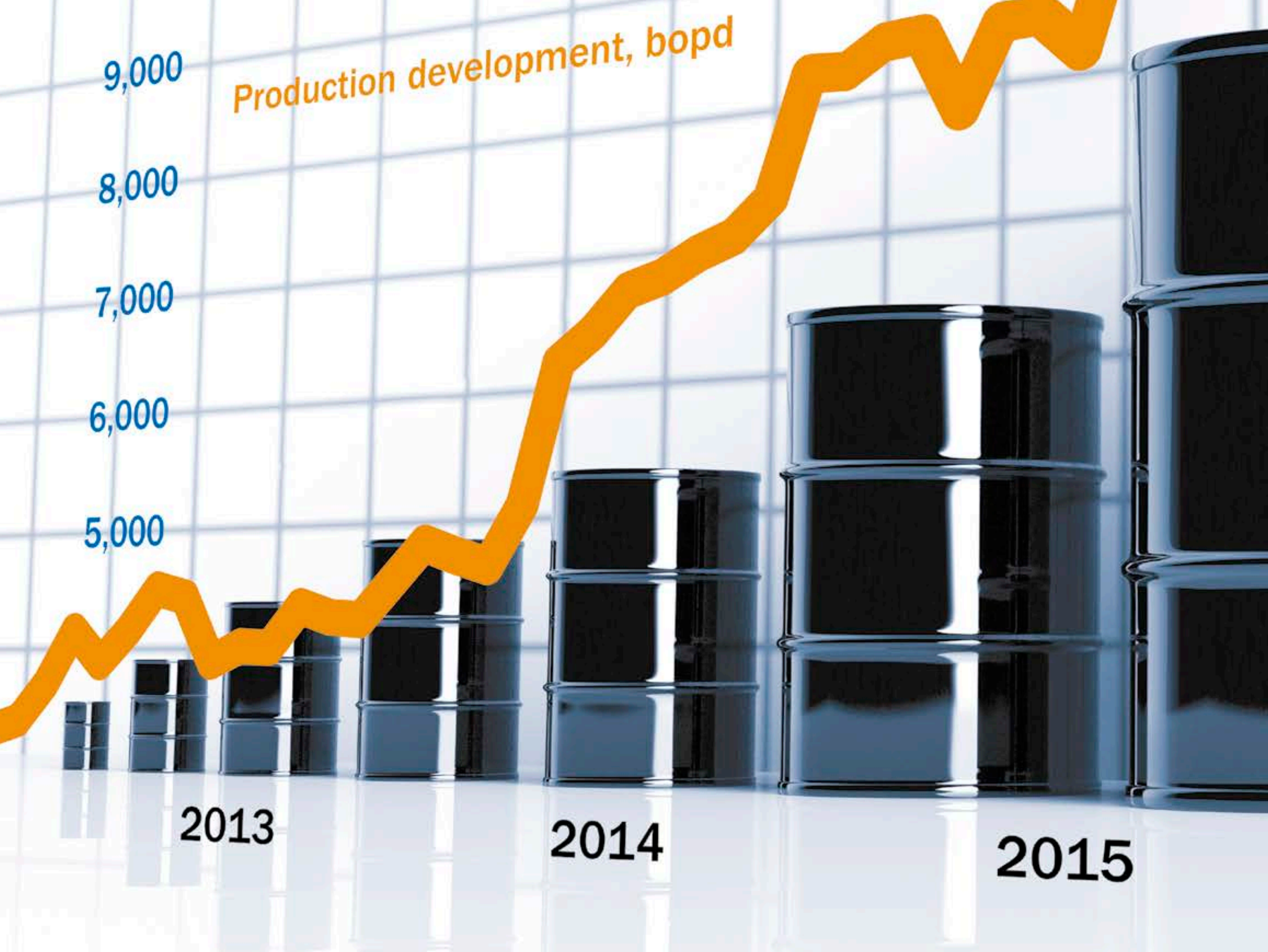
TETHYS OIL

Annual Report 2016

MUSD* (unless specifically stated)	2016	2015	2014	2013	2012
Production, before government take, bbl	**4,478,121**	3,578,488	2,807,653	1,709,706	1,399,518
Average daily production, before government take, bbl	**12,235**	9,804	7,692	4,684	3,824
Net sales, after government take, bbl	**2,357,701**	1,805,056	1,464,228	850,926	776,248
Average selling price per barrel, USD	**40.5**	58.1	103.9	106.6	110.3
Revenues	**87.1**	107.0	149.3	92.2	85.5
Operating result	**-0.5**	23.0	57.1	45.1	49.3
EBITDA	**44.1**	58.6	108.0	74.8	74.5
Result for the period	**2.7**	23.4	49.4	38.1	46.0
Earnings per share (after dilution), USD	**0.08**	0.67	1.39	1.07	1.34
Net cash	**39.0**	51.2	47.8	-14.9	-21.3
Shareholders' equity	**196.8**	217.2	214.3	168.4	130.1
Non-current liabilities	**8.8**	4.0	3.3	63.1	64.1
Investments in oil and gas properties	**48.5**	40.8	39.3	44.1	132.1
Number of shares at the end of the year	**35,543,750**	35,543,750	35,543,750	35,543,750	35,543,750
Of which repurchase shares at the period end	**1,329,224**	1,083,669	298,160	–	–
Distribution to shareholders, SEK per share	**4.00**	3.00	–	–	–
Market capitalization at the end of the period, MSEK	**2,799**	2,044	2,168	2,399	1,893
Share price at the end of the period, SEK	**78.75**	57.5	61.00	67.50	53.25
2P-reserves in Oman (million barrels of oil)	**21.4**	18.2	17.8	15.2	14.3

* Starting 1 January 2016, the Tethys Oil group presents the financial reports in USD. Please note that all comparative financials have been restated.



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Annual General Meeting

The Annual General Meeting will be held on 17 May 2017, 3:00 p.m. at Grand Hôtel, Södra Blasieholmshamnen 8, in Stockholm. To attend the AGM, please see Tethys Oil’s website, www.tethysoil.com, for more information.

Letter to the shareholders

Dear friends and investors,

What a year 2016 turned out to be. The oil business went on quite a rollercoaster ride when the international oil prices at the beginning of the year fell to an over ten year low, and then gradually strengthened during the year. We ended the year at about USD 55 per barrel following the agreement between OPEC and non-OPEC members to cut oil output. But Tethys Oil remained cash flow positive the entire year, even during the lows of January. And in a stormy macro environment, Tethys Oil's operational performance continued to improve. We produce a higher amount of oil at a lower cost at the same time as our reserve base is increasing.

Production growth

In 2016, we produced 4.5 million barrels of oil, corresponding to an increase of 25 percent compared to 2015 and the highest so far for any year. Almost all our oil was produced from our extraordinary assets Blocks 3&4, but we also had a small contribution from our producing assets onshore Lithuania. The production amounted to 12,235 bopd and although we are proud of our production numbers, we continue to aim higher.

