



## ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2021 - GENERELL INFORMASJON

### Enheten

Organisasjonsnummer: 988 714 526  
Organisasjonsform: Aksjeselskap  
Foretaksnavn: DNO IRAQ AS  
Forretningsadresse: Dokkveien 1  
0250 OSLO

### Regnskapsår

Årsregnskapets periode: 01.01.2021 - 31.12.2021

### Konsern

Morselskap i konsern: Nei

### Regnskapsregler

Regler for små foretak benyttet: Nei  
Benyttet ved utarbeidelsen av årsregnskapet til selskapet: Regnskapslovens alminnelige regler

### Årsregnskapet fastsatt av kompetent organ

Bekreftet av representant for selskapet: Jonas Momkvist  
Dato for fastsettelse av årsregnskapet: 22.06.2022

### Grunnlag for avgivelse

År 2021: Årsregnskapet er elektronisk innlevert  
År 2020: Tall er hentet fra elektronisk innlevert årsregnskap fra 2021

*Det er ikke krav til at årsregnskapet m.v. som sendes til Regnskapsregisteret er undertegnet. Kontrollen på at dette er utført ligger hos revisor/enhetens øverste organ. Sikkerheten ivaretas ved at innsender har rolle/rettighet for innsending av årsregnskapet via Altinn, og ved at det bekreftes at årsregnskapet er fastsatt av kompetent organ.*

Brønnøysundregistrene, 23.07.2023



## Resultatregnskap

Beløp i: USD	Note	2021	2020
<b>RESULTATREGNSKAP</b>			
<b>Inntekter</b>			
Operating revenue, oil and gas	2	594 275 000	369 139 000
<b>Sum inntekter</b>		<b>594 275 000</b>	<b>369 139 000</b>
<b>Kostnader</b>			
Production expense	3	99 820 000	93 093 000
Exploration expense	3	2 923 000	2 989 000
Depreciation	4	120 889 000	239 135 000
Other operating expenses	3	2 741 000	1 746 000
<b>Sum kostnader</b>		<b>226 373 000</b>	<b>336 963 000</b>
<b>Driftsresultat</b>		<b>367 902 000</b>	<b>32 176 000</b>
<b>Finansinntekter og finanskostnader</b>			
Renteinntekt fra foretak i samme konsern	5	9 786 000	9 830 000
Other financial income	6	24 303 000	642 000
Net gain/-loss on foreign exchange transactions		0	1 683 000
<b>Sum finansinntekter</b>		<b>34 089 000</b>	<b>12 155 000</b>
Other financial expense	6	10 542 000	20 978 000
<b>Sum finanskostnader</b>		<b>10 542 000</b>	<b>20 978 000</b>
<b>Netto finans</b>		<b>23 547 000</b>	<b>-8 823 000</b>
<b>Ordinært resultat før skattekostnad</b>		<b>391 449 000</b>	<b>23 353 000</b>
Tax income/-expense	7	1 365 000	
<b>Ordinært resultat etter skattekostnad</b>		<b>390 084 000</b>	<b>23 353 000</b>
<b>Årsresultat</b>		<b>390 084 000</b>	<b>23 353 000</b>
<b>Overføringer og disponeringer</b>			
Other equity	11	390 084 000	23 353 000
<b>Sum overføringer og disponeringer</b>		<b>390 084 000</b>	<b>23 353 000</b>



### Balanse

Beløp i: USD	Note	2021	2020
<b>BALANSE - EIENDELER</b>			
<b>Anleggsmidler</b>			
<b>Immaterielle eiendeler</b>			
Exploration assets and license interests	4	15 522 000	58 625 000
<b>Sum immaterielle eiendeler</b>		<b>15 522 000</b>	<b>58 625 000</b>
<b>Varige driftsmidler</b>			
Oil and gas fields in development	4	77 775 000	
Oil and gas fields in production	4	568 706 000	590 842 000
Other fixed assets	4	0	0
<b>Sum varige driftsmidler</b>		<b>646 481 000</b>	<b>590 842 000</b>
<b>Finansielle anleggsmidler</b>			
Non-current trade receivables	6	18 150 000	182 000 000
<b>Sum finansielle anleggsmidler</b>		<b>18 150 000</b>	<b>182 000 000</b>
<b>Sum anleggsmidler</b>		<b>680 153 000</b>	<b>831 467 000</b>
<b>Omløpsmidler</b>			
<b>Varer</b>			
Inventories	9	18 793 000	22 118 000
<b>Sum varer</b>		<b>18 793 000</b>	<b>22 118 000</b>
<b>Fordringer</b>			
Trade receivables	6	331 241 000	93 513 000
Other receivables	8	19 286 000	54 540 000
<b>Sum fordringer</b>		<b>350 527 000</b>	<b>148 053 000</b>
<b>Bankinnskudd, kontanter og lignende</b>			
Cash and cash equivalents	10	11 634 000	8 816 000
<b>Sum bankinnskudd, kontanter og lignende</b>		<b>11 634 000</b>	<b>8 816 000</b>
<b>Sum omløpsmidler</b>		<b>380 954 000</b>	<b>178 987 000</b>
<b>SUM EIENDELER</b>		<b>1 061 107 000</b>	<b>1 010 454 000</b>



### Balanse

Beløp i: USD	Note	2021	2020
<b>BALANSE - EGENKAPITAL OG GJELD</b>			
<b>Egenkapital</b>			
<b>Innskutt egenkapital</b>			
Share capital	11	177 000	177 000
Overkurs	11	73 914 000	73 914 000
Annen innskutt egenkapital	11	89 957 000	89 957 000
<b>Sum innskutt egenkapital</b>		<b>164 048 000</b>	<b>164 048 000</b>
<b>Opptjent egenkapital</b>			
Other equity	11	603 558 000	638 315 000
<b>Sum opptjent egenkapital</b>		<b>603 558 000</b>	<b>638 315 000</b>
<b>Sum egenkapital</b>		<b>767 606 000</b>	<b>802 363 000</b>
<b>Gjeld</b>			
<b>Langsiktig gjeld</b>			
Asset retirement obligations	12	62 991 000	60 559 000
<b>Sum avsetninger for forpliktelser</b>		<b>62 991 000</b>	<b>60 559 000</b>
<b>Annen langsiktig gjeld</b>			
<b>Sum langsiktig gjeld</b>		<b>62 991 000</b>	<b>60 559 000</b>
<b>Kortsiktig gjeld</b>			
Kortsiktig konserngjeld	5	145 801 000	67 122 000
Other short-term liabilities	8	82 515 000	78 176 000
Asset retirement obligations	12	2 196 000	2 196 000
<b>Sum kortsiktig gjeld</b>		<b>230 512 000</b>	<b>147 494 000</b>
<b>Sum gjeld</b>		<b>293 503 000</b>	<b>208 053 000</b>
<b>SUM EGENKAPITAL OG GJELD</b>		<b>1 061 109 000</b>	<b>1 010 416 000</b>



## Brønnøysundregistrene

### ÅRSREGNSKAP FOR REGNSKAPSÅRET 2021 - GENERELL INFORMASJON

Journalnummer: 2022 665212

#### Enheten

Organisasjonsnummer: 988 714 526  
Organisasjonsform: Aksjeselskap  
Foretaksnavn: DNO IRAQ AS  
Forretningsadresse: Dokkveien 1  
0250 OSLO

#### Regnskapsår

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Morselskap i konsern: Nei

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årsregnskapet til selskapet: Regnskapslovens alminnelige regler

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Brønnøysundregistrene, 19.07.2022



Organisasjonsnr: 988 714 526  
DNO IRAQ AS

## RESULTATREGNSKAP

Beløp i: USD	Note	2021	2020
<b>RESULTATREGNSKAP</b>			
<b>Inntekter</b>			
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Other equity	11	390 084 000	23 353 000
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Organisasjonsnr: 988 714 526  
DNO IRAQ AS

## BALANSE

Beløp i: USD Note 2021 2020

### BALANSE - EIENDELER

#### Anleggsmidler

##### Immaterielle eiendeler

Exploration assets and license interests	4	15 522 000	58 625 000
<b>Sum immaterielle eiendeler</b>		<b>15 522 000</b>	<b>58 625 000</b>

##### Varige driftsmidler

Oil and gas fields in development	4	77 775 000	
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Other fixed assets	4	0	0
<b>Sum varige driftsmidler</b>		<b>646 481 000</b>	<b>590 842 000</b>

##### Finansielle anleggsmidler

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<b>Sum finansielle anleggsmidler</b>		<b>18 150 000</b>	<b>182 000 000</b>

##### Sum anleggsmidler

		<b>680 153 000</b>	<b>831 467 000</b>
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#### Omløpsmidler

##### Varer

Inventories	9	18 793 000	22 118 000
<b>Sum varer</b>		<b>18 793 000</b>	<b>22 118 000</b>

##### Fordringer

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##### Sum omløpsmidler

		<b>380 954 000</b>	<b>178 987 000</b>
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##### SUM EIENDELER

		<b>1 061 107 000</b>	<b>1 010 454 000</b>
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### BALANSE - EGENKAPITAL OG GJELD

#### Egenkapital

##### Innskutt egenkapital



Share capital	11	177 000	177 000
Overkurs	11	73 914 000	73 914 000
Annen innskutt egenkapital	11	89 957 000	89 957 000
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Organisasjonsnr: 988 714 526  
DNO IRAQ AS

NOTEOPPLYSNINGER - SELSKAP - alle poster oppgitt i hele tall

Note  
1

#### Regnskapsprinsipper

Se note 1 i filvedlegg, noten overskrider maks antall tegn tilatt (9999).  
Det henvises til vedlegg for alle notene da selskapet IKKE er små.

Note  
3

Antall årsverk i regnskapsåret  
1042.00

Note  
3

#### Spesifisering av resultatregnskapet

##### Lønnskostnader

Lønn	Årets	Fjorårets
	0.00	0.00

##### Mer om årsverk og lønn

The company had 1,042 employees engaged in the operations in Kurdistan at yearend 2021 (977 at yearend 2020), all working in Kurdistan. No salaries or fees have been paid to Managing Director or to the Board in 2021. No loans or guarantees have been made to senior management in the parent company, shareholders, members of the Board or related parties to these. The company has no employees in Norway and is not required to have a mandatory occupational pension ("obligatorisk tjenstepensjon").

Note

##### Ekstraordinære inntekter og kostnader

Sum	Beløp
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Note  
4

##### Varige driftsmidler og immaterielle eiendeler

Balansført verdi 31.12.	Varige driftsmidler	Immaterielle eiend.
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Anskaffelseskost - balanseførte lånekostnader, egentilvirkede anleggsmidler

Goodwill spesifisert for hvert enkelt virksomhetskjøp

Avskrivningsplan for goodwill som er lenger enn fem år - begrunnelse

Mer om varige driftsmidler/immaterielle eiendeler

Note

1

Konsern, tilknyttet selskap m.v.

