659 061	2 375 846
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		4 878 358	3 939 239
Collateral	13		
Guarantees	12		
Financial instruments	15		

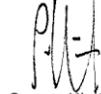
Oslo, 29 April 2011


Berge G. Larsen
Chairman of the Board


Shelley Watson
Deputy Chairman


Bijan Mossavar-Rahmani
Board Member


Marit Instanes
Board Member


Gunnar Hirsti
Board Member


Helge Eide
Managing Director

Cash flow statements

NOK 1 000	Note	2010	2009
Operating activities			
Profit/(-loss) before tax		-59 778	149 269
Taxes paid	6	-	-
Depreciation and impairment of tangible and intangible assets	7	795	646
Impairment of financial assets	5	88 090	-205 904
(Gain)/loss on sale of operating assets and securities		-45	4 664
Changes in net current assets and other accruals		-66 030	134 201
Net cash flow from operating activities		-36 968	82 876
Investing activities			
Payments made for investments in oil and gas properties	7	-1 039	-1 535
Net cash flow from other investments and sales		365 185	218 620
Net cash flow from investing activities		364 146	217 085
Financing activities			
Repayment of interest-bearing debt	13	-1 361	-55 861
Purchase of treasury shares and options	11	-	-1 159 595
Sale of treasury shares and options	11	367 133	1 032 092
Proceeds from issuance of shares	11	348 551	-
Net cash flow from financing activities		714 322	-183 364
Effects of change in currency (cash and cash equivalents)		20 238	10 194
Cash and cash equivalents 1 January		266 636	139 845
Net change in cash and cash equivalents		1 061 738	126 791
Cash and cash equivalents 31 December	10	1 328 374	266 636
Hereof restricted cash and cash equivalents		7 204	6 498

NOTE 1 || Accounting principles

General

The financial statements are presented in accordance with the Norwegian Accounting Act and Norwegian generally accepted accounting principles. The accompanying notes are an integral part of the financial statements.

Use of Estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenue and expense during the reported periods. Actual results could differ from those estimates.

Currency

The financial statements are presented in Norwegian Kroner (NOK), which is the functional and presentation currency of the Company. Cash items denominated in foreign currencies are converted using exchange rates on the balance sheet date. Realised and unrealised currency gains and losses are included in the annual profit (loss). Foreign currency transactions are recorded using exchange rates on the date of transaction.

Consolidated financial statements

The consolidated financial statements of the DNO group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and have been presented separate from the parent company accounts.

Investments in subsidiaries and associated companies

Investments in subsidiaries and associated companies are recorded at historical cost.

If market value of the investment is lower than the carrying value, an impairment charge is recorded and a new cost basis of the investment is established.

Valuation and classification of balance sheet items

Assets and liabilities linked to the operating cycle are classified as current assets and current liabilities. Receivables and liabilities not relating to the flow of goods are classified as current assets or current liabilities if they are short-term, that is normally due within one year. Shares and investments not intended for permanent ownership are classified as current assets.

Other assets are classified as fixed assets and other liabilities as long-term liabilities.

Shares, bonds, certificates, etc.

Shares, bonds, certificates, etc. classified as current assets are valued at the lower of their historical cost and market value. Other shares classified as fixed assets are valued at their cost price and impaired in the case of permanent and significant decline in value. Money market funds are valued at fair value.

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments with insignificant interest rate risk and with original maturities of three months or less.

Property, plant & equipment

Property, plant and equipment are carried at cost less accumulated depreciation and impairment charges. Capital lease assets are recorded at the present value of future lease obligations or fair value if lower.

Capitalised costs for oil & gas properties are depreciated using the

unit-of-production method. The rate of depreciation is equal to the ratio of oil and gas production for the period to proved and probable developed reserves. In addition to capitalised cost, estimated future investments that has been considered in the calculation of the company's reserves are added to the basis for depreciation. For capitalized acquisition costs the rate is equal to the ratio of oil and gas production for the period to proved and probable reserves.

The Company records impairment provisions when the book value of oil and gas properties or other assets where separate cash flows can be identified, exceeds discounted future expected cash flows. The impairment amount is the difference between the book value and the fair value of the asset. Capitalised costs relating to production are depreciated under the unit-of-production method.