Our production growth ambitions will, however, not have a visible effect during the first half of 2017. Oman signed up to the OPEC initiated production limitations at the end of 2016, which has given us a monthly target production of about 12,300 bopd for the first six months. We will however continue to drill and keep our activity levels in high gear in order to be fully prepared for continued future growth.

Decreasing production costs

Following higher efficiency with higher production and general cost reductions, we have been able to reduce our operating expenses per barrel even further this past year. In 2016, our operating expenses per barrel amounted to USD 8.2, a reduction of over 30 percent compared with USD 12.1 per barrel in 2015. Our low costs made it possible for us to produce oil with a positive cash flow even at the low oil prices we saw in the beginning of 2016.

Increasing reserves

We are also proud of our reserve growth. In 2016, we could report a reserve replacement ratio of 171 percent. So, even though our production increased by 25 percent, we increased our reserves by more and at the end of the year 2016 the 2P reserves amounted to 21.4 million barrels. The increased reserves are attributable to our ongoing appraisal and optimization program. Drilling of appraisal and production wells and implementation of water injection has resulted in reserves having moved from the 3P to the 2P category. The 3P number has further increased as the appraisal wells have extended the limits of the areas of our fields that are in production. The reserve growth demonstrates the robustness of our existing fields.

We believe that there is scope for further development in our existing fields. The budget for 2017 will be in line with 2016, but more attention will be given exploration activities. We are hopeful that the exploration wells currently in progress and those planned for later in 2017, will have a significant impact on our ability to further increase reserves.

Additional distribution to our shareholders

In 2016, we distributed in total MUSD 15 to you, our shareholders. It was done as a dividend of SEK 1.00 per share in second quarter 2016 and SEK 3.00 per share through a redemption procedure in the fourth quarter 2016. We continue to be a cash dividend company, and again propose a dividend of SEK 1.00 per share. Depending on how events will unfold during the year, we will continually evaluate the possibility of distributing more cash to shareholders in accordance with our long term financial goals, as we have done over the past years.

So stay with us, we remain committed to deliver a successful and sustainable development to create value to our stakeholders.

Stockholm in April 2017

Magnus Nordin
Managing director

In March 2017, less than seven years after the production started in 2010, the cumulative total oil production on Blocks 3&4 reached 50 million barrels, corresponding to 15 million barrels net to Tethys Oil (before government take). This milestone has been achieved as a result of the skills and hard work of all the staff, contractors and suppliers. The oil produced has created significant economic value for the people of Oman, the shareholders of Tethys Oil and the other stakeholders of the joint venture group, and generated jobs.