Investering som regnskapsføres etter egenkapitalmetoden

**Konsernregnskap**

Virksomheten inngår i konsolideringen til morselskapets konsernregnsk.: Ja

**Morselskapet sitt navn**

DNO ASA

**Forretningskontor for morselskapet**

Dokkveien 1, 0250 Oslo

Begrunnelse for at datterselskap er utelatt fra konsolideringen

Konsern, tilknyttet selskap m.v. - fordringer og gjeld

**Fordringer**

<u>Samlet beløp - tilknyttet selskap</u>	<u>Årets</u>	<u>Fjorårets</u>
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**Annen langsiktig gjeld**

<u>Samlet beløp - foretak i samme konsern</u>	<u>Årets</u>	<u>Fjorårets</u>
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<u>Samlet beløp - felles kontrollert virksomhet</u>	<u>Årets</u>	<u>Fjorårets</u>
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**Kortsiktig gjeld**

<u>Samlet beløp - foretak i samme konsern</u>	<u>Årets</u>	<u>Fjorårets</u>
	145801000.00	67122000.00

<u>Samlet beløp - felles kontrollert virksomhet</u>	<u>Årets</u>	<u>Fjorårets</u>
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**Samlet forpliktelse til fordel for foretak i samme konsern**

<u>Pantstillelse</u>	<u>Beløp</u>
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Garantier Beløp

## Mer om tilknyttet selskap/datterselskap

Short-term intercompany liabilities USD 145.8 million (USD 67.1 million at yearend 2020) is mainly with parent company DNO ASA and includes this years' additional dividends amounting to USD 420.0 million and the group contribution of USD 6.2 million.

## Note

6

## Fordringer

**Fordringer som forfaller senere enn ett år etter regnskapsårets slutt**  
18150000.00

## Mer om fordringer

Total book value of trade debtors of USD 349.4 million (current and non-current portion) at yearend 2021 relate to the Tawke license arrears for 2019 and 2020 entitlement and override invoices (USD 169.1 million), and outstanding invoices for Tawke license crude oil deliveries for the months October through December 2021 (USD 180.3 million). See also Note 15 regarding subsequent events after yearend 2021 (attached in filing) Normal payment terms apply to amounts owed to DNO by the KRG for oil sales and override invoices from the Tawke license in Kurdistan. Since late 2015, DNO received the payment due to it from oil sales and overrides on a monthly basis from the KRG until early 2020. At yearend 2020, the company had accumulated a receivable against the KRG after certain 2019 and 2020 entitlement and override payments to the company (USD 259 million DNO share) and other KRI oil exporters were withheld early in 2020 by the KRG in connection with the Covid-19 pandemic. Entitlement payments were resumed in March 2020 and override payments were resumed in early 2021. In December 2020, the KRG informed the international oil companies operating in Kurdistan of a payment plan whereby the KRG stated it would pay 50 percent of incremental revenue in any month in which Brent prices exceed USD 50 per barrel towards the arrears for 2019 and 2020. At yearend 2020, to incorporate the time value of money, the company reduced the book value of the Tawke license arrears by USD 16 million when comparing the book value of the arrears to the estimated present value. In May 2021, the KRG informed the international oil companies of revised terms reducing the payment of the arrears to 20 percent of incremental revenue in any month in which Brent prices exceed USD 50 per barrel. The KRG also advised that all international oil company invoices, including towards the arrears, will be settled within 60 days of receipt. The company expects at a minimum to recover the full nominal value of the withheld receivables, and DNO continues to work to improve the terms of recovery of the arrears, including but not limited to interest payments. During 2021, the outstanding arrears were reduced from USD 259 million at the start of the year to USD 169.1 million at yearend. At yearend 2021, the company made a re-run of the estimated present value, updated the Brent price assumptions resulting in a net increase in the book value of the arrears by USD 16 million, entirely reversing the financial expense recognized in 2020. Moreover, the classification of the receivables (current/non-current portion) was updated accordingly. The calculation of present value takes into account the most recent production forecasts for the Tawke license and the company's Brent price assumptions to determine the expected timing of payments towards the arrears plus contractual interests and reflects the probability-weighted amount for a range of possible scenarios including probability-weighted Brent price scenarios with a probability assigned to each. The discount rate applied reflects the company's cost of debt.

## Note



Beholdning av egne aksjer                      Antall                      Pålydende                      Andel av aksjek.

**Erverv**

Endringer i beholdning av aksjer i løpet av regnskapsåret

**Avhendelse**

Endringer i beholdning av aksjer i løpet av regnskapsåret

**Samvirkeforetak**

Vedtektsbestemmelser/årsmøtevedtak/forslag til vedtak om medlemskapskonti

**Mer om aksjer**

**Note**

3

**Lån og sikkerhetsstillelse til medlemmer**

Er det gitt lån eller sikkerhetsstillelse til ledende personer: Nei

**Opplysninger om:**

**Medlemmer av:**

**Mer om lån og sikkerhetsstillelse**

No salaries or fees have been paid to Managing Director or to the Board in 2021. No loans or guarantees have been made to senior management in the parent company, shareholders, members of the Board or related parties to these.



Statsautoriserte revisorer  
Ernst & Young AS

Dronning Eufemias gate 6a, 0191 Oslo  
Postboks 1156 Sentrum, 0107 Oslo

Foretaksregisteret: NO 976 389 387 MVA  
Tlf: +47 24 00 24 00

www.ey.no  
Medlemmer av Den norske Revisorforening

## INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of DNO Iraq AS

### Opinion

We have audited the financial statements of DNO Iraq AS (the Company), which comprise the balance sheet as at 31 December 2021, the income statement and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements comply with applicable legal requirements and give a true and fair view of the financial position of the Company as at 31 December 2021 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.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the requirements of the relevant laws and regulations in Norway and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other information

Other information consists of the information included in the annual report other than the financial statements and our auditor's report thereon. Management (the Board of Directors and Managing Director) is responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the board of directors' report contains the information required by legal requirements and whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information or that the information required by legal requirements is not included, we are required to report that fact.

We have nothing to report in this regard, and in our opinion, the board of directors' report is consistent with the financial statements and contains the information required by applicable legal requirements.

### Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the



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going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Oslo, 21 June 2022  
ERNST & YOUNG AS

*The auditor's report is signed electronically*

Jon-Michael Grefsrød  
State Authorised Public Accountant (Norway)

Independent auditor's report - DNO Iraq AS 2021

A member firm of Ernst & Young Global Limited

Penneo Dokumentnr: EPEB3-TGZE6-T7P16-Y04FY-VGP3Y-MOSPE



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## Jon-Michael Grefsrød

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**Skattedirektoratet**

Saksbehandler  
Jan Hoelstad

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24.11.2010

Vår dato  
14.12.2010

Telefon  
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Deres referanse  
Cathrine Manum

Vår referanse  
2010/1198508

DNO International ASA  
Postboks 1345 Vika  
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**Dispensasjon fra kravet om utarbeidelse av årsregnskap og årsberetning på norsk**

Det vises til deres brev av 24. november 2010 hvor det søkes om dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk språk for følgende heleide datterselskap av DNO International ASA:

- DNO Iraq AS                      Og. nr: 988 714 526
- DNO Yemen AS                    Og. nr: 984 308 736
- DNO Mozambique AS            Og. nr: 995 739 879

**Bakgrunn:**

Fra deres brev gjengis:

*"DNO International ASA er notert på Oslo Børs og fikk 28. mai 2010 dispensasjon fra regnskapslovens § 3-4 om å utarbeide årsregnskap og årsberetning på engelsk. Datterselskapenes virksomhet drives i sin helhet i henholdsvis Irak, Jemen og Mozambique. Selskapene har ingen ekstern finansiering, kun en lånefasilitet fra morselskapet. Selskapene har heller ingen ansatte. All kommunikasjon og alle avtaler blir gjort på engelsk.*

*De norske regnskapene utarbeides kun for å oppfylle språkkravene i regnskapsloven og foretaksregisteret. Årsregnskapene til datterselskapene publiseres heller ikke. Brukerne av regnskapene har i hovedsak vært ansatte i konsernet, slik at norsk oversettelse er følgelig et rent ekstraarbeid som påfører selskapene unødvendige kostnader og merarbeid."*

**Skattedirektoratets vurdering og konklusjon**

Etter regnskapsloven § 3-4 tredje ledd skal "årsregnskapet og årsberetningen ... være på norsk. Departementet kan ved ... enkeltvedtak bestemme at årsregnskapet og/eller årsberetningen kan være på et annet språk."

I Ot. prp. nr. 42 (1997-1998) Om lov om årsregnskap m.v., er det uttalt følgende om regnskapslovens formål, jf. pkt. 1.1:

*"Regjeringen har som siktemål at regnskapsloven skal bidra til informative regnskaper for ulike grupper av regnskapsbrukere. Regnskapsbrukerne er dels investorer og kreditorer som tilfører kapital til foretakene, og dels andre grupper som har interesse av å vite hvordan foretaket drives, f.eks. de ansatte og lokalsamfunnet. Informasjonen til kapitalmarkedet skal gi grunnlag for riktig prising av finansielle objekter. Riktig prisdannelse på aksjer er en forutsetning for at*

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*ressursbruken i samfunnsøkonomien skal bli best mulig. Gode regnskaper vil også gjøre det vanskeligere for markedsdeltakere å ta ut spekulasjonsgevinster med basis i skjevt fordelt informasjon.*

Det fremgår således at et av hovedformålene med regnskapsloven er å bidra til *"informative regnskaper for ulike grupper av regnskapsbrukere"*. Regnskapsbrukere vil omfatte, jf. uttalelsen i proposisjonen, blant andre investorer, kreditorer, ansatte og lokalsamfunnet. Offentlige myndigheter må også anses som en sentral regnskapsbruker, idet ulike myndigheter, som lignings- og tilsynsmyndigheter, benytter regnskapene som et verktøy i sin kontrollvirksomhet.

Det er etter Skattedirektoratets vurdering derfor avgjørende ved vurdering av om dispensasjon fra kravet til å utarbeide årsregnskap og/eller årsberetning på norsk, at det ikke foreligger mulige brukere av regnskapsinformasjon som blir negativt berørt ved en eventuell dispensasjon.

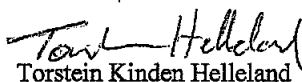
Som nevnt ovenfor er det særlig hensynet til brukerne av regnskapsinformasjonen som skal vurderes ved en dispensasjonssøknad. Selskapenes virksomhet skjer i sin helhet i utlandet, og de har ikke egne ansatte. Selskapenes eier er allerede innvilget tilsvarende dispensasjon.

Skattedirektoratet gir på bakgrunn av en helhetsvurdering de ovenfor nevnte selskapene dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk språk, jf. regnskapsloven § 3-4 tredje ledd.