Liabilities relating to the acquisition of license interests for which the company has entered into long-term bank financing agreements, are classified as long-term liabilities.

Amortization of capital lease assets is included in "Depreciation, depletion and amortization".

Machinery and equipment is depreciated using the straight-line method based on estimated useful life. Estimated useful life varies between 3-5 years for these assets.

Exploration and development costs for oil and gas properties

The Company employs the "Successful Efforts" method to account for exploration and development costs. All exploration costs, with the exception of acquisition costs of licenses and drilling costs of exploration wells, are charged to expense as incurred. Drilling costs of exploration wells are temporarily capitalized pending the evaluation of potential existence of oil and gas reserves. If reserves are not found, or if discoveries are assessed to not be technically and commercially recoverable, the drilling costs of exploration wells are expensed. Costs of acquiring licenses are capitalized, and periodically assessed for impairment. All costs of developing commercial oil and/or gas fields are capitalized. Pre-production costs are expensed as incurred.

Interest expenses and own expenses relating to development projects

Interest expenses and own expenses relating to development projects are capitalised and depreciated under the unit-of-production method. Expenses related to financing are capitalised and amortised over the loan period.

Leases

Leases that substantially transfer all the risks and rewards of ownership to DNO (financial leasing) are recognised as assets in PP&E at the present value of the minimum lease payments, or if lower, at fair value. The assets are amortised according to plan. The instalment part of the lease obligation is classified as interest-bearing debt in the balance sheet. The obligation is reduced by paid rent after deduction of estimated interest expense. The interest expense is recorded as a financial expense. Operational leases are expensed as incurred.

Deferred taxes

Deferred taxes are computed according to the liability method. Based on the tax rates and tax provisions applicable on the balance sheet date, deferred taxes are computed on temporary differences between the carrying amount of the company's assets and liabilities in the financial statements and the carrying amount of the company's assets and liabilities for tax purposes. Deferred tax benefits and deferred tax liabilities in the same tax regime are netted in the balance sheet. Capitalisation of deferred tax benefit presupposes that future application can be rendered probable.

Pension obligations

The Company records pension schemes according to the Norwegian accounting standard for pension costs. The Company has contribution plans for its employees. For contribution plans, only the contributions paid during the period are expensed.

Revenue Recognition

Revenues from the production of oil and gas properties are recognised on the basis of the Company's net working interest in those properties, regardless of whether the production is sold (the entitlement method). Revenue from services are recorded when the service has been performed.

Maintenance and repairs

Maintenance and repairs are expensed as incurred. Significant costs considered to increase the production capacity or to extend the useful economic life of the facilities are capitalized.

Financial instruments, etc.

The Company uses various financial instruments to manage its exposure to fluctuations in exchange rates, interest rates and commodity price risks. Instruments meeting hedging criteria are valued together with the hedged item (unrealised gains/losses are not recognized). Instruments not meeting hedging criteria, are valued in separate portfolios at the lower of their

historical cost and market value (unrealised losses are expensed). Unrealised gains are not taken to income.

Options to the directors of the board and management

The Groupe has a synthetic share option programme for its employees. The share options are settled in cash and are recorded at fair value by use of the Black & Scholes method. The share options are expensed over the vesting period.

Allowance for bad debts

Allowances for bad debts are made for foreseeable losses on trade receivables.

Contingent gains/losses

According to Norwegian accounting standards relating to contingent items, provisions are made for contingent losses that are probable and quantifiable, while contingent gains are not taken to income.

Cash flow statement

The cash flow statement is based on the indirect method. Cash equivalents include bank deposits and liquid funds maturing in less than three months.

Comparable figures

Comparable figures for previous years have been prepared to reflect changes in accounting principles and presentation (classification).

NOTE 2 || Other operating revenues

NOK 1 000	2010	2009
Other operating revenues	3 146	3 092
Gain from sale of license interests ¹⁾	129 269	-
Total other operating revenues	132 415	3 092

1) Gain in 2010 relates to intercompany sale of the Inhaminga Block in Mozambique from DNO International ASA to the subsidiary DNO Mozambique AS.