Milestones

2001

Tethys Oil was founded

2004

IPO and listing on First North, Stockholm

2006

First Company-operated well drilled in Denmark

2007

Acquisition of interests in Blocks 3&4

2010

20 percent of Blocks 3&4 farmed out to Mitsui

Early production from Blocks 3&4 commences

2012

Oil producing assets onshore Lithuania acquired

Three year MSEK 400 bond loan issued

Field Development Plan for Blocks 3&4 approved, licence terms extended until 2040

2013

Listing on Nasdaq Stockholm

2014

Arrangement of a four-year, up to MUSD 100, Senior Revolving Reserve-Based Lending Facility

The MSEK 400 bond loan redeemed

2015

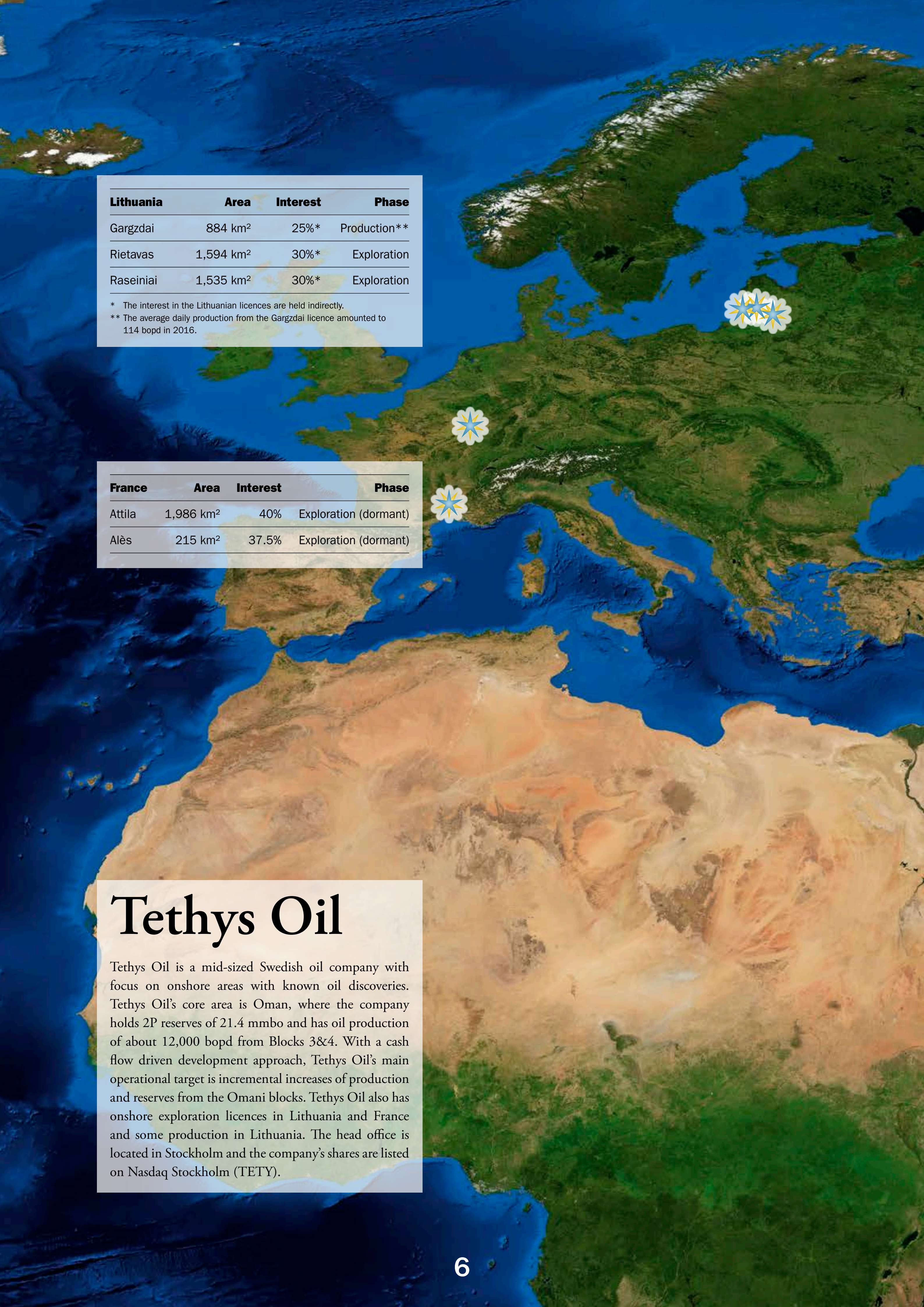
Production exceeds 11,000 bopd at the end of the year (before government take)

Tethys Oil pays dividend and distributes SEK 3.00 per share to its shareholders

2016

Production in 2016 amounts to 12,235 bopd (before government take)

Tethys Oil pays dividend and distributes SEK 4.00 per share to its shareholders



Lithuania	Area	Interest	Phase
Gargzdai	884 km²	25%*	Production**
Rietavas	1,594 km²	30%*	Exploration
Raseiniai	1,535 km²	30%*	Exploration

* The interest in the Lithuanian licences are held indirectly.
** The average daily production from the Gargzdai licence amounted to 114 bopd in 2016.