Dispensasjonen forutsetter at engelsk språk benyttes i stedet ved utarbeidelsen, og at øvrige opplysninger som vedtaket baserer seg på, heller ikke endres vesentlig.

Vennligst oppgi vår referanse ved henvendelser i anledning saken.

Med hilsen

  
Torstein Kinden Helleland  
seniorrådgiver  
Rettsavdelingen, foretaksskatt  
Skattedirektoratet

  
Jan Hoelstad



## Annual Report 2021 DNO Iraq AS

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- Balance sheet
- Cash flow statement
- Notes

Org.no.: 988714526



## BOARD OF DIRECTORS' REPORT 2021

**DNO Iraq AS, Org.no. 988 714 526**

### INTRODUCTION

DNO Iraq AS (DNO or the company) was established in 2005 and is a wholly owned subsidiary of DNO ASA (the parent company). The company's business address is in Oslo, with a branch office in Erbil.

The company is engaged in exploration, development and production of crude oil in the Kurdistan region of Iraq (Kurdistan), and holds interests in two licenses, both through Production Sharing Contracts (PSCs). The Tawke license contains the producing Tawke and Peshkabar fields. The Baeshiqah license contains the Baeshiqah and Zartik structures.

License	Type	Status	Participating interest (paying interest) in %	Operator	Partners (participating interest)
<b>Tawke PSC</b>	Onshore	Production	75 (75)	DNO Iraq AS	Genel Energy International Limited (25 percent)
<b>Baeshiqah PSC</b>	Onshore	Development	64 (80)	DNO Iraq AS	Turkish Energy Company Limited (16 percent), Kurdistan Regional Government (20 percent carried interest)

### OPERATIONAL REVIEW

#### EXPLORATION, APPRAISAL, FIELD DEVELOPMENT AND PRODUCTION

##### *Tawke license*

Gross production from the Tawke license, containing the Tawke and Peshkabar fields, averaged 108,713 barrels of oil per day (bopd) during 2021 (110,282 bopd in 2020). The Tawke field contributed 46,933 bopd (57,570 bopd in 2020) and Peshkabar field contributed 61,780 bopd (52,712 bopd in 2020). Net production averaged 81,535 bopd in 2021 (82,711 bopd in 2020)<sup>1</sup>.

Drilling at the Tawke field resumed in the third quarter of 2021 after an 18-month pause. With few new wells, production decline has been partially offset by gas injection and workovers. At yearend, four new Tawke field development wells had been spudded, in addition to four Peshkabar wells spudded during the year.

DNO's USD 110 million Peshkabar-Tawke gas project, which was commissioned in mid-2020, captured and injected 7.6 billion cubic feet (461,500 tonnes of CO<sub>2</sub>) of Peshkabar gas that would otherwise have been flared into the Tawke field in 2021.

##### *Baeshiqah license*

In August 2021, the Kurdistan Regional Government (KRG) approved DNO's acquisition of ExxonMobil Kurdistan Region of Iraq Limited's (ExxonMobil) remaining 32 percent interest in the Baeshiqah license, doubling DNO's operated stake. In parallel, commerciality was declared on the license and a development plan was submitted. Shortly before yearend, the first phase field development plan for the license was approved by the KRG, clearing the way for a fast-track project to deliver early production from previously drilled but suspended discovery wells.

### RESERVES

On a net basis at yearend 2021, proven (1P) reserves totaled 162.2 MMbbls (175.8 MMbbls at yearend 2020) and proven and probable (2P) reserves totaled 267.4 million barrels oil (MMbbls) (295.4 MMbbls at yearend 2020).

<sup>1</sup> Effective from 2021, the company reports its net production and reserves based on the percentage ownership in its licenses. Prior to 2021, DNO reported its net figures from licenses governed by PSCs on a Company Working Interest (CWI) basis. Comparison figures are updated accordingly.



## **GOING CONCERN ASSUMPTION**

As required under the Norwegian Accounting Act, the company's Board of Directors conducted a review of the going concern assumption considering all relevant information available up to the date these financial statements are issued and taking into account all available information about the future, for at least 12 months from the reporting date. The Board of Directors' review included in particular assessment of the company's projected cash reserves and access to financing from the parent company considering its operational outlook and work program.

The Board of Directors has continued to monitor the uncertainty caused by the Covid-19 pandemic and its effects on the global economy and supply chains. The Board of Directors also monitors developments following the February 2022 ruling by the Federal Supreme Court of Iraq (FSCI) on the KRG's constitutional rights and powers as regards oil and gas, see below under the section on enterprise risk management. In the going concern assessment the Board of Directors has considered any delays to settlement of receivables from the KRG. In such case, the Board of Directors would review the expenditure levels at the Tawke and Baeshiq licenses.

The Board of Directors noted the company's current cash flow based on the significant improvement in oil prices and the company's reported remaining oil reserves that permit cash flow generation covering the forecast period.

Stress testing was carried out at lower oil price scenarios. Sufficient liquidity can be maintained both through the going concern assessment period in the base case and the stress test scenarios.

Following its review, the Board of Directors confirms, pursuant to the Norwegian Accounting Act section 3-3a, that the requirements of the going concern assumption are met and that these financial statements have been prepared on that basis.

## **ENTERPRISE RISK MANAGEMENT**

The objective of the company's risk management is to identify potential exposures that may impact the company and to manage identified risks within strict guidelines while pursuing our business objectives. We review our risk profile on a quarterly basis, incorporating industry-recognized risk identification and quantification processes. The Board of Directors of the parent company and its committees also regularly monitor the company's risk management systems and internal controls.

### *Financial risk*

Risks related to oil and gas prices, interest rates and currency exchange rates, liquidity risk, concentration risk and credit risk constitute financial risks for the company. In order to minimize any potentially adverse effects from such risks, financial risk is managed by the DNO group finance function under policies approved by the Board of Directors of the parent company. For more information about how we manage financial risk, see Note 1.

### *Entitlement risk*

The company has based its entitlement calculations on the terms of the Tawke PSC and Baeshiq PSC. The company notes from public reports that on 15 February 2022, the FSCI ruled on the KRG's constitutional rights and powers as regards oil and gas. Reportedly, the FSCI found amongst other things that the Kurdistan Oil and Gas Law No. 27/2007 is unconstitutional, that the KRG is to hand over all oil production from areas located in the KRI to the FGI and that the FGI has the right to pursue the nullification of the oil contracts concluded by the KRG. According to media reports, the KRG and the Federal Government of Iraq (FGI) have met to discuss how the ruling is to be followed up, but have not reached agreement to date. Meanwhile, the KRG (including the Judicial Council of the Kurdistan Region of Iraq) has made several statements denouncing the ruling, firmly maintaining that KRG oil and gas operations are constitutional and that it will "take all constitutional, legal, and judicial measures to protect and preserve all contracts made in the oil and gas sector". In mid-May, the FGI took steps to initiate legal proceedings in Baghdad courts against certain international oil companies to pursue the nullification of certain PSCs in Kurdistan. The KRG has responded by initiating legal proceedings against FGI in Erbil courts. At present, normal operations are maintained at the Tawke and Baeshiq licenses and it is not possible to establish any future implications with any certainty.



Due to disagreements between the FGI and the KRG, economic conditions in Kurdistan and limited available export channels, the company has historically faced constraints in fully monetizing the oil it produces in Kurdistan. Following the ruling and pending definite follow up by the KRG and FGI, constraints remain. There is no guarantee that oil and gas can be exported in sufficient quantities or at prices required to sustain its operations and investment plans or that the company will promptly receive its full entitlement payments for the oil and gas it delivers for export. Export sales have not always followed the PSC terms and there has been uncertainty related to receipt of payments. The company has accumulated a receivable against the KRG after certain 2019 and 2020 entitlement and override payments to the company and other KRI oil exporters were withheld early in 2020 by the KRG in connection with the Covid 19 pandemic. Entitlement payments were resumed in March 2020 and override payments were resumed in early 2021. In December 2020, a plan was put in place by the KRG to pay the international oil companies operating in Kurdistan 50 percent of incremental revenue in any month in which Brent prices exceed USD 50 per barrel towards the arrears for 2019 and 2020. In May 2021, the KRG informed the international oil companies of revised terms reducing the payment of the arrears to 20 percent of incremental revenue in any month in which Brent prices exceed USD 50 per barrel. The KRG also advised that all international oil company invoices, including towards the arrears, will be settled within 60 days of receipt. The company expects at a minimum to recover the full nominal value of the withheld receivables and continues to work to improve the terms of recovery of the arrears, including but not limited to interest payments. During 2021, the outstanding arrears were reduced from USD 259 million at the start of the year to USD 169 million at yearend, see Note 6.

#### *Operational risk*

The company is exposed to operational risks across its portfolio. Operational risk applies to all stages of upstream operations, including exploration, development and production. Failure to manage operations efficiently can manifest itself in project delays, cost overruns, higher-than-estimated operating costs and lower-than-expected oil and gas production and/or reserves. Exploration activities are capital intensive and involve a high degree of geological risk. Sustained exploration failure can affect the future growth and upside potential of the company.

Our ability to effectively manage and deliver value from our exploration, development and production activities is dependent on the quality of our staff and contractors. Inefficiency or interruption to our supply chain or the unwillingness of service contractors to engage in our areas of operation may also negatively affect operations.

Although Covid-19 and related restrictions continued to affect the company's operations in 2021, the company managed to avoid any major business disruptions from the pandemic.

#### *Environmental risk*

Oil and gas exploration and production, by its nature, involves exposure to potentially hazardous materials. The loss of containment of hydrocarbons or other dangerous substances could represent material risks. Through our operational controls, environmental impact assessments, asset integrity protocols and management systems related to health, safety and the environment, we aim to mitigate hazards with a potentially adverse impact on people, the environment, our assets, our profitability and our reputation.

#### *Climate-related risk*

Based on the company's assessment, the most important climate-related risks relate to uncertainty over future oil and gas demand, future commodity prices and CO2 pricing. Increasing concerns about climate-related risk may affect investor appetite for oil and gas investments, inhibiting the parent company's ability to obtain funding, and also reduce the company's attractiveness as an employer and business partner.

In Kurdistan, the Government in 2021 introduced a requirement for oil companies to put plans in place to curb gas flaring and thus reduce emissions. While the company is a pioneer in flaring reduction measures in Kurdistan, having built the first gas capture and injection facilities in the region at the Tawke license, stricter policies or sanctions may add to the company's operational cost.

In preparing these financial statements, management has considered the impact of climate-related risks by assessing the potential effects of stricter climate policies on its oil and gas portfolio. To assess the robustness of its oil and gas assets, the company has run sensitivities with the oil price assumptions described by scenarios outlined by the International Energy Agency (IEA) in their World Energy Outlook (WEO) reports, namely the Stated Policies Scenario and the Sustainable Development Scenario. Based on this limited scenario analysis, the company does not note any significant impact on its book values of oil assets (see Note 4) or development projects.



