Brønnøysundregistrene

ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2020 - GENERELL INFORMASJON

Enheten

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

Regnskapsår

Årsregnskapets periode:	01.01.2020 - 31.12.2020

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:	21.06.2021

Grunnlag for avgivelse

År 2020: Årsregnskapet er elektronisk innlevert

År 2019: Tall er hentet fra elektronisk innlevert årsregnskap fra 2020

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, 20.07.2022

Resultatregnskap

Beløp i: USD	Note	2020	2019
RESULTATREGNSKAP			
Inntekter			
Operating revenue, oil and gas	2	369 139 000	717 061 000
Sum inntekter		**369 139 000**	**717 061 000**
Kostnader			
Production expenses	3	93 093 000	106 705 000
Exploration Expenses		2 989 000	3 207 000
Depreciation	4	239 135 000	217 794 000
Nedskrivning av varige driftsmidler og immaterielle eiendeler	4		19 293 000
Other operating expenses	3	1 746 000	2 114 000
Sum kostnader		**336 963 000**	**349 113 000**
Driftsresultat		**32 176 000**	**367 948 000**
Finansinntekter og finanskostnader			
Renteinntekt fra foretak i samme konsern	5	9 830 000	11 988 000
Other financial income		642 000	939 000
Net gain/loss on foreign exchange transactions		1 683 000	
Sum finansinntekter		**12 155 000**	**12 927 000**
Net gain/loss on foreign exchange transactions			684 000
Other financial expenses		20 978 000	11 214 000
Sum finanskostnader		**20 978 000**	**11 898 000**
Netto finans		**-8 823 000**	**1 029 000**
Ordinært resultat før skattekostnad		**23 353 000**	**368 977 000**
Tax income/-expense	10		4 990 000
Ordinært resultat etter skattekostnad		**23 353 000**	**363 987 000**
Årsresultat		**23 353 000**	**363 987 000**
Overføringer og disponeringer			
Overføringer til/fra annen egenkapital		23 353 000	363 987 000
Sum overføringer og disponeringer	9	**23 353 000**	**363 987 000**

Resultatregnskap

Beløp i: USD	Note	2020	2019

Balanse

Beløp i: USD	Note	2020	2019
BALANSE - EIENDELER			
Anleggsmidler			
Immaterielle eiendeler			
Exploration assets and license interests	4	58 625 000	44 698 000
Sum immaterielle eiendeler		**58 625 000**	**44 698 000**
Varige driftsmidler			
Oil and gas fields in production	4	590 842 000	750 429 000
Other fixed assets	4	0	0
Sum varige driftsmidler	4	**590 842 000**	**750 429 000**
Finansielle anleggsmidler			
Non-current trade receivables	6	182 000 000	
Sum finansielle anleggsmidler		**182 000 000**	
Sum anleggsmidler		**831 467 000**	**795 127 000**
Omløpsmidler			
Varer			
Inventories	8	22 118 000	12 266 000
Sum varer	8	**22 118 000**	**12 266 000**
Fordringer			
Trade receivables	6	93 513 000	298 198 000
Other receivables	7	54 540 000	31 454 000
Sum fordringer		**148 053 000**	**329 652 000**
Bankinnskudd, kontanter og lignende			
Cash and cash equivalents	14	8 816 000	7 324 000
Sum bankinnskudd, kontanter og lignende		**8 816 000**	**7 324 000**
Sum omløpsmidler		**178 987 000**	**349 242 000**
SUM EIENDELER		**1 010 454 000**	**1 144 369 000**