France	Area	Interest	Phase
Attila	1,986 km²	40%	Exploration (dormant)
Alès	215 km²	37.5%	Exploration (dormant)

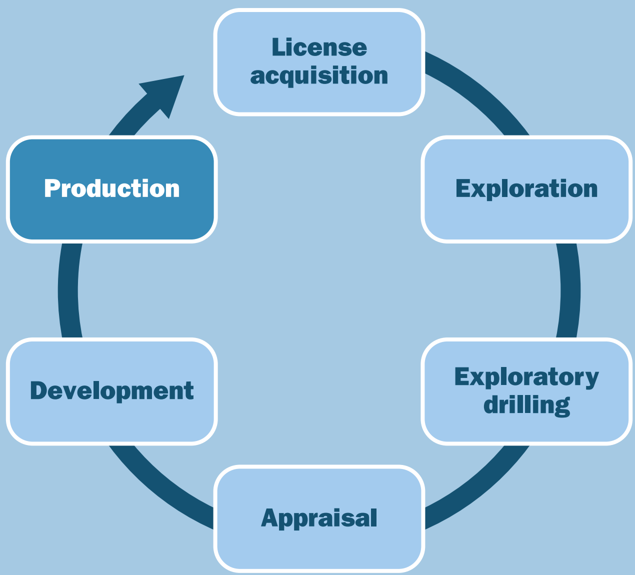
Tethys Oil

Tethys Oil is a mid-sized Swedish oil company with focus on onshore areas with known oil discoveries. Tethys Oil's core area is Oman, where the company holds 2P reserves of 21.4 mmbo and has oil production of about 12,000 bopd from Blocks 3&4. With a cash flow driven development approach, Tethys Oil's main operational target is incremental increases of production and reserves from the Omani blocks. Tethys Oil also has onshore exploration licences in Lithuania and France and some production in Lithuania. The head office is located in Stockholm and the company's shares are listed on Nasdaq Stockholm (TETY).

Oman	Area	Interest	Phase	Reserves (2P)	Average daily production 2016
Blocks 3&4	29,130 km²	30%	Production/ exploration	21.4 mmbo	12,121 bopd