NOTE 3 || Remuneration, severance pay, salaries, options and pensions

NOK 1 000	2010	2009
Salaries, bonuses, options etc.	57 282	43 327
Employer's payroll tax expense incl. payroll tax on options	8 165	7 626
Pensions	2 258	1 887
Other personnel costs	6 242	2 551
Reclassification of payroll and payroll-related expenses to Exploration and Production	-6 043	-9 732
Payroll and payroll-related expenses	67 903	45 660
Average number of man-labour years	34	34

Payroll expenses relating to participation in non-operated licenses are classified as exploration and production costs in the profit and loss statement.

Pensions

DNO has a defined contribution scheme for employees in the company. The pension costs in the 2010 accounts are related only to premiums for the employees of the company. DNO meets the Norwegian requirements for mandatory occupational pension ("obligatorisk tjenestepensjon").

Director, executive and key management remuneration

Remuneration to the Directors of the Board	2010	2009
Berge G. Larsen, Executive Chairman	283 000	265 000
Shelley Watson, Deputy Chairman	-	-
Trygve Bruvik, former Deputy Chairman	288 000	240 000
Marit Instanes, Board Member	318 000	240 000
Gunnar Hirsti, Board Member	288 000	240 000
Elin Karfjell, former Board Member	318 000	240 000
Helge Eide, Managing Director and former Board Member	50 000	50 000
Total	1 545 000	1 275 000

Hereof, NOK 1 495 000 relates to Director's fees for DNO International ASA in 2010.

In 2010, NOK 180 000 has been paid as fees for work related to the audit committee and the compensation committee to Trygve Bruvik, Gunnar Hirsti, Elin Karfjell and Marit Instanes.

No severance pay agreement has been entered into with the Executive Chairman.

Remuneration to Managing Director and key management in 2010 (NOK mill)	Salary	Bonus	Pension	Other	Total
Helge Eide, Managing Director	3,37	-	0,06	0,31	3,73
Tom Bratlie, Communication Director*	0,97	-	0,03	0,07	1,08
Tore Lilloe-Olsen, Corporate Head of Exploration	2,20	-	0,06	0,11	2,36
Haakon Sandborg, Chief Financial Officer	1,99	-	0,06	0,11	2,15
Magne Normann, Managing Director DNO Iraq AS	3,64	-	0,06	0,24	3,94
Sven Erik Lie, Managing Director DNO Yemen AS	0,03	-	-	3,43	3,46
Erik Syrdalen, Managing Director DNO Mozambique AS	1,54	-	0,06	0,06	1,65

* From 1 June 2010

No loans have been granted and no guarantees have been issued for executives, shareholders or directors.

Shares and Options held by directors, executives and key management personell as at 31 December 2010

Directors of the Board and key management	Shares	Options
Berge G. Larsen, Executive Chairman incl companies controlled by him	30 836 342	-
Shelley Watson, Deputy Chairman	-	-
Bijan Mossavar-Rahmani, Board Member	-	-
Marit Instanes, Board Member	18 228	-
Gunnar Hirsti, Board Member incl companies controlled by him	120 000	-
Helge Eide, Managing Director	1 515 000	-
Tom Bratlie, Communication Director	10 000	-
Tore Lilloe-Olsen, Corporate Head of Exploration	51 000	-
Haakon Sandborg, Chief Financial Officer	-	-
Magne Normann, Managing Director DNO Iraq AS	1 621 996	-
Sven Erik Lie, Managing Director DNO Yemen AS	-	-
Erik Syrdalen, Managing Director DNO Mozambique AS	15 000	-
Total	34 187 566	-

Auditors' fees

All figures are exclusive of VAT (NOK 1 000)	2010	2009
Auditors' fee	1 350	1 300
Other financial auditing	138	78
Total auditing fees	1 488	1 378
Other assistance	38	28
Tax assistance	776	237
Total auditors' fees	2 302	1 643

Declaration regarding determination of salary and other remuneration to the managing director and other senior employees

The management remuneration for 2010 was in accordance with the directions approved by the General Meeting in June 2010. Annual bonus for 2010 was set to two month's salary for all employees.

According to the new article in the Norwegian Act relating to public limited liability companies § 6-16 a, cf § 5-6, third section, the general meeting shall consider the Board's declaration regarding determination of salary and other remuneration to the general manager and senior employees for the coming financial year. The Board will propose the following declaration for the annual general meeting to consider:

The Board of Directors of DNO International ASA has since 2003 had a compensation committee which consider questions related to the compensation to the managing director and key management. When determining the methods that shall be used for evaluating the remuneration and possible bonus, options- and other incentive arrangements, the committee shall ensure that the size of the remuneration reflects the duties and responsibilities of the employees, and that the arrangements also shall contribute to the long term value added for the Company's shareholders.