In addition to the financial aspects mentioned above, climate change may represent a physical risk to personnel and facilities in the form of increased frequency and severity of extreme weather events, flooding and erosion.

#### *Security risk*

Although the company operates in a region with security risks, we continuously work to manage these risks through clearly defined security protocols and practices. Nevertheless, the company remains dependent, to some extent, on the quality of the security and protection provided by the KRG.

#### *Compliance risk*

The company has a policy of zero tolerance for corruption, bribery and other illegal or inappropriate business conduct. Violations of compliance laws and contractual obligations can result in fines and a deterioration in the company's ability to effectively execute its business plans. The company adheres to a strict and comprehensive conflict of interest policy, trade sanctions and other policies focused around the company's Code of Conduct to ensure regulatory and company expectations are met.

The company encourages its personnel to raise concerns about unethical or illegal behavior and breaches of the company's Code of Conduct or other company policies. The company also has a confidential channel for those who wish to raise such matters in strict privacy or anonymously.

#### *Political risk*

Relevant political developments on both the federal and regional level in Iraq is closely observed by the company.

### **EQUAL OPPORTUNITIES, WORK ENVIRONMENT AND PERSONNEL**

The company had a total workforce of 1,042 employees engaged in its operations in Kurdistan at yearend 2021 (997 at yearend 2020). The company aims to be a workplace with equal opportunities and has included in its policies regulations to prevent gender discrimination regarding salary, promotion and recruiting.

### **DIRECTORS' AND OFFICERS' INSURANCE**

The company has directors' and officers' liability insurance which covers the cost of compensation claims made against the company's directors and key managers (officers) for alleged wrongful acts.

### **HEALTH, SAFETY, SECURITY AND ENVIRONMENT (HSSE)**

The parent company has a HSSE system and established HSSE standards, which apply to the company.

Our HSSE standards, procedures and protocols are based on the following principles:

- Avoid harm to all personnel involved in, or affected by, our operations;
- Minimize and where possible eliminate the impact of our operations on the environment;
- Comply with all applicable legal and regulatory requirements; and
- Achieve continuous improvement in HSSE performance.



**COMMENTS TO THE FINANCIAL STATEMENTS**

Total revenue in 2021 stood at USD 594.3 million, up from USD 369.1 million in 2020 on the back of high oil prices partially offset by lower entitlement production.

Total operating expenses were USD 226.4 million in 2021 compared to USD 337.0 million in 2020. The lower operating expenses are primarily due to lower depreciation per barrel following an upward revision in entitlement reserves and reduction in future development expenditures necessary to bring those reserves into production, both applied in the calculation of depreciation for the Tawke license oil assets.

The company reported an operating profit of USD 367.9 million in 2021, up from USD 32.2 million during 2020. Net profit for 2021 was USD 390.1 million (USD 23.4 million in 2020).

Net cash flows from operating activities was USD 520.9 million in 2021 (USD 294.1 million in 2020). The difference compared to the operating profit (above) is mainly related to ordinary depreciation. Total investments for the company in 2021 amounted to USD 98.1 million (USD 92.6 million in 2020).

The company ended the year with USD 11.6 million in cash and cash equivalents (USD 8.8 million at yearend 2020).

Total assets at yearend 2021 were USD 1,061.1 million (USD 1,010.5 million in 2020) and the equity ratio was 72 percent (79 percent in 2020). Two additional dividends each of USD 210.0 million were recognized in 2021.

Oslo, 21 June 2022

Bjørn Dale  
Managing Director

Christopher Spencer  
Chairman

Haakon Sandborg  
Board member



## DNO Iraq AS

### Income statement (USD thousand)

		1 January - 31 December	
	<b>Note</b>	<b>2021</b>	<b>2020</b>
<b>OPERATING REVENUE</b>			
Operating revenue, oil and gas	2	594,275	369,139
<b>Total operating revenue</b>		<b>594,275</b>	<b>369,139</b>
<b>OPERATING EXPENSES</b>			
Production expenses	3	99,820	93,093
Exploration expenses		2,923	2,990
Depreciation	4	120,889	239,135
Other operating expenses	3	2,741	1,746
<b>Total operating expenses</b>		<b>226,373</b>	<b>336,963</b>
<b>OPERATING PROFIT/-LOSS</b>		<b>367,902</b>	<b>32,176</b>
<b>FINANCIAL INCOME AND EXPENSES</b>			
Other financial income	6	24,303	642
Interest income from group entities	5	9,786	9,830
Net gain/-loss on foreign exchange transactions		-0	1,683
Other financial expenses	6	-10,542	-20,978
<b>Net financial income/-expenses</b>		<b>23,547</b>	<b>-8,823</b>
<b>PROFIT/-LOSS BEFORE TAX</b>		<b>391,449</b>	<b>23,353</b>
Tax income/-expense	7	-1,365	-
<b>NET PROFIT/-LOSS</b>		<b>390,084</b>	<b>23,353</b>



## DNO Iraq AS

### Balance sheet (USD thousand)

<u>Assets</u>	<u>Note</u>	Years ended 31 December	
		<u>2021</u>	<u>2020</u>
<b>NON-CURRENT ASSETS</b>			
<b>Intangible assets</b>			
Exploration assets and license interests	4	15,522	58,625
<b>Total intangible assets</b>		<b>15,522</b>	<b>58,625</b>
<b>Fixed assets</b>			
Oil and gas fields in development	4	77,775	-
Oil and gas fields in production	4	568,705	590,842
Other fixed assets	4	-	-
<b>Total fixed assets</b>		<b>646,481</b>	<b>590,842</b>
<b>Financial assets</b>			
Non-current trade receivables	6	18,150	182,000
<b>Total financial assets</b>		<b>18,150</b>	<b>182,000</b>
<b>Total non-current assets</b>		<b>680,152</b>	<b>831,466</b>
<b>CURRENT ASSETS</b>			
Inventories	9	18,793	22,118
Trade receivables	6	331,241	93,513
Other receivables	8	19,286	54,540
Cash and cash equivalents	10	11,634	8,816
<b>Total current assets</b>		<b>380,954</b>	<b>178,987</b>
<b>TOTAL ASSETS</b>		<b>1,061,108</b>	<b>1,010,454</b>



## DNO Iraq AS

### Balance sheet (USD thousand)

		Years ended 31 December	
<b>Equity and liabilities</b>	<b>Note</b>	<b>2021</b>	<b>2020</b>
<b>EQUITY</b>			
<b>Paid-in capital</b>			
Share capital	11	177	177
Share premium	11	73,914	73,914
Other paid-in capital	11	89,957	89,957
<b>Total paid-in capital</b>		<b>164,048</b>	<b>164,048</b>
<b>Retained earnings</b>			
Other equity	11	603,558	638,315
<b>Total retained earnings</b>		<b>603,558</b>	<b>638,315</b>
<b>Total equity</b>		<b>767,606</b>	<b>802,362</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Asset retirement obligations	12	62,991	60,599
<b>Total non-current liabilities</b>		<b>62,991</b>	<b>60,599</b>
<b>Current liabilities</b>			
Intercompany liabilities	5	145,801	67,122
Other short-term liabilities	8	82,515	78,176
Asset retirement obligations	12	2,196	2,196
<b>Total current liabilities</b>		<b>230,511</b>	<b>147,494</b>
<b>Total liabilities</b>		<b>293,503</b>	<b>208,093</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,061,108</b>	<b>1,010,454</b>

Oslo, 21 June 2022

  
Bjørn Dale  
Managing Director

  
Haakon Sandborg  
Board member

  
Christopher Spencer  
Chairman



## DNO Iraq AS

### Cash flow statement (USD thousand)

		1 January - 31 December	
	<b>Note</b>	<b>2021</b>	<b>2020</b>
<b>Cash flows from operating activities</b>			
Profit/-loss before tax		391,449	23,353
<b>Adjustments to add/-deduct non-cash items:</b>			
Taxes paid for the period	7	-	-
Depreciation	4	120,889	239,135
Impairment		-	-
Accretion	12	2,242	2,162
Other*		-19,162	16,000
<b>Changes in working capital and provisions:</b>			
- Inventories		3,325	-9,853
- Trade and other receivables		-54,624	-16,400
- Other current assets and short-term liabilities		76,812	39,684
<b>Net cash flows from operating activities</b>		<b>520,931</b>	<b>294,081</b>
<b>Cash flows from investment activities</b>			
Purchases of intangible and tangible assets	4	-98,113	-92,589
<b>Net cash flows from investment activities</b>		<b>-98,113</b>	<b>-92,589</b>
<b>Cash flows from financing activities</b>			
Payment of dividends		-420,000	-200,000
<b>Net cash flows from financing activities</b>		<b>-420,000</b>	<b>-200,000</b>
Net change in cash and cash equivalents		2,818	1,492
Cash and cash equivalents at the beginning of the period		8,816	7,324
<b>Cash and cash equivalents at the end of the period</b>		<b>11,634</b>	<b>8,816</b>

\*In prior years accretion expense was included in Other. Effective from 2021, this is shown in separate lines. Comparable figures are updated accordingly. Other consist mainly of a non cash adjustment to the trade receivables in both periods, see Note 6. In addition to a non cash adjustmet related to inventory in 2021, see Note 9.



## Note 1 Accounting principles

### Basis for preparation

The financial statements of DNO Iraq AS (the company or DNO) have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting principles in Norway. The accompanying notes are an integral part of the financial statements.

These financial statements have been prepared based on a going concern assumption.

The company is part of the consolidated financial statements of DNO ASA. The consolidated financial statements of DNO ASA can be retrieved from [www.dno.no](http://www.dno.no) or printed copies can be ordered by an inquiry to DNO ASA.

### Significant accounting estimates and assumptions

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues and expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities at the reporting date. Estimates and assumptions are based on management's best knowledge and historical experience and various other factors that are believed to be reasonable under the circumstances. Uncertainty about these estimates and assumptions could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The company based its assumptions and estimates on parameters available when the company's financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the company. Such changes are reflected in the assumptions when they occur.

The key assumptions and key sources of estimation uncertainty for the company are:

- Risks associated with operating in Kurdistan;
- Reserves and resources estimate;
- Contingencies, provisions and litigations;
- Impairment/reversal of impairment of oil and gas assets;
- Measurement of fair values;
- Accounting for exploration costs; and
- Notional corporate income tax/deferred taxation in Kurdistan.

#### *Risks associated with operating in Kurdistan*

The company has based its entitlement calculations on the terms of the Tawke PSC and Baeshiq PSC. The company notes from public reports that on 15 February 2022, the FSCI ruled on the KRG's constitutional rights and powers as regards oil and gas, see Note 15. At present, normal operations are maintained at the Tawke and Baeshiq licenses and it is not possible to establish any future implications with any certainty.