Reto Stöckli, NASA Earth Observatory

Targeting increase in production and reserves

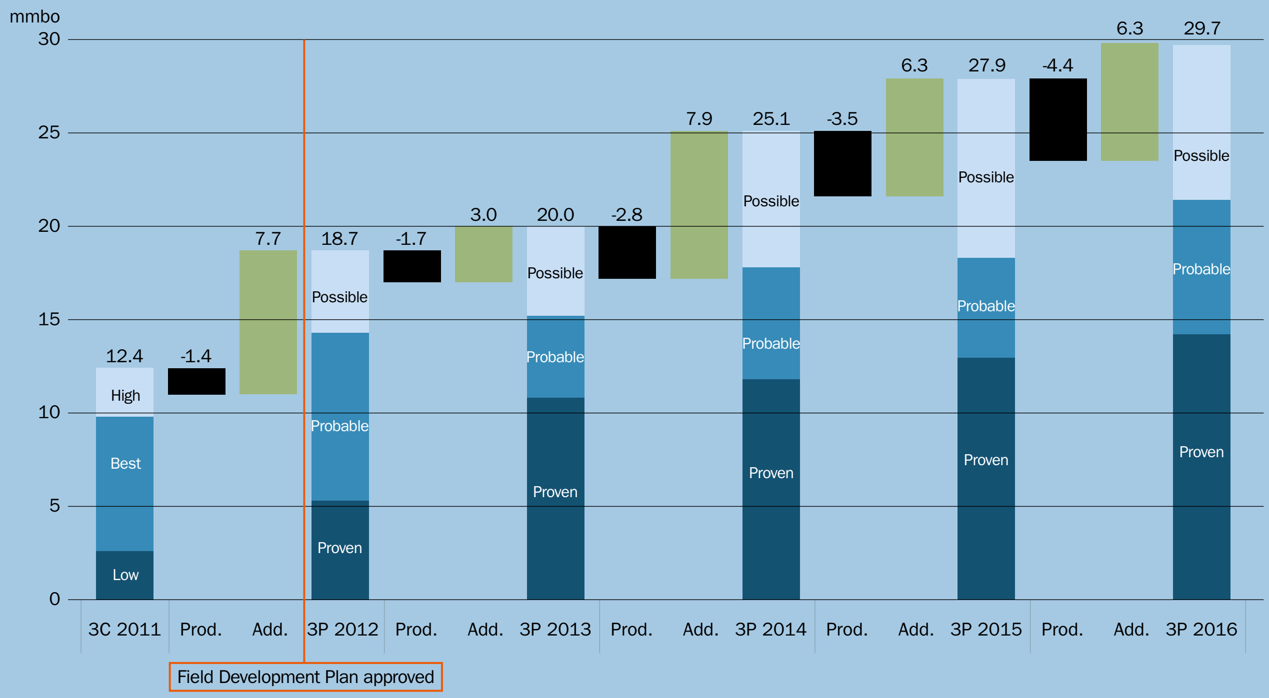


Tethys Oil aims to have a well-balanced and self-financed portfolio of oil assets, offering both production, development and exploration potential. The main target, with a cash flow orientated approach, is to incrementally increase production and reserves in Oman. Furthermore, the exploration and development of Tethys Oil's assets elsewhere will also continue. In addition, new projects are constantly being evaluated. According to Tethys Oil's successful strategy, new growth platforms should primarily be onshore appraisal projects where oil has previously been discovered, but was deemed sub-commercial for various reasons.

Tethys Oil's primary objective is to create shareholder value and in doing so the company will have a balanced approach to growth and shareholder distributions, with a long term capital structure target of a zero net cash position.

Tethys Oil's operations should be conducted in an economical, socially and environmentally responsible way, to the benefit of all stakeholders.

Reserves



Oman

Tethys Oil's net working interest reserves in Oman as per 31 December 2016 amounted to 14,222 mbo of proven reserves (1P), 21,408 mbo of proven and probable reserves (2P) and 29,729 mbo of proven, probable and possible reserves (3P).

Development of reserves, Blocks 3&4

(Audited by DeGolyer and MacNaughton Canada Limited)

mbo	1P	2P	3P
Total 31 December 2015	**12,905**	**18,244**	**27,863**
Production 2016	-4,436	-4,436	-4,436
Discoveries	146	238	304
Revisions	5,607	7,362	5,998
Total 31 December 2016	**14,222**	**21,408**	**29,729**

In 2016 Tethys Oil added 1P reserves of 5,753 mbo, representing an increase of 45 percent; 2P reserves of 7,600 mbo, representing an increase of 42 percent; and 3P reserves of 6,302 mbo, representing an increase of 23 percent. The increase in 2P reserves represents and internal reserve replacement ratio of 171 percent.

Reserves Blocks 3&4, Oman as per 31 December 2016

(Audited by DeGolyer and MacNaughton Canada Limited)

mbo	1P	2P	3P
Farha South	8,672	11,569	14,028
Shahd	4,728	7,847	13,000
Saiwan East	822	1,992	2,701
Total 31 December 2016	**14,222**	**21,408**	**29,729**

The review of the reserves in Oman has been conducted by independent petroleum consultant DeGolyer and MacNaughton Canada Limited. The report has been estimated using 2007 Petroleum Resources Management System (PRMS), Guidelines of the Society of Petroleum Engineers (SPE), World Petroleum Council (WPC), American Association of Petroleum Geologists (AAPG) and Society of Petroleum Evaluation Engineers (SPEE).

Operations

Al Alam Palace garden

Oman – part of the oil fairway

The Sultanate of Oman, strategically located in the south eastern part of the Arabian Peninsula, overlooks the Arabian Sea, the Sea of Oman and the Arabian Gulf. It also overlooks the strategic Strait of Hormuz at the point of entry to the Arabian Gulf. Oman neighbours includes United Arab Emirates, Saudi Arabia and Yemen.

Oman is a beautiful country, combining white sand beaches, rolling desert dunes and expansive mountain ranges. Oman is also the oldest independent state in the Arab world with a long and exciting history of thousands of years. Modern archaeological discoveries suggest that humans settled in it during the Stone Age, i.e. more than 10,000 years ago. And, most importantly for Tethys Oil, Oman is also a major oil nation with a present production of about 1 million boepd. Oman has in excess of 5 billion barrels of estimated proven oil reserves, ranking Oman as the 7th largest proved oil reserve holder in the Middle East and the 23rd largest in the world (BP Statistical Review of World Energy, June 2016).