Balanse

Beløp i: USD	Note	2020	2019
BALANSE - EGENKAPITAL OG GJELD			
Egenkapital			
Innskutt egenkapital			
Share capital	9	177 000	177 000
Overkurs	9	73 914 000	73 914 000
Annen innskutt egenkapital	9	89 957 000	89 957 000
Sum innskutt egenkapital	9	**164 048 000**	**164 048 000**
Opptjent egenkapital			
Other equity	9	638 315 000	814 962 000
Sum opptjent egenkapital		**638 315 000**	**814 962 000**
Sum egenkapital		**802 363 000**	**979 010 000**
Gjeld			
Langsiktig gjeld			
Asset retirement obligations	11	60 599 000	57 580 000
Sum avsetninger for forpliktelser		**60 599 000**	**57 580 000**
Annen langsiktig gjeld			
Sum langsiktig gjeld		**60 599 000**	**57 580 000**
Kortsiktig gjeld			
Kortsiktig konserngjeld	5	67 122 000	8 691 000
Asset retirement obligations	11	2 196 000	2 167 000
Other short-term liabilities	7	78 174 000	96 922 000
Sum kortsiktig gjeld		**147 492 000**	**107 780 000**
Sum gjeld		**208 091 000**	**165 360 000**
SUM EGENKAPITAL OG GJELD		**1 010 454 000**	**1 144 370 000**

Annual Report 2020
DNO Iraq AS

- Board of Director's report
- Income statement
- Balance sheet
- Cash flow statement
- Notes

Org.no.: 988714526

BOARD OF DIRECTORS' REPORT 2020

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 Peshkabir fields. The Baeshiqa license contains the Baeshiqa and Zartik structures.

The Erbil PSC was relinquished on 21 May 2020.

License	Type	Status	Partici-pating interest (percent)	Operator	Partners (participating interest)
Tawke PSC	Onshore	Exploration, Appraisal, Development, Production	75.0	DNO Iraq AS	Genel Energy International Limited (25 percent)
Baeshiqa PSC	Onshore	Exploration	32.0*	DNO Iraq AS	ExxonMobil Kurdistan Region of Iraq Limited (32 percent), Turkish Energy Company Limited (16 percent), Kurdistan Regional Government (20 percent carried interest)

* DNO acquired an additional 32 percent interest in the Baeshiqa license in Kurdistan from ExxonMobil (subject to government approval), doubling DNO's operated stake to 64 percent (80 percent paying interest). This agreement was announced following the end of the reporting period.

OPERATIONAL REVIEW
EXPLORATION, APPRAISAL, FIELD DEVELOPMENT AND PRODUCTION

Tawke license
Gross production from the Tawke license, containing the Tawke and Peshkabir fields, averaged 110,282 bopd during 2020 (123,940 bopd in 2019). The Tawke field contributed 57,570 bopd (68,749 bopd in 2019) and Peshkabir field contributed 52,712 bopd (55,191 bopd in 2019). The Company Working Interest (CWI) production in 2020 was 28.5 MMbbls, down from 31.9 MMbbls in 2019.

DNO halted all drilling on the Tawke license in the second quarter of 2020 following the onset of the Covid-19 pandemic and the collapse of oil and gas prices. In June 2020, DNO fast tracked a well intervention campaign to ramp up production following stabilization of oil prices and resumption of Kurdistan export payments.

Also in June 2020, the company commissioned the Peshkabir-to-Tawke gas reinjection project (the first enhanced oil recovery project in Kurdistan) to unlock additional oil reserves at the Tawke field while significantly reducing associated gas flaring and CO_2 emissions at the Peshkabir field. In the second half of 2020, DNO captured, piped and reinjected 2.4 bcf of Peshkabir field gas, which otherwise would have been flared, into the Tawke field for pressure maintenance, leading to an estimated 200,000 barrels of incremental oil recovery in 2020.

Four development wells were spud in the Tawke license last year.

Baeshiqa license
In July 2020, the company completed drilling of Zartik-1, the third exploration well on the Baeshiqa license on the Zartik structure, around 15 kilometers southeast of the Baeshiqa-2 discovery well. The well tested hydrocarbons at surface from several Jurassic zones, with one zone flowing naturally at rates averaging over 2,000 bopd of medium gravity oil.

Erbil license
The company relinquished its operatorship and participation in the Erbil license on 21 May 2020.