Due to disagreements between the FGI and the KRG, economic conditions in Kurdistan and limited available export channels, DNO has historically faced constraints in fully monetizing the oil it produces in Kurdistan. Following the ruling and pending definite follow up by the KRG and FGI, constraints remain. There is no guarantee that oil and gas can be exported in sufficient quantities or at prices required to sustain its operations and investment plans or that the company will promptly receive its full entitlement payments for the oil and gas it delivers for export. Export sales have not always followed the PSC terms and there has been uncertainty related to receipt of payments. The company has accumulated a receivable against the KRG after certain 2019 and 2020 entitlement and override payments to the company and other KRI oil exporters were withheld early in 2020 by the KRG in connection with the Covid-19 pandemic. Entitlement payments were resumed in March 2020 and override payments were resumed in early 2021. See Note 6 for further details on estimates and judgement on recoverability. Management monitors development and continuously ensures that revenue recognition criteria is met.



### *Reserves and resources estimate*

The company's reserves and contingent resources are estimated and classified by the company in accordance with the rules and guidelines of the Society of Petroleum Engineers (SPE) and are in conformity with requirements from the Oslo Stock Exchange for the reporting of reserves and resources.

All estimates of reserves and resources involve uncertainty. International petroleum consultants DeGolyer and MacNaughton (D&M) carried out an independent assessment of the Tawke license (containing the Tawke and Peshkibir fields) and the Baeshiqa license (containing the Baeshiqa and Zartik structures) in the Kurdistan region of Iraq. Figures reported in Note 13 are the estimated proven (1P) and proven and probable (2P) quantities of oil and gas that can be recovered from a field or reservoir given the information available at yearend.

Important factors that could cause actual results to differ from the estimates include, but are not limited to: technical, geological and geotechnical conditions; economic and market conditions; oil and gas prices; changes in government regulations; political development; interest rates; and 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; production decline rates; gas/oil ratios; and oil properties.

Changes in commodity prices and costs may impact economic cut-off and remaining reserves, which may change the timing of assumed decommissioning activities. Future changes to estimated reserves can also have a material effect on depreciation, impairment of oil and gas fields and operating results. The company may also not be able to commercially develop its contingent resources that are used in impairment assessments or acquisition accounting where the fair value approach is applied.

### *Contingencies, provisions and litigations*

By their nature, contingencies will only be resolved when one or more uncertain future event occurs or fails to occur. The assessment of the existence and potential quantum of contingencies inherently involves the exercise of significant judgment and the use of estimates regarding the outcome of future events. Management must use its judgment to evaluate certain provisions and legal disputes in order to ensure the correct accounting treatment. This includes the assessment of future asset retirement obligations (ARO), any provisions or contingent payments.

### *Asset retirement obligations*

The company has recognized significant provisions relating to the decommissioning of oil and gas assets at the end of the production period. Obligations associated with decommissioning assets are recognized at present value of future expenditures on the date they incur. At the initial recognition of an obligation, the estimated cost is capitalized as property, plant and equipment (PP&E) and depreciated over the useful life of the asset (typically by unit-of-production).

It is difficult to estimate the costs for decommissioning at initial recognition as these estimates are based on currently applicable laws and regulations and are dependent on technological developments. Decommissioning activities will normally take place in the distant future, and the technology and related costs may change. As a result, the initial recognition of the liability and the capitalized cost associated with decommissioning obligations, and the subsequent adjustment of these balance sheet items, involve the application of significant judgement. Based on the described uncertainty, there may be significant adjustments in estimates of liabilities that can affect future financial results.

### *Impairment/reversal of impairment of oil and gas assets*

The company has recognized significant investments in development and production assets (classified under PP&E) and exploration and evaluation assets (classified under intangible assets). Changes in the circumstances or expectations of future performance of an individual asset or a group of assets may be an indicator that the asset is impaired, requiring the carrying amount to be written down to its recoverable amount. 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 includes assessments of expected future cash flows and future market conditions, including entitlement production, future oil prices, cost profiles, country risk factors (i.e., discount rate) and the date of expiration of the licenses.



Impairments are reversed if the conditions for impairment are no longer present. Evaluating whether an asset is impaired or if an impairment should be reversed requires a high degree of judgment.

#### *Climate considerations in impairment assessment*

Climate change and transition to a lower carbon economy is considered in the impairment assessments. In the context of assessing the potential impact on the book values related to the company's oil assets, certain climate considerations are factored into the company's estimation of cash flows that are applied in the calculation of recoverable amount. This includes factoring in current legislation (e.g., environmental taxes/fees) and estimation of future levels of environmental taxes. An energy transition is likely to impact the future oil and gas prices which in turn may affect the recoverable amount of the oil and gas assets. Indirectly, climate considerations are also assessed in the forecasting of oil prices where supply and demand are considered.

In the context of testing robustness of the oil and gas assets against the scenarios from the International Energy Agency (IEA), the company has applied the Stated Policies Scenario and Sustainable Development Scenario as published by the IEA as part of the World Energy Outlook (WEO) reports. These scenarios are commonly applied by peer companies and the company believes are useful to investors and other stakeholders in assessing portfolio resilience across companies in the industry. For more details, see Note 4.

#### *Measurement of fair values*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk, assuming that market participants act in their economic best interest. There are situations when the company is required to measure fair values of non-financial assets and liabilities, for example when the company measures the recoverable amount of an asset at fair value less costs to sell in an impairment testing situation.

Fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value. The fair value of oil and gas assets is normally based on discounted cash flow models (income approach), where the determination of different inputs in the model requires significant judgment from management, as described in the section above regarding impairment.

#### *Accounting for exploration costs*

The company's accounting policy is to temporarily capitalize drilling expenditures related to exploration wells, pending an evaluation of potential oil and gas discoveries. If resources are not discovered, or if recovery of the resources is not considered technically or commercially viable, the costs of the exploration wells are expensed in the income statement. Decisions as to whether an exploration well should remain capitalized or expensed during the period may have a material effect on the financial results for the period.

#### *Notional corporate income tax/deferred tax liability in Kurdistan*

Under the terms of the PSCs in Kurdistan, the company is not required to pay any corporate income taxes. The share of profit oil which the government is entitled to is deemed to include a portion representing the notional corporate income tax paid by the government on behalf of DNO. Current and deferred taxation for accounting purposes arising from such notional corporate income tax is not recognized for Kurdistan as it has not been possible to measure reliably such notional corporate income tax paid on behalf of DNO. This is an accounting presentational matter and there is no corporate income tax required to be paid, see also Note 10.



## **Interest in oil and gas licenses**

The company recognizes its investments in oil and gas licenses by reporting its share of related revenues, expenses, assets, liabilities and cash flows under the respective items in the company's financial statements.

## **Functional currency**

The financial statements are presented in US Dollars (USD), which is also the functional currency of the company. Cash items denominated in foreign currencies are converted using exchange rates on the balance sheet date. Realized and unrealized currency gains and losses are included in the annual profit or loss.

## **Transaction and balances**

Foreign currency transactions are translated into functional currency of the company using the exchange rates prevailing at the dates of the transactions. Financial assets and financial 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 recognized in profit or loss. Those arising in respect of financial assets and liabilities are recorded on a net basis as a financial item.

## **Classification in the balance sheet**

Current assets and current liabilities include items due less than one year from the balance sheet date, and if longer, items related to the operating cycle. The current portion of non-current liabilities is included under current liabilities. Other assets and liabilities are classified as non-current assets and non-current liabilities.

## **Property, plant and equipment**

### *General*

PP&E are recognized at historical cost and adjusted for depreciation, depletion and amortization (DD&A) and impairment charges.

Depreciation of PP&E other than oil and gas assets are generally depreciated on a straight-line basis over expected useful lives, normally varying from three to seven years. Expected useful lives are reviewed at each balance sheet date and, where there are changes in estimates, depreciation periods are changed accordingly.

The carrying amount of the PP&E in the balance sheet represents the cost less accumulated DD&A and accumulated impairment charges.

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 repairs and maintenance is included in the asset's carrying amount when it is likely that the company will derive future financial benefits exceeding 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 held for sale are reported at the lower of the carrying amount and the fair value, less selling costs.

### *Exploration and development costs for oil and gas assets*

Capitalized exploration expenditures are classified as intangible assets and reclassified to tangible assets (i.e., PP&E) at the start of the development. For accounting purposes, an oil and gas field is considered to enter the development phase when the technical feasibility and commercial viability of extracting oil and gas from the field are demonstrable, normally at the time of concept selection. All costs of developing commercial oil and gas fields are capitalized, including indirect costs. Capitalized development costs are classified as tangible assets (i.e., PP&E). Pre-development expenditures up until development project sanction in general do not meet the criteria for capitalization and are expensed as incurred.

Acquired license rights are recognized as intangible assets at the time of acquisition. Acquired license rights related to fields in the exploration phase remain as intangible assets when the related fields enter the development or production phase.



### *Oil and gas assets in production*

Capitalized costs for oil and gas assets are depreciated using the unit-of-production (UoP) method. The rate of depreciation is equal to the ratio of oil and gas production for the period over the estimated remaining 2P net entitlement (NE) reserves 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 based on current period-end un-escalated price levels. The reserve basis used for depreciation purposes is updated at least once a year. Any changes in the reserves affecting UoP calculations are reflected prospectively.

### *Component cost accounting/decomposition*

The company allocates the amount initially recognized in respect of an item of PP&E to its significant parts and depreciates separately each such part over its useful life.

### *Borrowing costs*

Interest costs directly attributable to the construction phase of PP&E assets are capitalized during the period required to complete and prepare the asset for its intended use. Borrowing costs consist of interest and other costs that the company incurs in connection with the borrowing of funds.

Other borrowing costs are expensed when incurred. The capitalization of borrowing costs is recorded based on the average interest rate for the company in the period. The capitalized borrowing costs cannot exceed the actual borrowing costs in each period.

## **Intangible assets**

### *General*

Intangible assets are stated at cost, less accumulated amortization and accumulated impairment charges. Intangible assets include acquisition costs for oil and gas licenses, expenditures on the exploration for oil and gas resources, goodwill and other intangible assets.

The useful lives of intangible assets are assessed as either finite or infinite. Amortization of intangible assets is based on the expected useful economic life and assessed for impairment whenever there is an indication that the intangible asset might be impaired. The impairment assessment of intangible assets with infinite lives is undertaken annually or more often if indicators exist.

### *Exploration and evaluation assets*

The company uses the successful efforts method to account for its exploration and evaluation assets. All exploration costs (including purchase of seismic, geological and geophysical costs and general and administrative costs), except for acquisition costs of licenses and drilling costs of exploration wells, are expensed as incurred. Acquisition costs of licenses and drilling costs of exploration wells are temporarily capitalized pending the determination of oil and gas resources.

These costs include directly attributable employee remuneration, materials and fuel used, rig costs and payments to contractors. Continued capitalization of such costs is assessed for impairment at each reporting date. The main criterion is that there must be plans for future activity in the license or that a development decision is expected in the near future. If reserves or resources are not found, or if discoveries are assessed not technically or commercially recoverable, the costs of exploration wells and licenses are expensed.