In this highly prospective country, Tethys Oil has its core area. With the desire and ambition to become a dedicated and successful player in the Omani oil and gas industry, Tethys Oil acquired interest in the licence for Blocks 3&4 in 2007. The blocks cover an area of 29,130 square kilometres in the central eastern part of Oman. Tethys Oil, through its wholly owned subsidiary Tethys Oil Block 3 & 4 Ltd, has a 30 percent interest in Blocks 3&4. Partners are Mitsui E&P Middle East B.V. with 20 percent and the operator CC Energy Development S.A.L. (Oman branch) holding the remaining 50 percent.

Photo by Tristan Schmurr

Muscat
SULTANATE OF OMAN
Block 3
Block 3
Block 4
Salalah
Unearthed Outdoors, LLC

Unlocking of the black gold

In hindsight it might seem like the exploration, development and production launch of crude oil on Blocks 3&4 have been a straightforward and comprehensible process. However, numerous large companies had explored for oil and gas for 40 years and drilled 27 exploration wells in these two blocks. In the majority of the wells, oil was found, but no well was commercially successful.

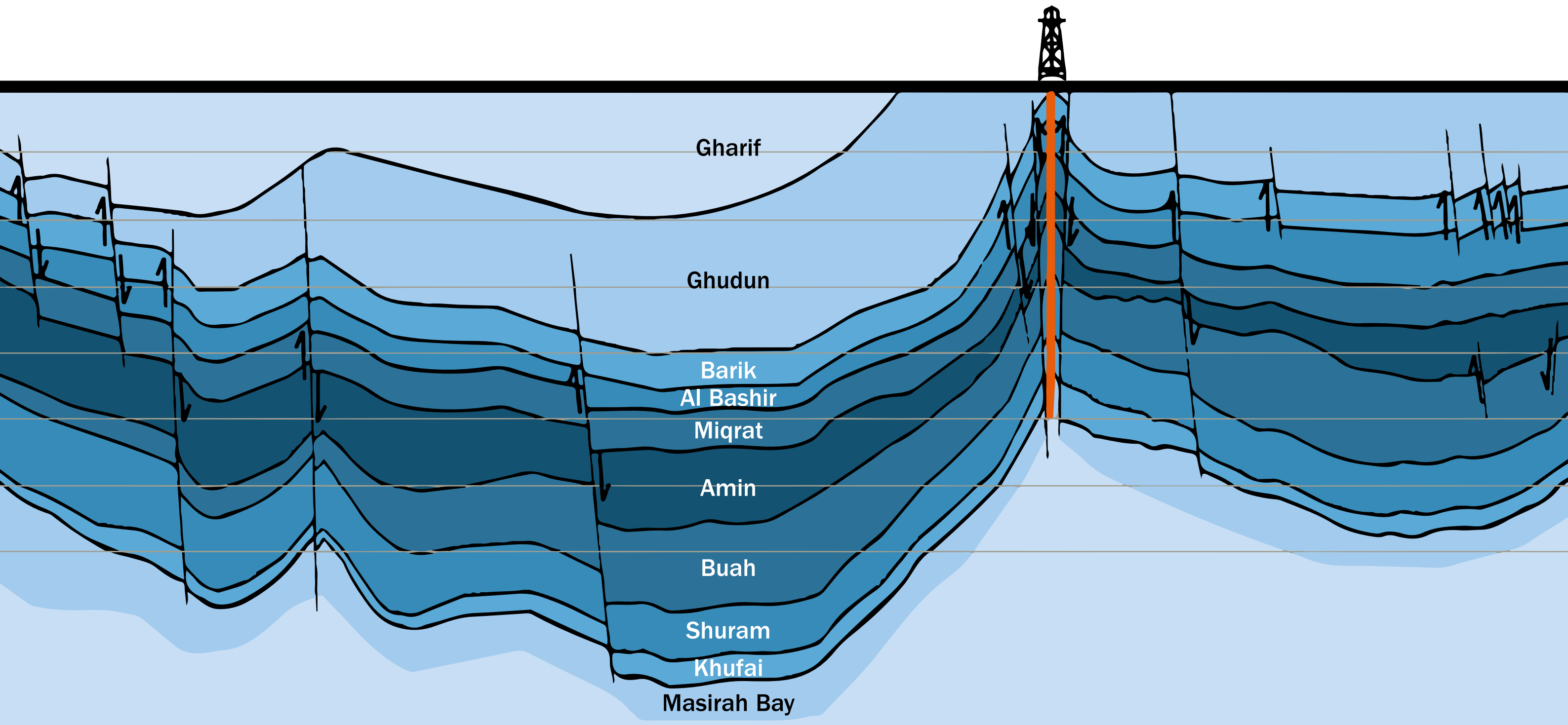
What was deemed not hydrocarbon prospective areas by previous operators have turned commercial with the help of the collective experience accumulated by the partner groups' specialists, new technology, higher oil prices and perseverance.