RESERVES
On a CWI basis at yearend 2020, 1P reserves totaled 159.9 MMbbls (156.9 MMbbls at yearend 2019) and 2P reserves totaled 267.8 MMbbls (274.7 MMbbls at yearend 2019).

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.

In making these assessments, the Board of Directors continued to monitor the uncertainty caused by the ongoing Covid-19 pandemic and its effects on global economy, while also noting the significant improvement in the price of Brent since the reporting date and the company's reported remaining proven and probable oil and gas reserves that permit cash flow generation covering the forecast period. Stress testing was carried out at lower Brent price scenarios. Sufficient liquidity can be maintained through the going concern assessment period in the base case and the stress test.

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 interests in two licenses in Kurdistan through PSCs and has based its entitlement calculations on the terms of these PSCs. Although DNO has good title to its licenses, including the right to explore for and produce oil and gas from these licenses, the Federal Government of Iraq (FGI) has in the past challenged the validity of certain PSCs signed by the Kurdistan Regional Government (KRG). Historically, as a result of disagreements between the FGI and the KRG, economic conditions in Kurdistan and limited available export channels, the company has faced constraints in fully monetizing the oil it produces in Kurdistan. 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 receipt of payments.

In early 2020, monthly entitlement and override payments were withheld by the KRG which was itself hit by lower oil revenues and economic dislocations caused by the pandemic. After a four-month hiatus, entitlement payments were resumed in March 2020. In December 2020, a plan was put in place by the KRG in respect of the withheld entitlement and override payments from 2019 and 2020 (USD 259.0 million at yearend 2020) such that if Brent prices exceed USD 50 per barrel on average in any month, one-half of the incremental revenue would be paid to the Tawke partners and shared prorata to their interests in the license by the KRG towards the withheld amounts. Moreover, as part of the plan, override payments will resume with the January 2021 invoice. The company expects to recover the full value of the withheld payments of Tawke license 2019 and 2020 invoices, including but not limited to interest payments reflecting the company's cost of debt. See Note 6 for further information. The company has since yearend received USD 20.4 million in payment towards the company's arrears relating to withheld payment of Tawke license 2019 and 2020 entitlement and override invoices.

In May 2021, the Kurdistan's Minister of Natural Resources informed the international oil companies operating in the region of an intention to extend the payment period for arrears built up from non-payment of certain invoices in 2019 and 2020, which includes reducing the payment of the withheld amounts to 20 percent of incremental revenue above USD 50 per barrel. The Minister also advised that all international oil company invoices, including towards withheld amounts, will now be settled within 60 days of receipt. DNO is reviewing its position and will engage with Kurdistan to seek agreement regarding payment terms, interest on the arrears and revised lifting arrangements.

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.

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.

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. A whistleblowing procedure is also in place.

Political risk
We continue to closely monitor security conditions although our operations to date have seen minimal impact from regional developments.

EQUAL OPPORTUNITIES, WORK ENVIRONMENT AND PERSONNEL
The company had a total workforce of 997 employees engaged in its operations in Kurdistan 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.

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 2020 stood at USD 369.1 million, down from USD 717.1 million in 2019 in the wake of weak oil prices triggered by the Covid-19 pandemic and global economic contraction.

Total operating expenses were USD 337.0 million in 2020 compared to USD 349.1 million in 2019. The lower operating expenses are primarily due lower impairment charges and lower production expenses following the reduction in Kurdistan activities. The decrease is however partially offset by higher depreciation following a downward revision in the annual reserves used in the calculation of depreciation for Kurdistan assets.

The company reported an operating profit of USD 32.2 million in 2020, down from USD 367.9 million during 2019. Net profit for 2020 was USD 23.4 million (USD 364.0 million in 2019).

Net cash flows from operating activities was USD 294.1 million in 2020 (USD 397.8 million in 2019). The difference compared to the operating profit (above) mainly concerns ordinary depreciation. Total investments for the company in 2020 amounted to USD 92.6 million (USD 235.6 million in 2019).