Fixed salary

No upper or lower limit for the determination of fixed salary to key management, has been set by the Board for the coming financial year, beyond the main principles set out above.

Variable elements

In addition to the fixed salary, the Company has the following arrangements in order to keep management priorities in accordance with goals and strategies, set by the Board:

Annual bonus

Bonus arrangements have been in place for several years to ensure priority for important business objectives. The annual bonus is maximised to 3 months salary. Target figures are partly financial or operational, including HES.

Sharebased bonus scheme

The objective of the scheme is to ensure a continuous high focus on developing value for shareholders, in addition to strengthening the incentive programme for management and resource persons in the company. Payment under the scheme is calculated on the rise in the company's share price in the bonus period, within specified share price intervals. No shares or ordinary options are granted under this bonus scheme.

Total limit for the share based bonus scheme is NOK 17.2 million, should the share price equal or exceed NOK 9.75 as of 30 June 2011. The threshold for payments under this scheme is a share price of NOK 7.50. Estimated value recognised as of 31 December 2010 is NOK 4.3 million. All employees are included in the scheme, including key management as described above. All other ordinary bonus payments will be deducted in a possible share based bonus payment.

Severance pay agreements

The Managing Director will be entitled to severance pay corresponding to 3 times his annual remuneration, depending on the circumstances.

Severance pay agreements (equal to one or two times annual salary) have also been entered into with the following key employees in DNO International ASA: Tore Lilloe-Olsen, Corporate Head of Exploration, Magne Normann – Managing Director DNO Iraq AS Haakon Sandborg – Chief Financial Officer, Tom Bratlie – Communication Director and Ole-Andreas Isdahl – CR/QHSE Director.

NOTE 4 || Exploration expenses/Other operating expenses

Exploration expenses

NOK 1 000	2010	2009
Exploration expenses	-5 347	44 495
Total exploration expenses	-5 347	44 495

Exploration expenses are positive in 2010 mainly due to reversal and repayment of previous estimated costs for the block in Syria.

Other operating expenses

NOK 1 000	2010	2009
Lease expense - buildings and equipment	10 504	10 465
Materials and supplies	9 980	9 752
Travel expenses	4 310	2 265
Legal expenses	11 000	8 658
Consultant fees	22 070	20 159
Other general and administrative costs	8 074	15 492
Management fees to group companies	-40 644	-40 790
Total other operating expenses	25 394	26 000

NOTE 5 || Net other financial items

NOK 1 000	2010	2009
Interest received	12 417	6 557
Interest received from group companies	98 402	111 958
Gain on foreign exchange	-	72 223
Net gain/-loss on sale of securities	45	-4 536
Total financial income	110 863	186 202
Interest expense	-108 290	-103 271
Interest expense group companies	-	8 891
Loss on foreign exchange	-17 408	-
Impairment/ Reversal of impairment financial assets	-88 090	205 904
Other financial expenses	-523	-34 748
Total financial expenses	-214 311	76 776
Net other financial items	-103 448	262 978

NOTE 6 || Taxes

NOK 1 000	2010	2009
Taxes payable	-	-
Change in deferred taxes	-	250 000
Income taxes	-	250 000
Effective tax rates:		
Profit (loss) before taxes	-59 778	149 269
Expected income tax according to nominal tax rate (28%)	-16 738	41 795
Adjustment of deferred tax assets	-14 518	310 196
Impairment financial assets	24 665	-103 491
Tax-free gain/loss on sale of shares	-13	1 270
Change in previous years	6 378	-
Other items	225	230
Total income taxes	-	250 000
Effective tax rate (including change in deferred taxes)	0 %	167 %

The tax effect of temporary differences and losses carried forward:

Other current items	-	-
Property, plant & equipment	-217	-2 081
Other fixed items (receivables, abandonment, etc.)	-60 708	-90 787
Losses carried forward	-321 720	-304 295
Total, basis for deferred taxes/(tax assets)	-382 645	-397 162
Deferred tax asset allowance	382 645	397 162
Total deferred taxes/(tax assets)	-	-
Capitalised deferred tax assets	-	-
Capitalised deferred tax liabilities	-	-

Tax rates effective at 31 December 2010 have been used to calculate deferred taxes. The tax rate is 28% for revenues in Norway.