### **Impairment/reversal of impairment**

At the end of each reporting period, the company assesses whether there is any indication that an asset may be impaired. If an impairment indicator is concluded to exist, an impairment test is performed.

Indications of impairment may include a decline in the long-term oil price (or short-term oil price for late-life oil and gas fields), changes in future investments or significant downward revision of reserve and resource estimates. For the purposes of impairment assessment, assets are grouped at the lowest levels for which there are separable identifiable cash inflows (i.e., CGU). For oil and gas assets, a CGU may be individual oil and gas fields, or a group of oil and gas fields that are connected to the same infrastructure/production facilities, or a license.

An impairment loss is recognized when the carrying amount exceeds the recoverable amount of an asset. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.



Fair value less costs to sell determined through either the discounted cash flow method (income approach) or the market transactions method (market approach). The value in use can only be determined through the discounted cash flow method.

A previously recognized impairment loss is reversed through the income statement if the circumstances that gave rise to the impairment no longer exist. It is not reversed to an amount that would be higher than if no impairment loss had been recognized. 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.

### **Inventories**

Inventories are valued at the lower of cost and net realizable value. Cost is determined by the first-in, first-out (FIFO) method. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated selling expenses.

### **Revenue recognition Kurdistan**

The company generates revenues in Kurdistan through the sale of oil produced from the Tawke license which is exported by pipeline through Turkey. The title is considered to have passed on delivery of oil to the export pipeline at Fish Khabur. In addition, pursuant to a receivables settlement agreement with the KRG in August 2017, the company is entitled to production overrides (override) representing three percent of gross Tawke license revenues until 31 July 2022. The company recognizes revenues in Kurdistan in line with the invoiced oil sales and overrides following monthly deliveries to the KRG.

The price for oil deliveries to the KRG is based on Brent prices with deductions for oil quality and transportation fees.

### **Production Sharing Contracts**

A PSC is an agreement between a contractor and a host government, whereby the contractor bears all of the risks and costs for exploration, development and production in return for a stipulated share of production.

The contractor recovers the sum of its investment and operating costs from a percentage of production (cost oil). In addition, the contractor is entitled to receive a share of production in excess of cost oil (profit oil). The sum of cost oil attributable to the contractor's share of costs and the share of profit oil represents the contractor's entitlement under a PSC. The sum of royalties and the government's share of profit oil, including that of a government-controlled enterprise, represents the government take under a PSC.

The company presents its operations governed by PSCs according to the sales method and only recognizes its sales as revenue after deduction of government take.

### **Income taxes**

Tax income/-expense consists of taxes receivable/-payable and changes in deferred tax. Taxes payable are calculated based on taxable profits. Deferred tax and deferred tax assets are calculated on all taxable temporary differences, provided that both of the following conditions are satisfied:

- The company is able to control the timing of the reversal of the temporary differences; and
- It is probable that the temporary differences will reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are recognized irrespective of when the differences are reversed. They are recognized at their nominal value and classified as non-current assets (non-current liabilities) in the balance sheet.

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

A deferred tax asset is recognized only to the extent that it is probable that the future taxable income will be available against which the asset can be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.



Deferred tax assets and deferred tax liabilities are offset in the balance sheet if there is a legal right to settle current tax amounts on a net basis and the deferred tax amounts are levied by the same taxing authority on the same entity or different entities that intend to realize the asset and settle the liability at the same time.

Under the terms of the PSCs in Kurdistan, the company is not required to pay any corporate income taxes. The share of profit oil which the KRG is entitled to is deemed to include a portion representing the notional corporate income tax paid by the KRG on behalf of the company. Current and deferred taxation arising from such notional corporate income tax is not calculated for Kurdistan, as there is uncertainty related to the tax laws of the KRG and there is currently no well-established tax regime for international oil companies. As such, it has not been possible to reliably measure such notional corporate income tax deemed to have been paid on behalf of the company. This is an accounting presentational issue and there is no tax required to be paid by the company.

Profits/-losses by Norwegian companies from foreign upstream activities outside of Norway are not taxable/deductible in Norway in accordance with the General Tax Act, section 2-39. Under these rules only certain financial income and expenses are taxable in Norway.

#### **Farm-in and farm-out**

A farm-in or farm-out of an oil and gas license takes place 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 an agreed upon consideration and/or action, such as conducting subsurface studies, drilling wells or developing the asset. Any cash consideration received directly from the farmee is credited against costs previously capitalized in relation to the whole interest with any excess accounted for by the farmor as a gain on disposal. The farmee capitalizes or expenses its costs as incurred according to the accounting method it is using. There are no accruals for future commitments in farm-in/farm-out agreements in the exploration and evaluation phase and no profit or loss is recognized by the farmor. In the development or production phase, a farm-in/farm-out agreement will be treated as a transaction recorded at fair value as represented by the costs carried by the farmee. Any gain or loss arising from the farm-in/farm-out is recognized in the income statement.

#### **Provisions and contingent liabilities**

A provision is recognized when the company has a present obligation (legal or constructive) as a result of a past event, it is likely that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the obligation amount. When the company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only if the reimbursement is certain. The expense related to any provision is presented in profit or loss, net of any reimbursement. 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 and a credit margin as the discount rate. Where discounting is used, the carrying amount of the provision increases in each period to reflect the unwinding of the discount by the passage of time. This increase is recognized as other financial expenses.

#### *Asset retirement obligations*

Provisions for ARO are initially recognized at the present value of the estimated future costs determined in accordance with local conditions and requirements.

A corresponding ARO asset (included in PP&E) of an amount equivalent to the provision is also recognized initially. This is subsequently depreciated as part of the capital costs of the production and transportation facilities.



The ARO provisions and the discount rates are reviewed at each balance sheet date. The discount rates used in the calculation of the present value of the ARO are pre-tax risk-free rates with the addition of a credit margin. The risk-free rate used has a maturity date that is expected to coincide with the time the removal will be affected and denominated in the same currency as the expected future expenditures. Changes in the measurement of the ARO resulting 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. Changes in the estimated ARO provisions impact the ARO asset in the period in which the estimate is revised.

#### **Cash and cash equivalents**

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

#### **Cash flow statement**

The cash flow statement is based on the indirect method. Cash equivalents include bank deposits.

#### **Dividend**

In accordance with Norwegian accounting standards, the company recognizes a liability to pay dividend for proposed ordinary dividend and additional or extraordinary dividend resolved after yearend but before or on the date of approval of the financial statements by the Board of Directors.

#### **Financial risk management**

DNO is exposed to a range of risks affecting its financial performance, including market risk, liquidity risk and credit risk. The company seeks to minimize potential adverse effects of such risks through sound business practices and risk management programs.

##### *Market risk*

The company is exposed to market risks driven by fluctuations in oil and gas prices, foreign currency exchange rates and interest rates.

##### *Oil price risk*

DNO's revenues are generated from the sale of oil. Various hedging opportunities were evaluated and assessed in 2021 as part of a prudent financial risk management process. The company has elected not to put in place any oil price hedging arrangements.

##### *Foreign currency exchange rate risk*

The company's cash flows from operating activities derive from oil sales, operating expenses and capital expenditures which are primarily denominated in USD. The company had no currency hedging instruments at yearend 2021 although it monitors its foreign currency risk exposure on a continuous basis and evaluates hedging alternatives.

##### *Interest rate risk*

The company does not engage in interest rate hedging. The company is exposed to interest risk on its cash deposits held at floating interest rates.

##### *Liquidity risk*

Liquidity risk is the risk that suitable sources of funding for the company's business activities may not be available. The company's principal sources of liquidity are operating cash flows from its producing assets in Kurdistan. In addition to its operating cash flows, the company relies on funding from its parent company. The parent company's finance function prepares projections on a regular basis in order to plan the parent company's liquidity requirements. These plans are updated regularly for various scenarios and form part of the basis for decision making for the Parent company's Board of Directors and executive management.

##### *Excessive risk concentration*

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The company's revenues currently derive from production in the Tawke license in Kurdistan, implying concentration risk.



*Credit risk*

Credit risk is the risk that a customer or counterparty to a financial instrument will fail to perform or fail to pay amounts due causing financial loss to the company. The company's exposure to credit risk is mainly related to its outstanding trade debtors. Other counterparty credit risk exposure to DNO is related to its cash deposits with banks and financial institutions.

*Trade receivables and other receivables*

Receivables are recognized and carried at their anticipated realizable value, which implies that a provision for a loss allowance for expected credit losses of the receivable is recognized. A provision for loss allowance for expected credit losses is performed at each reporting date and is based on a multifactor and holistic analysis depending on several considerations. The company considers reasonable and supportable information that is available without undue cost or effort and that is relevant for the assessment of credit risk with regard to the KRG see also Note 6.

*Cash deposits*

The company limits its counterparty credit risk by maintaining its cash deposits with multiple banks and financial institutions with high credit ratings.



## Note 2 Operating revenues

USD thousand	1 January - 31 December	
	2021	2020
Sale of oil	594,275	369,139
<b>Total revenues</b>	<b>594,275</b>	<b>369,139</b>

The company's revenues are generated from the Tawke PSC in Kurdistan region of Iraq.

## Note 3 Remuneration, employees and other compensations

The company had 1,042 employees engaged in the operations in Kurdistan at yearend 2021 (977 at yearend 2020), all working in Kurdistan. No salaries or fees have been paid to Managing Director or to the Board in 2021. No loans or guarantees have been made to senior management in the parent company, shareholders, members of the Board or related parties to these.

### Pensions

The company has no employees in Norway and is not required to have a mandatory occupational pension ("obligatorisk tjenestepensjon").

### Auditors' fees, excluding VAT

For 2021, USD 172,314 has been expensed as auditors' fees (USD 85,613 in 2020).

## Note 4 Intangible assets/ Fixed assets

USD thousand	Exploration assets	Development assets	License interests	Oil and gas fields in production	Other fixed assets	Total
Cost 1 January 2021	41,263	-	83,508	1,998,609	2,518	2,125,897
Additions*	877	472	-	96,914	-	98,263
Disposals	-	-	-	-139,701	-	-139,701
License acquisition**	-	35,164	-	-	-	35,164
Transfers***	-42,140	42,140	-	-	-	-
<b>Cost 31 December 2021</b>	<b>-</b>	<b>77,775</b>	<b>83,508</b>	<b>1,955,822</b>	<b>2,518</b>	<b>2,119,623</b>
Acc. Depreciations and impairments 1 January	-	-	-66,145	-1,407,768	-2,518	-1,476,432
Depreciations	-	-	-1,840	-119,049	-	-120,889
Impairment	-	-	-	-	-	-
Disposals	-	-	-	139,701	-	139,701
<b>Acc. Depr. and impairment 31 December</b>	<b>-</b>	<b>-</b>	<b>-67,985</b>	<b>-1,387,116</b>	<b>-2,518</b>	<b>-1,457,620</b>
<b>Book value 31 December 2021</b>	<b>-</b>	<b>77,775</b>	<b>15,522</b>	<b>568,705</b>	<b>-</b>	<b>662,003</b>
Book value 31 December 2020	41,264	-	17,361	590,842	-	649,467
Depreciation rates			Unit of production method	Unit of production method	20-30% Linear	

License costs, capitalized exploration costs and field under development are not depreciated until production commences.