The company ended the year with USD 8.8 million in cash and cash equivalents (USD 7.3 million at yearend 2019).

Total assets at yearend 2020 were USD 1,010.5 million (USD 1,144.4 million in 2019) and the equity ratio was 79 percent (86 percent in 2019). An additional dividend of USD 200.0 million was distributed in 2020.

Oslo, 21 June 2021

Bjørn Dale
Managing Director

Christopher Spencer
Chairman

Aernout van der Gaag
Board member

DNO Iraq AS

Income statement (USD thousand)

	Note	2020	2019
		1 January - 31 December	
OPERATING REVENUE			
Operating revenue, oil and gas	2	369,139	717,061
Total operating revenue		**369,139**	**717,061**
OPERATING EXPENSES			
Production expenses	3	93,093	106,705
Exploration expenses		2,990	3,207
Depreciation	4	239,135	217,794
Impairment	4	-	19,293
Other operating expenses	3	1,746	2,114
Total operating expenses		**336,963**	**349,113**
OPERATING PROFIT/-LOSS		**32,176**	**367,948**
FINANCIAL INCOME AND EXPENSES			
Other financial income		642	939
Interest income from group entities	5	9,830	11,988
Net gain/-loss on foreign exchange transactions		1,683	-684
Other financial expenses	6	-20,978	-11,215
Net financial income/-expenses		**-8,823**	**1,028**
PROFIT/-LOSS BEFORE TAX		**23,353**	**368,977**
Tax income/-expense	10	**-**	**-4,990**
NET PROFIT/-LOSS		**23,353**	**363,987**

DNO Iraq AS

Balance sheet (USD thousand)

		Years ended 31 December	
Assets	**Note**	**2020**	**2019**
NON-CURRENT ASSETS			
Intangible assets			
Exploration assets and license interests	4	58,625	44,698
Total intangible assets		**58,625**	**44,698**
Fixed assets			
Oil and gas fields in production	4	590,842	750,429
Other fixed assets	4	-	-
Total fixed assets		**590,842**	**750,429**
Financial assets			
Non-current trade receivables	6	182,000	-
Total financial assets		**182,000**	**-**
Total non-current assets		**831,466**	**795,127**
CURRENT ASSETS			
Inventories	8	22,118	12,266
Trade receivables	6	93,513	298,198
Other receivables	7	54,540	31,455
Cash and cash equivalents	14	8,816	7,324
Total current assets		**178,987**	**349,242**
TOTAL ASSETS		**1,010,454**	**1,144,369**

DNO Iraq AS

Balance sheet (USD thousand)

Equity and liabilities	Note	2020	2019
		Years ended 31 December	
EQUITY			
Paid-in capital			
Share capital	9	177	177
Share premium	9	73,914	73,914
Other paid-in capital	9	89,957	89,957
Total paid-in capital		**164,048**	**164,048**
Retained earnings			
Other equity	9	638,315	814,962
Total retained earnings		**638,315**	**814,962**
Total equity		**802,362**	**979,010**
LIABILITIES			
Non-current liabilities			
Asset retirement obligations	11	60,599	57,580
Total non-current liabilities		**60,599**	**57,580**
Current liabilities			
Intercompany liabilities	5	67,122	8,691
Other short-term liabilities	7	78,176	96,922
Asset retirement obligations	11	2,196	2,167
Total current liabilities		**147,493**	**107,780**
Total liabilities		**208,093**	**165,360**
TOTAL EQUITY AND LIABILITIES		**1,010,454**	**1,144,369**

Oslo, 21 June 2021

Bjørn Dale
Managing Director

Christopher Spencer
Chairman

Aernout van der Gaag
Board member

DNO Iraq AS

Cash flow statement (USD thousand)