Production conditions vary from area to area within the blocks, and when exploring the blocks, it has been of great importance to adopt a comprehensive approach. New discoveries have been made in new areas, but new discoveries have also been made in formations above or below existing discoveries.

3D seismic surveys have been a key factor to the development of the blocks. Seismic data has revealed that many of the dry holes drilled by previous operators would not have been drilled if 3D data had been available prior to drilling.

In 2012, the Field Development Plan for Blocks 3&4 was approved and the exploration and production terms for the licence were extended until 2040. Three oil fields are today in production on the blocks. Since an early production system was launched in August 2010, Tethys Oil's share of the production (before government take) has increased from some 200 bopd per day to in excess of 12,000 bopd in 2016.

Despite intense exploration and development activity for over nine years only a minor part of the blocks has been explored. Out of the total area of the blocks of 29,130 square kilometres, around 6,000 square kilometres of seismic data have been acquired so far. The studies have resulted in the mapping of a large number of new prospects.



Formations

Geological formations are natural formations and structures in the rock and ground which have occurred as a result of usually very slow geological processes of different kinds and ages.

A formation is a rock unit that is distinctive enough in appearance that a geologic mapper can tell it apart from the surrounding rock layers. The thickness of formations may range from less than a meter to several thousand metres. The term "formation" is often used informally to refer to a specific grouping of rocks, such as those encountered within a certain depth range in an oil well.

On Blocks 3&4, reservoirs in formations like Khufai, Barik, Lower Al Bashir, Buah and Masirah Bay have been explored. Tethys Oil has reserves and production in reservoirs in the Khufai, Barik, Lower Al Bashir and Lower Buah formations.

The Farha South oil field

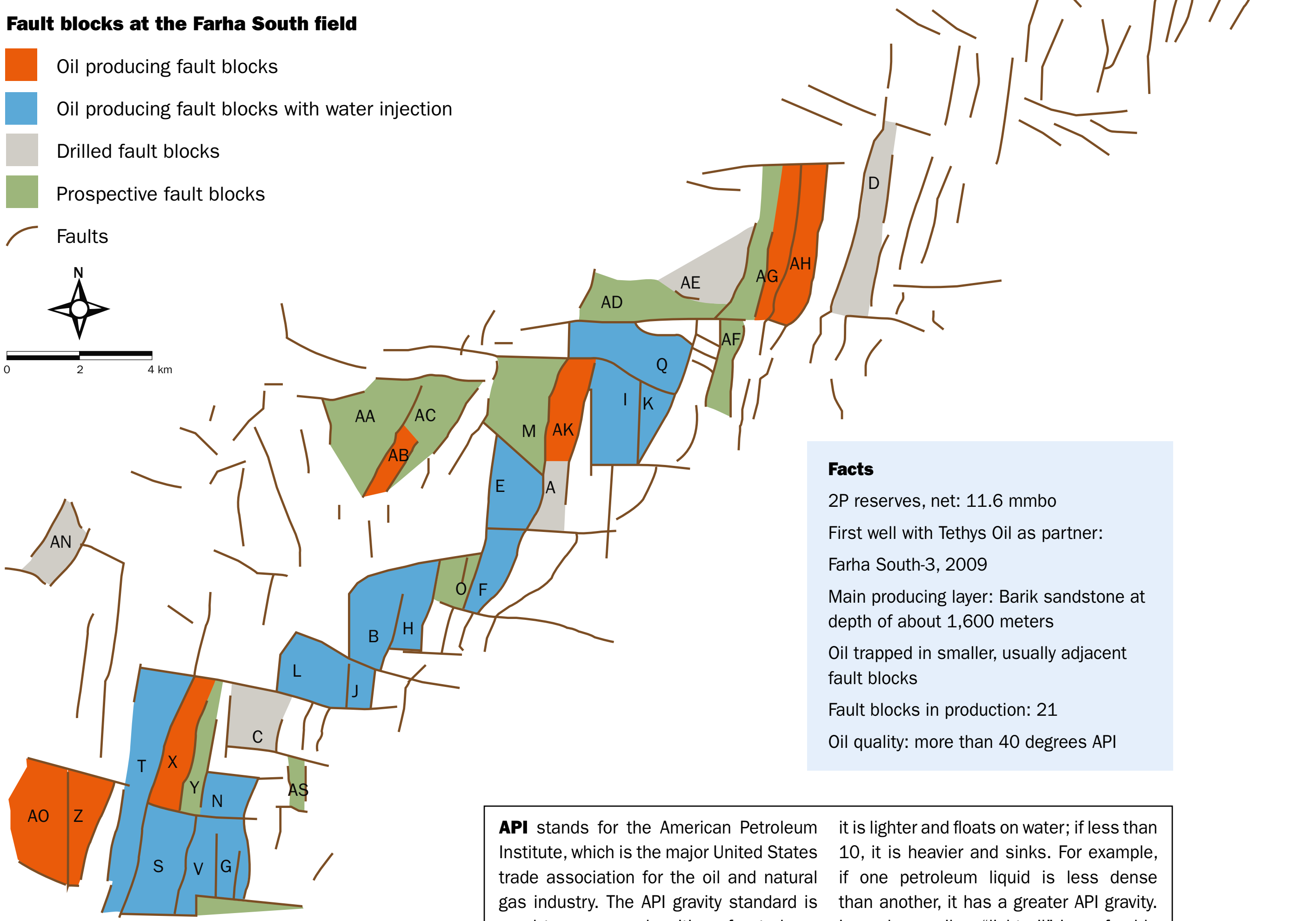
Farha South-3 was the first well to be drilled on the blocks with Tethys Oil as partner. It spudded early 2009. Oil on Farha South was originally discovered in 1986 by a previous operator, when the Lower Al Bashir sandstone layer flowed oil. With Farha South-3, oil was again found in the Lower Al Bashir layer, which flowed more than 754 bopd on test in 2009. A long term production test though revealed the reservoir to be tight.