The tax loss carry forward is NOK 322 million (28% of NOK 1 150 million) as of year end 2010. The carrying forward period for the unused losses in Norway is indefinite.

NOTE 7 || Property, plant and equipment

NOK 1 000	License costs	Exploration costs	Other tangible assets	Total PP&E
Cost 1 January 2010	17 139	47 557	7 084	71 782
Additions 2010	-	158	881	1 039
Disposals 2010	-	-	-	-
Transfers 2010	-	-	-	-
Cost 31 December 2010	17 139	47 716	7 965	72 821
Accum. depreciation 1 January 2010	-4 762	-	-4 575	-9 336
Depreciation 2010	-	-	-795	-795
Impairments 2010	-	-	-	-
Accumulated depreciation disposals	-	-	-	-
Disposals and transfers 2010	-	-	-	-
Acc. depr. & impairments 31 December 2010	-4 762	-	-5 369	-10 131
Book value 31 December 2010	12 377	47 716	2 596	62 688
Book value 31 December 2009	12 377	47 557	2 510	62 444

Exploration costs are capitalized pending the evaluation of potential existence of oil and gas reserves. Capitalized license interest and exploration costs are related to Block P in Equatorial Guinea, where DNO has a 5 % license interest.

Other tangible assets are depreciated using a linear method based on estimated useful life of 3 to 5 years.

NOTE 8 || Subsidiaries and other investments

Subsidiaries owned by DNO International ASA	Company's business address	Ownership and voting interest (in %)	Company's share capital in 1 000	Company's equity in NOK 1 000	Company's profit/-loss in NOK 1 000	Book value in NOK 1 000
DNO Yemen AS	Oslo	100 %	NOK 291 000	1 346 742	283 392	481,000
DNO UK Ltd	London	100 %	GBP 0	-172 611	-15 273	-
DNO Iraq AS	Oslo	100 %	NOK 600	-212 669	-256 629	500 116
DNO Mozambique AS	Oslo	100 %	NOK 100	-17 225	-18 243	500
DNO Invest AS	Oslo	100 %	NOK 8 000	54 419	-15 818	68 508
Total 2010				998 656	-22 571	1 050 124

Other investments

Up to January 2009, DNO had a 36.9% interest in Det norske oljeselskap ASA (DET NOR), which is a Norwegian independent E&P company listed on the Oslo Stock Exchange. Following the sale of shares in January and November 2009, DNO's shareholding in DET NOR decreased below 20% and DNO no longer had significant influence.

Carrying value of the investment in DET NOR at 31 December 2010 is NOK 349.8 million.

NOTE 9 || Trade and other receivables

NOK 1 000	2010	2009
Trade receivables	563	1 143
Prepayments and accrued income	7 818	8 581
Other current receivables	4 886	6 471
Total other current receivables	13 267	16 196

NOTE 10 || Cash and cash equivalents

NOK 1 000	2010	2009
Cash and cash equivalents, non-restricted	1 321 170	260 138
Cash and cash equivalents, restricted	7 204	6 498
Total cash and cash equivalents	1 328 374	266 636

Restricted cash relates to withholding tax and rent deposit.
The cash is mainly in USD and NOK.

NOTE 11 || Shareholders equity

NOK 1 000	Share capital	Treasury shares, number (1000)	Treasury shares, amount	Share premium account	Other paid-in capital	Other equity	Total
Shareholders' equity on 1 January 2010	226 214	50 000	-12 500	32 456	65 169	1 252 053	1 563 392
Purchase of treasury shares including options	-	-	-	-	-	-	-
Sale of treasury shares including options	-	-50 000	12 500	-	354 633	-	367 133
New equity	11 250	-	-	337 301	-	-	348 551
Dividends paid/accrued, incl dividends paid with treasury shares	-	-	-	-	-	-	-
Profit/(- loss) for the year	-	-	-	-	-	-59 778	-59 778
Shareholders' equity on 31 December 2010	237 464	-	-	369 756	419 802	1 192 275	2 219 297

The total number of ordinary shares is 949,856,912 shares with a par value of NOK 0.25 per share. All issued shares are fully paid.