	Note	2020	2019
		1 January - 31 December	
Cash flows from operating activities			
Profit/-loss before tax		23,353	368,977
Taxes paid for the period	10	-	-
Depreciation	4	239,135	217,794
Impairment		-	19,293
Other		18,162	-4,302
Changes in working capital and provisions:			
- Inventories		-9,853	-3,980
- Trade and other receivables		-16,400	-134,669
- Other current assets and short-term liabilities		39,684	-65,334
Net cash flows from operating activities		**294,081**	**397,779**
Cash flows from investment activities			
Purchases of intangible and tangible assets	4	-92,589	-235,575
Net cash flows from investment activities		**-92,589**	**-235,575**
Cash flows from financing activities			
Payment of dividends		-200,000	-230,000
Net cash flows from financing activities		**-200,000**	**-230,000**
Net change in cash and cash equivalents		1,492	-67,796
Cash and cash equivalents at the beginning of the period		7,324	75,118
Cash and cash equivalents at the end of the period		**8,816**	**7,324**

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 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
As a result of the historical and legal position of Kurdistan, and the relationships of the Kurdistan Regional Government (KRG) with the Federal Government of Iraq (FGI). DNO and other international oil companies operating in Kurdistan face a number of risks specific to the region.

Most notably, the Tawke Production Sharing Contract (PSC) was entered into with the KRG prior to the adoption of the Iraqi Constitution and the fields were not producing at the time of adoption. A successful attempt by the FGI to revoke or materially alter all PSCs in Kurdistan, including those held by DNO, could disrupt or halt DNO's operations, subject DNO to contractual damages or prevent the execution of DNO's strategy, any of which could have a material adverse effect on the company's business, results of operations, financial position and prospects.

Export sales have not always followed the PSC terms and there has been uncertainty related to both timing of revenue and receipt of payments. In early 2020, monthly entitlement and override payments were withheld by the KRG which was itself hit by lower oil revenues and economic dislocations caused by the pandemic. After a four month hiatus, entitlement payments were resumed in March 2020. In December 2020, a plan was put in place by the KRG in respect of the withheld entitlement and override payments from 2019 and 2020 (USD 259.0 million at yearend 2020) such that if Brent prices exceed USD 50 per barrel in average in any month, one-half of the incremental revenue will be paid by the KRG to the Tawke partners, and shared prorata to their interests in the license, towards payments of the withheld amounts. Moreover, as part of the plan, override payments will resume with the January 2021 invoice. The Company expects to recover the full nominal value of the withheld payments and discussions continue to further improve the terms of recovery of the arrears, including but not limited to interest payments reflecting the company's cost of debt. See Note 6 for further details on estimates and judgement on recoverability. Management monitors development and continuously ensures that revenue recognition criteria are 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 Peshkabir 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; 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 (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 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 and gas 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.

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 short-term liabilities include items due less than one year from the balance sheet date, and if longer, items related to the operating cycle. 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.

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.

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 Existing Decommissioning, Restoration and Similar Liabilities, 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. 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 has no currency hedging arrangements 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 2020	2019
Sale of oil	369,139	717,061
Total revenues	**369,139**	**717,061**

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

Note 3 Remuneration, employees and other compensations

The company had 997 employees engaged in the operations in Kurdistan at yearend 2020, all working in Kurdistan. No salaries or fees have been paid to Managing Director or to the Board in 2020. 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 2020, USD 85,613 has been expensed as auditors' fees (USD 116,581 in 2019).

Note 4 Intangible assets/ Fixed assets

USD thousand	Exploration assets	License interests	Oil and gas fields in production	Other fixed assets	Total
Cost 1 January 2020	24,552	83,508	1,921,844	2,518	2,032,422
Additions*	16,711	-	76,764	-	93,475
Disposals	-	-	-	-	-
Transfers	-	-	-	-	-
Cost 31 December 2020	**41,263**	**83,508**	**1,998,609**	**2,518**	**2,125,897**
Acc. Depreciations and impairments 1 January 2020	-	-63,361	-1,171,418	-2,518	-1,237,297
Depreciations	-	-2,784	-236,351	-	-239,135
Impairment	-	-	-	-	-
Disposals	-	-	-	-	-
Acc. Depr. and impairment 31 December 2020	**-**	**-66,145**	**-1,407,768**	**-2,518**	**-1,476,432**
Book value 31 December 2020	**41,264**	**17,361**	**590,842**	**-**	**649,467**
Book value 31 December 2019	24,553	20,145	750,429	-	795,127
Depreciation rates		Unit of production method	Unit of production method	20-30% Linear	

* Includes changes in estimate of asset retirement, see Note 11.
License costs, capitalized exploration costs and field under development are not depreciated until production commences.