\* Includes changes in estimate of asset retirement, see Note 12.

\*\*Additions through license acquisition relate to DNO's acquisition of ExxonMobil's remaining 32 percent interest in the Baeshiqa license, approved by the KRG in August 2021. As consideration, DNO has covered ExxonMobil's share of exploration costs since January 2019 up to KRG's approval of the acquisition in August 2021 and the seller will receive a payment of USD 15 million. Following KRG's approval of the acquisition, DNO's payments for ExxonMobil's share of exploration costs was transferred to intangible assets, previously presented under trade and other receivables.

\*\*\*Transfers relate to reclassification of the book value of Baeshiqa license from exploration phase (intangible assets) to development phase (tangible assets) following KRG approval of the first phase development plan.

### Impairment testing

At each reporting date, the company assesses whether there is an indication that an asset may be impaired.

An assessment of the recoverable amount is made when an impairment indicator exists. Impairment is recognized when the carrying amount of an asset or a CGU, exceeds the recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell and the value in use. The impairment testing is performed based on discounted cash flows. The expected future cash flows are discounted to the net present value by applying a discount rate after tax. Cash flows are projected for the estimated lifetime of the fields or license, which may exceed periods longer than five years.

Below is an overview of the key assumptions applied for impairment assessment purposes as of 31 December 2021.

#### Oil prices

Forecasted oil prices are based on management's estimates and market data. The near-term price assumptions are based on forward curve pricing over the period for which there is deemed to be a sufficient liquid market and observable broker and analyst consensus. The long-term price assumptions reflect management's best estimate of the oil price development over the life of the company's oil and gas fields based on its view of current market conditions and future developments. Management's assessment also includes comparison with long-term oil price assumptions communicated by peer companies and other external forecasts. Oil price assumptions applied for impairment testing are reviewed and, where necessary, adjusted on a periodic basis.



The nominal oil price assumptions applied for impairment assessments at yearend 2021 were as follows (yearend 2020 in brackets):

	2022	2023	2024	2025
Brent Blend (USD/bbl)	76.9 (59.1)	70.4 (59.1)	68.3 (64.7)	70.0 (70.4)

For periods after year 2025, the long-term oil price assumptions applied was USD 65.0 per barrel (in real terms, basis year 2021).

#### *Oil price differential*

The estimated net oil price is based on the above nominal price assumptions adjusted for price differentials due to quality and transportation for each individual field.

#### *Oil reserves and resources*

Future cash flows are calculated on the basis of expected production profiles and estimated proven and probable remaining reserves. For more information about reserves and resources estimate, see Note 1 and Note 14.

#### *Discount rate and inflation*

The discount rate is derived from the company's weighted average cost of capital (WACC). The capital structure considered in the WACC calculation is derived from DNO's debt and equity to enterprise value ratio at yearend. The cost of equity is calculated on a country-by-country basis using the Capital Asset Pricing Model (CAPM) and adding a country risk premium. The beta factor is based on publicly available data about the company's beta in the value in use calculations. The cost of debt is based on yield-to-maturity on the DNO Group's outstanding bond loans with an upward adjustment to reflect a potential extension. The relevant post-tax discount rate used in the impairment assessments at yearend 2021 for Kurdistan assets were 13.6 percent (13.0 percent at yearend 2020). The long-term inflation rate is assumed to be 2 percent independent of the underlying country or currency (unchanged from 2020).

#### **Impairment charge and reversal**

As of yearend 2021 the company did not identify any impairment indicators and as such no impairment testing was performed. In addition, no impairment nor reversals was recognized in 2021 nor 2021.

#### *Sensitivities*

The estimated recoverable amount related to the Tawke license is substantially higher than the carrying amount and the following sensitivity tests would only cause minor changes to the surplus and would not lead to any impairment charges:

- Oil price: +/- 30%
- Production profile: +/-30%
- Discount Rate (WACC): +/- 1%

#### **Climate considerations in impairment assessment**

Certain climate considerations are factored into the company's estimation of cash flows that are applied in the calculation of recoverable amount. This includes factoring in current legislation (e.g., environmental taxes/fees) and estimation of future levels of environmental taxes. In Kurdistan, the KRG introduced in 2021 a requirement for oil companies to put plans in place to curb gas flaring to reduce emissions. The company has run sensitivities for its Kurdistan oil assets with the CO2 tax assumptions as described in the scenarios outlined by the International Energy Agency (IEA) in their World Energy Outlook (WEO) reports, namely the Stated Policies Scenario and the Sustainable Development Scenario.

An energy transition is likely to impact the future oil and gas prices which in turn may affect the recoverable amount of the oil and gas assets. Indirectly, climate considerations are also assessed in the forecasting of oil and gas prices where supply and demand are considered.

To assess the robustness of the company's oil assets, the company has run sensitivities with the oil price assumptions described by scenarios outlined by the IEA, namely the Stated Policies Scenario and the Sustainable Development Scenario. These scenarios are commonly applied by peer companies and the company believes that these are useful for investors and other stakeholders in assessing portfolio resilience across companies in the industry. The oil price assumptions in the scenarios have been provided by the IEA for the years 2030 and 2050 (in 2020 real terms), and for the sensitivity calculation a linear development between average actual 2021 and 2030, as well as between 2030 and 2050 have been applied. A calculation of a possible effect of using the oil prices in the Sustainable Development Scenario (oil price: USD 56 per barrel in 2030 and USD 50 per barrel in 2050, in real terms 2020), no impairments are expected related to the company's Kurdistan assets at these price levels. As the oil price assumptions in the Stated Policies Scenario are at higher levels (oil price: USD 77 per barrel in 2030 and USD 88 per barrel in 2050, in real terms 2020) compared to the company's long-term price assumption of USD 65 per barrel, no impairments or significant reversals are expected, but the estimated headroom in the impairment testing would increase.

A significant reduction in the oil price assumptions could also have effect on the estimated economic cut-off of the projects. Based on the company's scenario analysis, no significant impact was identified with regards to estimated economic cut-off dates. These illustrative impairment sensitivities assume no changes to assumptions other than oil prices. However, significant reduction in the oil prices, would likely impact the company's investment levels as occurred following significant changes in oil prices during the Covid-19 pandemic in 2020. The illustrative sensitivities on climate change are not considered to represent a best estimate of an expected impairment impact. Moreover, a significant and prolonged reduction in oil prices would likely result in mitigating actions by DNO and its license partners; for example it could have an impact on drilling plans and production profiles for new and existing assets. Quantifying such impacts is considered impracticable, as it requires detailed evaluations based on hypothetical scenarios and not based on existing business or development plans.

#### **License expiry and economic cut-off dates for development and production assets**

In Kurdistan, the Tawke license expires in 2026 but DNO has the right to one automatic five-year extension (i.e., to 2031) and, if commercial production is still possible at the end of this extended period, DNO is entitled to, upon request to the KRG, a further five-year extension (i.e., to 2036). Based on DNO's current assessments, the production from Tawke license will be commercial for the duration of its contractual term and through subsequent extensions. On the Baeshiqa license, commerciality was declared by the contractor on 1 August 2021, terminating the exploration period and moving into the PSC development period, which has as a 20-year duration. If commercial production is still possible at the end of the 20-year period, DNO is entitled to a five-year extension.



## Note 5 Intercompany

Intercompany loans are interest bearing. The intercompany interest rate used by the parent company DNO ASA and its subsidiaries is based on country specific weighted average cost of capital.

Short-term intercompany liabilities USD 145.8 million (USD 67.1 million at yearend 2020) is mainly with parent company DNO ASA and includes this years' additional dividends amounting to USD 420.0 million and the group contribution of USD 6.2 million.

## Note 6 Trade receivables

USD thousand	Years ended 31 December	
	2021	2020
Non-current trade receivables	18,150	182,000
<b>Total non-current trade receivables</b>	<b>18,150</b>	<b>182,000</b>
Trade receivables	331,241	93,513
<b>Total current trade receivables</b>	<b>331,241</b>	<b>93,513</b>

Total book value of trade debtors of USD 349.4 million (current and non-current portion) at yearend 2021 relate to the Tawke license arrears for 2019 and 2020 entitlement and override invoices (USD 169.1 million), and outstanding invoices for Tawke license crude oil deliveries for the months October through December 2021 (USD 180.3 million). See also Note 15 regarding subsequent events after yearend 2021.

Normal payment terms apply to amounts owed to DNO by the KRG for oil sales and override invoices from the Tawke license in Kurdistan. Since late 2015, DNO received the payment due to it from oil sales and overrides on a monthly basis from the KRG until early 2020. At yearend 2020, the company had accumulated a receivable against the KRG after certain 2019 and 2020 entitlement and override payments to the company (USD 259 million DNO share) and other KRI oil exporters were withheld early in 2020 by the KRG in connection with the Covid-19 pandemic. Entitlement payments were resumed in March 2020 and override payments were resumed in early 2021.

In December 2020, the KRG informed the international oil companies operating in Kurdistan of a payment plan whereby the KRG stated it would pay 50 percent of incremental revenue in any month in which Brent prices exceed USD 50 per barrel towards the arrears for 2019 and 2020. At yearend 2020, to incorporate the time value of money, the company reduced the book value of the Tawke license arrears by USD 16 million when comparing the book value of the arrears to the estimated present value.

In May 2021, the KRG informed the international oil companies of revised terms reducing the payment of the arrears to 20 percent of incremental revenue in any month in which Brent prices exceed USD 50 per barrel. The KRG also advised that all international oil company invoices, including towards the arrears, will be settled within 60 days of receipt. The company expects at a minimum to recover the full nominal value of the withheld receivables, and DNO continues to work to improve the terms of recovery of the arrears, including but not limited to interest payments. During 2021, the outstanding arrears were reduced from USD 259 million at the start of the year to USD 169.1 million at yearend. At yearend 2021, the company made a re-run of the estimated present value, updated the Brent price assumptions resulting in a net increase in the book value of the arrears by USD 16 million, entirely reversing the financial expense recognized in 2020. Moreover, the classification of the receivables (current/non-current portion) was updated accordingly. The calculation of present value takes into account the most recent production forecasts for the Tawke license and the company's Brent price assumptions to determine the expected timing of payments towards the arrears plus contractual interests and reflects the probability-weighted amount for a range of possible scenarios including probability-weighted Brent price scenarios with a probability assigned to each. The discount rate applied reflects the company's cost of debt.