45,000,000 new shares were issued in a private placement in November 2010. The subscription price was NOK 8 per share. The transactions costs related to the equity offering amount to NOK 11.4 million.

For other information regarding the Company's equity and shareholders, see Note 15 in the consolidated accounts.

NOTE 12 || Guarantees and commitments

For information regarding guarantees and commitments, see Note 18 in the consolidated accounts.

NOTE 13 || Interest-bearing liabilities

See Note 16 in the consolidated accounts for information on other interest-bearing liabilities as all are relevant to DNO International ASA.

NOTE 14 || Current liabilities

NOK 1 000	2010	2009
Accounts payable	6 619	8 211
Public duties payable	2 971	2 813
Accrued expenses and other current liabilities	57 511	65 369
Total non-interest-bearing current liabilities	67 101	76 393

NOTE 15 || Financial instruments and risk management

In accordance with NGAAP, financial instruments meeting the hedging criteria are valued together with the hedged item (unrealised losses are not recognised). Instruments not meeting the hedging criteria, are valued in separate portfolios at the lower of their historical cost and market value (unrealised losses are recognised). Unrealised gains are not taken to income.

In 2006, DNO entered into an oil price put option for 2010 with a strike price of USD 40. The purchase price was NOK 11.6 million. The derivative matured at 31 December 2010 and had no value at maturity. See Note 9 in the consolidated accounts for further information on financial instruments and risk management.

NOTE 16 || Health, safety and the environment

The Company's activities were carried out in accordance with official requirements relating to the natural environment.

NOTE 17 || Related party disclosure

Overhead expenses in the parent company DNO International ASA, are allocated to the subsidiaries based on how much they have used the services provided by the parent company. The interest in the Inhaminga license in Mozambique has been sold from DNO International ASA to the wholly owned subsidiary DNO Mozambique AS. The sales price was set to USD 20 million, supported by both international evaluations as well as third party assessment.

The parent company has loan facilities with all subsidiaries. The loans are interest bearing with DNO's average interest rate on borrowings.

See Note 22 in the consolidated accounts for further description of transactions with related parties.

NOTE 18 || Contingencies and Events after the balance sheet date

For information on contingencies and events after the balance sheet date, see Note 23 in the consolidated accounts.

NOTE 19 || Earnings per share

Long-term intercompany receivables

NOK 1 000	2010	2009
Net profit attributable to ordinary equity holders of the parent	-59 778	-100 731
Weighted average number of ordinary shares (excluding treasury shares)	899,5	854,9
Effect of dilution:		
Options	-	-
Weighted average number of ordinary shares (excluding treasury shares) adjusted for the effect of dilution	899,5	854,9
Earnings per share, basic	-0,06	-0,11
Earnings per share, diluted	-0,06	-0,11

NOTE 20 || Intercompany

Long-term intercompany receivables

NOK 1 000	Currency	2010	2009
DNO UK Ltd	GBP	15 939	-
DNO Iraq AS	USD	1 903 362	2 098 429
DNO Mozambique AS	USD	143 456	7 282
DNO Invest AS	NOK	11 366	-
Total long-term intercompany receivables		2 074 124	2 105 711

Long-term intercompany debt

NOK 1 000	Currency	2010	2009
DNO Yemen AS	USD	1 150 839	883 830
DNO Yemen AS	NOK	-379 495	-379 495
Total long-term intercompany debt		771 344	504 335

Intercompany receivables and debt are interest bearing with an average interest rate of 5.04% charged for 2010 and 5.41% for 2009.

The receivable on DNO UK Ltd was impaired by NOK 161 million in 2009.



Statsautoriserte revisorer
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To the Annual Shareholders' Meeting of
DNO International ASA

AUDITOR'S REPORT

Report on the financial statements

We have audited the accompanying financial statements of DNO International ASA, comprising the financial statements for the Parent Company and the Group. The financial statements of the Parent Company comprise the balance sheet as at 31 December 2010, the statements of income and cash flows for the year then ended as well as a summary of significant accounting policies and other explanatory information. The financial statements of the Group comprise the consolidated statement of financial position as at 31 December 2010, the statements of comprehensive income, cash flows and changes in equity for the year then ended as well as a summary of significant accounting policies and other explanatory information.