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 2020.

Oil and gas 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 2020 were as follows (yearend 2019 in brackets):

	2021	2022	2023	2024
Brent Blend (USD/bbl)	52.8 (64.2)	59.1 (66.7)	59.1 (69.5)	64.7 (71.6)

For periods after year 2024, the long-term oil price assumptions applied was USD 65.0 per barrel (in real terms, basis year 2020).

Oil and gas 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 and gas 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 13.

Discount rate
The discount rate is derived from the company's 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 2020 for Kurdistan assets were 13.0 percent (13.0 percent at yearend 2019).

Impairment charge and reversal
The following table shows the recoverable amount and carrying amount for the CGUs which were impaired in 2020 and 2019.

Impairments	2020		2019	
USD million	**Impairment / reversal**	**Recoverable / carrying amount**	**Impairment / reversal**	**Recoverable / carrying amount**
Erbil license, Kurdistan	-	-	-19.3	-
Total	**-**	**-**	**-19.3**	**-**

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%

License expiry for assets in operation
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, DNO is entitled to, upon request to the KRG, a further five-year extension (i.e., to 2036). Based on DNO's current assessments, production from the Tawke license will be commercial for the duration of its contractual term and through subsequent extensions

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 67.1 million (USD 8.7 million at yearend 2020) is mainly with parent company DNO ASA and includes this years' additional dividend of USD 200 million.

Note 6 Trade receivables

USD thousand	Years ended 31 December 2020	2019
Non-current trade receivables	182,000	-
Total non-current trade receivables	**182,000**	**-**
Trade receivables	93,513	298,198
Total current trade receivables	**93,513**	**298,198**

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 the August 2019 invoice. The payments for August, September and October 2019 oil sales and override invoices were received in January, February and April 2020 respectively, and entitlement payments resumed from the March 2020 invoice. At yearend 2020, entitlement invoices (USD 212.2 million for the period of November 2019-February 2020) and override invoices (USD 46.8 million for the period of November 2019-December 2020) together totaling USD 259.0 million were still withheld by the KRG.

In December 2020, a plan was put in place by the KRG in respect of the withheld entitlement and override payments from 2019 and 2020 such that if Brent prices exceed USD 50 per barrel on average in any month, one-half of the incremental revenue will be paid to the Tawke partners and shared prorata to their interests in the license by the KRG towards the withheld amounts. Moreover, override payments will resume from the January 2021 invoice. The Company expects at a minimum to recover the full nominal value of the withheld receivables, including but not limited to interest payments reflecting the company's cost of debt.

Total book value of trade receivables of USD 275.5 million (USD 291.5 million in nominal value) at yearend 2020 relate to outstanding entitlement invoices (total of USD 244.7 million for the months November 2019-February 2020 and December 2020) and override invoices (total of USD 46.8 million for the period of November 2019-December 2020) from the Tawke license in Kurdistan. Due to the time value effects of expected cash flows, the company has reduced the book value of the receivables from the Tawke license by USD 16.0 million. The calculation of present value takes into account the most recent production forecasts for the Tawke license and the company's Brent price assumptions (see Note 4) to determine the expected timing of payments towards the withheld receivables 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 that is applied reflects the company's cost of debt. In addition, USD 182.0 million was reclassified from short-term to non-current receivables. See Note 15 for information about payments received after yearend.