## Note 7 Taxes

### Tax income/-expense

	1 January - 31 December	
USD thousand	2021	2020
Taxes payable	-1,365	-
Change in deferred taxes	-	-
Change in tax expense from prior years	-	-
<b>Tax income/-expense</b>	<b>-1,365</b>	<b>-</b>

### Tax effects on temporary differences relate to the following items:

	Years ended 31 December	
USD thousand	2021	2020
Tax losses carried forward	-	1,931
<b>Total deferred tax assets/-liabilities</b>	<b>-</b>	<b>1,931</b>
Deferred tax asset allowance	-	-1,931
<b>Recognized deferred tax assets</b>	<b>-</b>	<b>-</b>
<b>Recognized deferred tax liabilities</b>	<b>-</b>	<b>-</b>

The current tax rate in Norway in 2021 was 22 percent (2020: 22 percent). If applicable, tax rates effective from 1 January 2022 have been used to calculate deferred taxes.

### Income tax receivable/-payable

	Years ended 31 December	
USD thousand	2021	2020
Income tax payable	-1,365	-
Tax effect group contribution	1,365	-
<b>Net tax receivable/-payable</b>	<b>-</b>	<b>-</b>

Under the terms of the PSCs in Kurdistan, the company is not required to pay any corporate income taxes. The share of profit oil which the government is entitled to is deemed to include a portion representing the notional corporate income tax paid by the government on behalf of DNO Iraq AS. Current and deferred taxation arising from such notional corporate income tax is not calculated for Kurdistan, as there is uncertainty related to the tax laws of the KRG and there is currently no well-established tax regime for international oil companies. As such, it has not been possible to reliably measure such notional corporate income taxes deemed to have been paid on behalf of the company. This is an accounting presentational issue and there is no tax required to be paid by the company. See also Note 1.

Profits/losses by Norwegian companies from upstream activities outside of Norway are not taxable/deductible in Norway in accordance with the General Tax Act, section 2-39. Under these rules, only certain financial income and expenses are taxable in Norway.

## Note 8 Other receivables and short-term liabilities

Other receivables and other short-term liabilities comprise mainly of working capital in the license, including license accruals and are presented under the respective items in the company's balance sheet (other receivables, cash and cash equivalent and other short term liabilities).

All of the company's other receivables and short-term liabilities are due within one year.

## Note 9 Inventories

	Years ended 31 December	
USD thousand	2021	2020
Spare parts and drilling equipment	18,793	22,118
<b>Total inventory</b>	<b>18,793</b>	<b>22,118</b>

In 2021, the provision for obsolete inventory in Kurdistan was USD 15.0 million (Yearend 2020 USD 18.1 million).

## Note 10 Restricted bank deposits

The company has no restricted bank deposits.



## Note 11 Shareholders' equity

### Movement in shareholders' equity:

USD thousand	Share capital	Share premium	Other paid in capital	Other equity	Total
<b>Shareholders' equity as of 1 January 2021</b>	177	73,914	89,957	638,315	802,363
Net profit/-loss for the period	-	-	-	390,084	390,084
Ordinary dividend				-	-
Additional dividend (11 October 2021)				-210,000	-210,000
Additional dividend (5 April 2022)				-210,000	-210,000
Group contribution received/-given				-4,840	-4,840
<b>Shareholders' equity as of 31 December 2021</b>	<b>177</b>	<b>73,914</b>	<b>89,957</b>	<b>603,558</b>	<b>767,606</b>

	2021
Share capital, NOK	1,200,000
Number of shares	600,000
Par value, NOK	2.00

The company is fully owned by DNO ASA.

## Note 12 Asset retirement obligations, Provisions for other liabilities and charges

The ARO comprises the future cost of decommissioning oil wells, facilities and related pipelines in Kurdistan.

Net increase of USD 2.4 million, from USD 62.8 million at yearend 2020 to USD 65.2 million at yearend 2021, was related to: increase in existing provisions (USD 0.2 million) and accretion expenses (unwinding of discount) (USD 2.2 million).

The ARO provision in the balance sheet consist of a current ARO of USD 2.2 million and a long term ARO of USD 63.0 million.

The discount rates before tax applied at yearend 2021 were between 3.2 percent and 3.7 percent ( Unchanged from 2020). The credit margin included in the discount rates at yearend 2021 was 2.3 percent ( 2.8 percent in 2020).

## Note 13 Guarantees and commitments

### Contractual obligations/license commitments

At yearend 2021, the company has no contractual obligations relating to its interests in own and partner-operated oil and gas fields. All commitment wells have been drilled to date.

### Lease obligations

The company's non-cancellable operating leases are related to office rent (Erbil office), and rent of storage and warehouse. The related lease expense is included in the financial statement line "Production expenses" and is recorded through the monthly billing statements.

Future minimum lease payments under non-cancellable operating leases as of 31 December 2021 are as follows:

USD million	2021	2020
Within 1 year	0.5	0.3
1 to 5 years	0.2	-
After 5 years	-	-
<b>Total</b>	<b>0.7</b>	<b>0.3</b>

### Liability for damages/insurance

Installations and operations are covered by various insurance policies.



## Note 14 Net reserves and net entitlement reserves (unaudited)

Development of proven (1P) and proven and probable (2P) reserves (net to DNO)\*

MMbbls	Proven (1P)	Proven and probable (2P)
<b>As of 31 December 2019</b>	<b>170.7</b>	<b>300.0</b>
Production	-30.3	-30.3
Acquisitions	-	-
Divestments	-	-
Extensions and discoveries	-	-
New developments	-	-
Revision of previous estimates	35.4	25.7
<b>As of 31 December 2020</b>	<b>175.8</b>	<b>295.4</b>
Production	-29.8	-29.8
Acquisitions	-	-
Divestments	-	-
Extensions and discoveries	-	-
New developments	-	-
Revision of previous estimates	16.1	1.8
<b>As of 31 December 2021</b>	<b>162.2</b>	<b>267.4</b>

\*The reserves and contingent resources are according to the Annual Statement of Reserves and Resources (ASRR) dated 21 February 2022. The reported reserves fall within class 1-3 of the Norwegian Petroleum Directorate (NPD) classification and 2C resources fall within classes 4, 5 and 7 of the NPD classification.

International petroleum consultants DeGolyer and MacNaughton (D&M) carried out an independent assessment of the Tawke license (containing the Tawke and Peshkabir fields) and the Baeshiqa license (containing the Baeshiqa and Zartik structures) in the Kurdistan region of Iraq.

The estimation of oil and gas reserves involves uncertainty. The figures above represent management's best judgment of the most likely quantity of economically recoverable oil and gas estimated at yearend 2021, given the information at the time of reporting. The estimates have a large spread especially for fields for which there is limited data available. The uncertainty will be reduced as more information becomes available through production history and reservoir appraisal. 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 for production.

At yearend 2021, the company's net 1P reserves stood at 162.2 MMboe, compared to 175.8 MMboe at yearend 2020, after adjusting for production during the year and upward technical revisions. On a 2P reserves basis, the company's net reserves stood at 267.4 MMboe, compared to 295.4 MMboe at yearend 2020. The company's net production in 2021 totaled 29.8 MMboe, compared to 30.3 MMboe in 2020.

In 2021, DNO increased its participation interest in the Baeshiqa license to 64 percent from 32 percent.

In addition, DNO applied for and received the government's approval for the first phase of the development plan of the license.

No reserves were recorded at the Baeshiqa license at yearend 2021, pending ending acquisition of 3D seismic, additional drilling and production start up, all of which are planned for 2022. At yearend 2021 gross 2C resources at the license level stood at 55.7 MMbbls (35.7 MMbbls on a net basis), compared to 42.5 MMbbls (13.6 MMbbls on a net basis) at yearend 2020.

The company's net yearend 2021 Reserve Life Index (R/P) stood at 5.5 years on a 1P reserves basis and 9.0 years on a 2P reserves basis.

Effective from 2021, the company reports its net production and reserves based on the participating interest in all of its licenses. Prior to 2021 and for the licenses governed by PSCs, the company reported its net figures after royalty and included DNO's additional share of cost oil covering its advances towards the government carried interest (if any) as well as volumes attributed to the three percent of gross Tawke license production under the August 2017 Receivables Settlement Agreement. The main reason for the change is to improve comparability with peer companies and to show the company's share of production before the government take. All 2020 figures in this note are updated accordingly.

The Net Entitlement (NE) reserves are net to DNO after royalty and include DNO's additional share of cost oil covering its advances towards the government carried interest (if any) as well as volumes attributed to the three percent of gross Tawke license production under the August 2017 Receivables Settlement Agreement.

The NE reserves 1P developed reserves were 56.5 MMbbls at yearend 2021. The corresponding figure at yearend 2020 was 69.4 MMbbls. The NE reserves 2P developed, relevant for depreciation, were 77.7 MMbbls at yearend 2021 (2020: 96.7 MMbbls).

Net reserves reflect pre-tax shares while NE reserves reflect post-tax shares. NE reserves are based on economic evaluation of the license agreements, incorporating projections of future production, costs and oil and gas prices. NE reserves may therefore fluctuate over time, even if there are no changes in the underlying gross and net volumes.



## Note 15 Significant events after the balance sheet date

### Payments Tawke oil sales

The company has since yearend received USD 460.8 million net to the company from the KRG, of which USD 344.5 million represent DNO's entitlement share of October 2021 - March 2022 crude oil deliveries to the export market from the Tawke license. Of the balance, USD 33.9 million is override payments from the Tawke license for the period October 2021 - February 2022 and USD 82.4 million is payments towards the company's arrears relating to withheld payment of Tawke license 2019 and 2020 entitlement and override invoices.

### Federal Supreme Court of Iraq (FSCI) ruling

The company notes from public reports that on 15 February 2022, the FSCI ruled on the KRG's constitutional rights and powers as regards oil and gas. Reportedly, the FSCI found amongst other things that the Kurdistan Oil and Gas Law No. 27/2007 is unconstitutional, that the KRG is to hand over all oil production from areas located in the KRI to the FGI and that the FGI has the right to pursue the nullification of the oil contracts concluded by the KRG. According to media reports, the KRG and the Federal Government of Iraq (FGI) have met to discuss how the ruling is to be followed up, but have not reached agreement to date. Meanwhile, the KRG (including the Judicial Council of the Kurdistan Region of Iraq) has made several statements denouncing the ruling, firmly maintaining that KRG oil and gas operations are constitutional and that it will "take all constitutional, legal, and judicial measures to protect and preserve all contracts made in the oil and gas sector". In mid-May, the FGI took steps to initiate legal proceedings in Baghdad courts against certain international oil companies to pursue the nullification of certain PSCs in Kurdistan. The KRG has responded by initiating legal proceedings against FGI in Erbil courts.

### Potential implications of the Russia-Ukraine conflict

The company notes the implications for commodity prices and potential interruptions of supply chains and third-party services from the ongoing Russia-Ukraine armed conflict. DNO is monitoring international sanctions and trade control legislation in order to mitigate the potential impact on the company's operations