The Board of Directors' and Managing Director's responsibility for the financial statements

The Board of Directors and Managing Director are responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway for the financial statements of the Parent Company and the International Financial Reporting Standards as adopted by the EU for the Group, and for such internal control as the Board of Directors and Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements for the Parent Company and the Group.

Opinion on the financial statements of the Parent Company

In our opinion, the financial statements of DNO International ASA have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as of 31 December 2010 and its financial performance and cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Opinion on the financial statements of the Group

In our opinion, the financial statements of the Group have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Group as of 31 December 2010 and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards on Accounting as adopted by the EU.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Directors' report concerning the financial statements, the going concern assumption and the proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the international standard on assurance engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that the Board of Directors and Managing Director have fulfilled their duty to properly record and document the Company's accounting information as required by law and generally accepted bookkeeping practice in Norway.

Oslo, 29 April 2011
ERNST & YOUNG AS

Finn Ole Edstrøm
State Authorised Public Accountant (Norway)

Glossary and definitions

2P/P50 Proven and probable reserves	Probable Reserves which are not yet proven, but which are estimated to have a better than 50% chance of being technically and commercially producible	Contractor An oil company operating in a country under a production sharing agreement on behalf of the host government for which it receives either a share of production or a fee.
Basement The rock underlying the typical oil-bearing or oil-generating formations	Proved Reserves which on the available evidence are virtually certain to be technically and commercially producible, i.e. have a better than 90% chance of being produced.	Cost oil The oil (or revenues) used to reimburse the contractor for exploration costs, development capital costs and operating costs.
Boe Barrels of oil equivalents	Result of Operations (RoO) A measure of the efficiency of DNO's producing assets, Result of Operations include revenues and expenses associated directly with DNO's crude oil and gas producing activities.	Profit oil Production remaining after royalty and cost oil, which is split by the government and the contractors according to the Production Sharing Agreement.
Bopd Barrels of oil per day	Recycle Ratio Netback from RoO per barrel divided by Finding, Development and Acquisition Cost per barrel.	Government take The sum of royalties and governmental share of profit oil, including that of a governmentally controlled enterprise.
CR Corporate responsibility	Reserve Replacement Ratio (RRR) Gross Reserve Growth divided by Production.	Royalty A fraction of gross oil production, before any attribution to cost oil, payable to a governmental body.
DD&A Depletion, depreciation and amortisation	ROACE Return on average capital employed, Net profit/(loss) adjusted for after tax interest expenses/average capital employed.	Income taxes payable under PSA Income tax paid by the government on behalf of the oil company, The tax is paid out of the governments share of profit oil.
EBITDA Operating profit/(loss) adjusted for depreciation and amortisation, impairments and abandonment expenses	Spudding Initiation of drilling operations	Working interest The percentage interest ownership a company (or government) has in a joint venture, partnership or consortium after deducting the royalty from gross revenues (production), This method has previously been referred to as the gross method.
EBITDAX EBITDA minus exploration cost (including the cost of dry wells and impairment of oil and gas fields)	TSR Total shareholder return	Net entitlement The percentage interest ownership after deducting royalty and the government share, Includes volumes related to the income tax paid by the government on behalf of the contractors.
FDA cost Finding, developing and acquisition cost	Unit-of-Production Depreciation (UoP) Method of depreciation for capital costs, This method attempts to match the costs with the production those costs are associated with.	Working interest reserves Reserves based on working interest production.
Finding cost The amount of money spent per unit (barrel of oil) to acquire reserves, Includes discoveries, acquisitions and revisions to previous reserve estimates.	Unrisked Gross potential reserves (3P) before applying a risk factor	Net entitlement reserves Reserves based on net entitlement production.
KPI Key performance indicator	Production Sharing Agreement/ Contract (PSA/PSC) A contractual agreement between a contractor and a host government, whereby the contractor bears all exploration costs, risks, development and production costs in return for a stipulated share of the production resulting from this effort.	
Mboe Million barrels of oil equivalent		
Netback EBITDA adjusted for taxes paid		
Possible Reserves which at present cannot be regarded as probable, but which are estimated to have a significant but less than 50% chance of being technically and commercially producible		