Note 7 Other receivables and short-term liabilites

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 8 Inventories

USD thousand	Years ended 31 December 2020	2019
Spare parts and drilling equipment	22,118	12,266
Total inventory	**22,118**	**12,266**

In 2020, the provision for obsolete inventory in Kurdistan was USD 18.1 million (unchanged from yearend 2019).

Note 9 Shareholders' equity

Movement in shareholders' equity:

USD thousand	Share capital	Share premium	Other paid in capital	Other equity	Total
Shareholders' equity as of 1 January 2020	177	73,914	89,957	814,962	979,010
Net profit/-loss for the period	-	-	-	23,353	23,353
Ordinary dividend				-	-
Additional dividend (23 April 2021)				-200,000	-200,000
Group contribution received/-given				-	-
Shareholders' equity as of 31 December 2020	**177**	**73,914**	**89,957**	**638,315**	**802,362**

	2020
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 10 Taxes

Tax income/-expense

	1 January - 31 December	
USD thousand	**2020**	**2019**
Taxes payable	-	-4,990
Change in deferred taxes	-	-
Change in tax expense from prior years	-	-
Tax income/-expense	**-**	**-4,990**

Tax effects on temporary differences relate to the following items:

	Years ended 31 December	
USD thousand	**2020**	**2019**
Tax losses carried forward	1,931	-
Total deferred tax assets/-liabilities	**1,931**	**-**
Deferred tax asset allowance	-1,931	-
Recognized deferred tax assets	**-**	**-**
Recognized deferred tax liabilities	**-**	**-**

The current tax rate in Norway in 2020 was 22 percent (2019: 22 percent). If applicable, tax rates effective from 1 January 2021 have been used to calculate deferred taxes.

Income tax receivable/-payable

	Years ended 31 December	
USD thousand	**2020**	**2019**
Income tax payable	-	-4,990
Tax effect group contribution	-	4,990
Net tax receivable/-payable	-	-

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 11 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 3.1 million, from USD 59.7 million at yearend 2019 to USD 62.8 million at yearend 2020, was related to: increase in existing provisions (USD 0.9 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 60.6 million.

The discount rates before tax applied at yearend 2020 were between 3.2 percent and 3.7 percent (between 3.5 percent and 3.7 percent in 2019). The credit margin included in the discount rates at yearend 2020 was 2.8 percent (1.9 percent in 2019).

Note 12 Guarantees and commitments

Contractual obligations/license commitments
At yearend 2020, 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 2020 are as follows:

USD million	**2020**	**2019**
Within 1 year	0.3	0.6
1 to 5 years	-	0.1
After 5 years	-	-
Total	**0.3**	**0.7**

Liability for damages/insurance
Installations and operations are covered by various insurance policies.

Note 13 Company Working Interest and net entitlement reserves (unaudited)

Development of proven (1P) and proven and probable (2P) reserves (CWI)*

MMbbls	Proven (1P)	Proven and probable (2P)
As of 1 January 2019	**239.7**	**376.1**
Production	-31.9	-31.9
Acquisitions	-	-
Divestments	-	-31.8
Extensions and discoveries	-	-
New developments	-	-
Revision of previous estimates	-50.8	-37.8
As of 31 December 2019	**156.9**	**274.5**
Production	-28.5	-28.5
Acquisitions	-	-
Divestments	-	-
Extensions and discoveries	-	-
New developments	-	-
Revision of previous estimates	31.4	21.6
As of 31 December 2020	**159.7**	**267.5**

* The reserves are according to the Annual Statement of Reserves and Resources (ASRR) dated 16 February 2021, classified as in the Norwegian Petroleum Directorate class 1-3.

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 2020, 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 2020, the company's CWI 1P reserves stood at 159.7 MMbbls, up from 156.9 MMbbls at yearend 2019, after adjusting for production during the year and upward technical revisions. On a 2P reserves basis, the company's CWI reserves stood at 267.5 MMbbls, compared to 274.5 MMbbls at yearend 2019.

No reserves were recorded at the Baeshiqa license at yearend 2020, pending conclusion of the ongoing appraisal activities.
Gross 2C resources at the Baeshiqa structure were recorded at 37.8 MMbbls (13.6 MMbbls on a CWI basis) at yearend 2020. No 2C resources were recorded for the Baeshiqa structure at yearend 2019.

The company's operated production in 2020 averaged 110,282 boepd, down from 123,940 boepd in 2019. The CWI production in 2020 was 28.5 MMbbls, down from 31.9 MMbbls in 2019. The company's CWI yearend 2020 Reserve Life Index (R/P) stood at 5.6 years on a 1P reserves basis and 9.4 years on a 2P reserves basis.

CWI and 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). CWI 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 CWI volumes.

The NE reserves 1P developed reserves were 69.4 MMbbls at yearend 2020. The corresponding figure at yearend 2019 was 59.9 MMbbls. The NE reserves 2P developed, relevant for depreciation, were 96.7 MMbbls at yearend 2020 (2019: 95.7 MMbbls).

Following the Kurdistan Receivables Settlement Agreement effective 1 August 2017, DNO's interest in the Tawke license increased to 75 percent plus three percent of aggregate license revenues until 31 July 2022. CWI and NE reserves in the table above include the reserves attributable to DNO from this settlement agreement.

Note 14 Restricted bank deposits

The company has no restricted bank deposits.

Note 15 Significant events after the balance sheet date

Payments Tawke oil sales
The company has since yearend received USD 170.8 million net to the company from the KRG, of which USD 141.5 million represent DNO's entitlement share of December 2020 - March 2021 crude oil deliveries to the export market from the Tawke license. Of the balance, USD 8.9 million is override payments from the Tawke license for the period January 2021 - February 2021 and USD 20.4 million is payments towards the company's arrears relating to withheld payment of Tawke license 2019 and 2020 entitlement and override invoices.

On 13 May 2021, the parent company DNO ASA reported that Kurdistan's Minister of Natural Resources informed the international oil companies operating in the region of an intention to extend the payment period for arrears built up from non-payment of certain invoices in 2019 and 2020. The revised terms reduce the payment of the withheld amounts to 20 percent of incremental revenue above USD 50 per barrel. The Minister also advised that all international oil company invoices, including towards withheld amounts, will now be settled within 60 days of receipt. DNO is reviewing its position and will engage with Kurdistan to seek agreement regarding payment terms, interest on the arrears and revised lifting arrangements. For accounting purposes, this is considered a non-adjusting event.

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of DNO Iraq AS

Report on the audit of the financial statements

Opinion

We have audited the financial statements of DNO Iraq AS, which comprise the balance sheet as at 31 December 2020, the income statement and statements 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 have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2020 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 laws, regulations, and auditing standards and practices generally accepted in Norway, including 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 ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations 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 Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Managing Director (management) are responsible for the other information. Our opinion on the audit of 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 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, we are required to report that fact. We have nothing to report in this regard.

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 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.

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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 laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (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 law, regulations and generally accepted auditing principles in Norway, including 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 those charged with governance 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.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

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

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Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 21 June 2021
ERNST & YOUNG AS

The auditor's report is signed electronically

Jon-Michael Grefsrød
State Authorised Public Accountant (Norway)

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The signatures in this document are legally binding. The document is signed using Penneo™ secure digital signature. The identity of the signers has been recorded, and are listed below.

"By my signature I confirm all dates and content in this document."

Jon-Michael Grefsrød
Statsautorisert revisor
On behalf of: Ernst & Young AS
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Skattedirektoratet

Saksbehandler	Deres dato	Vår dato
Jan Hoelstad	24.11.2010	14.12.2010
Telefon	Deres referanse	Vår referanse
22077325	Cathrine Manum	2010/1198508

DNO International ASA
Postboks 1345 Vika
0113 OSLO

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 Org. nr: 984 308 736
- DNO Mozambique AS Org. 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