The Barik sandstone, at an average depth of 1,600 meters and overlaying the Lower Al Bashir, also had excellent oil shows in the Farha South-3 well, and flowed on test 379 barrels of oil per day. The Barik was put on long term production test, and proved itself to be a reliable producer.

The oil of the Farha South is not trapped in one large continuous reservoir, but is instead trapped in a large number of smaller, usually adjacent fault blocks. These faults are relatively small and 3D seismic has been essential in the mapping of drillable fault blocks. The only way to confirm that a fault block is oil bearing is by drilling.

The low content of gas combined with the absence of a water drive in the Barik layer, make pumps and water injections necessary. Water is injected into the reservoir in order to increase the pressure and thereby stimulate production. 21 fault blocks have so far been put into production, with one additional fault block being added in 2016. About 70 percent of the fault blocks have been developed with water injection. The oil from the Barik layer is of high quality, more than 40 degrees API and does not contain any sulphur.

The Farha South-3 well was the start of what today is the Farha South oil field. The field is today the largest field on the blocks holding 11.6 mmbo of proved and possible reserves (2P) net to Tethys Oil, corresponding to 54 percent of Tethys Oil's total 2P reserves on the blocks. The production has grown steadily since the field came on stream in 2010 and the field has produced the majority of the Company's total oil production to date.



Facts

2P reserves, net: 11.6 mmbo

First well with Tethys Oil as partner: Farha South-3, 2009

Main producing layer: Barik sandstone at depth of about 1,600 meters

Oil trapped in smaller, usually adjacent fault blocks

Fault blocks in production: 21

Oil quality: more than 40 degrees API

API stands for the American Petroleum Institute, which is the major United States trade association for the oil and natural gas industry. The API gravity standard is used to compare densities of petroleum liquids. It is a measure of how heavy or light a petroleum liquid is compared to water. If its API gravity is greater than 10, it is lighter and floats on water; if less than 10, it is heavier and sinks. For example, if one petroleum liquid is less dense than another, it has a greater API gravity. Less dense oil or "light oil" is preferable to more dense oil as it contains greater quantities of hydrocarbons that can be converted to gasoline.

The Shahd oil field

At the Shahd field, oil is extracted at greater depths than the Farha South field, mainly from the Lower Buah carbonate at 2,000 metres. The Shahd field was discovered in 2013 through the exploration well Shahd B-1, in an area not previously explored with the drill bit. When discovered, the Shahd field opened up a new producing area, and the field has delivered the majority of the increase in the Company's total reserves over the last years. The field holds 7.8 mmbo of proved and possible reserves (2P) net to Tethys Oil, corresponding to 37 percent of Tethys Oil's total 2P reserves on the blocks.

The Shahd oil field is located approximately 20 kilometres west of the Saiwan East oil field. The oil from the Lower Buah layer holds a quality of approximately 38 degrees API. Like the Farha South field, this area is also highly faulted and the Lower Buah layer in the field is not one large continuous reservoir. The oil is instead trapped in separate structures. The only way to confirm that a undrilled structure is oil bearing is by drilling. So far, a handful of Lower Buah reservoirs have been put into production.

In the end of 2015, a new reservoir within the Shahd field, the Lower Khufai, was successfully brought on stream. This new carbonate reservoir responded very well to horizontal drilling, and was a major reason for the production increase around new year 2015/2016.

Like the Fahra South field, water injection is needed on the Shahd oil field. A water injection programme was launched in 2015. The system is expected to impact both reserves and production positively going forward.

Facts

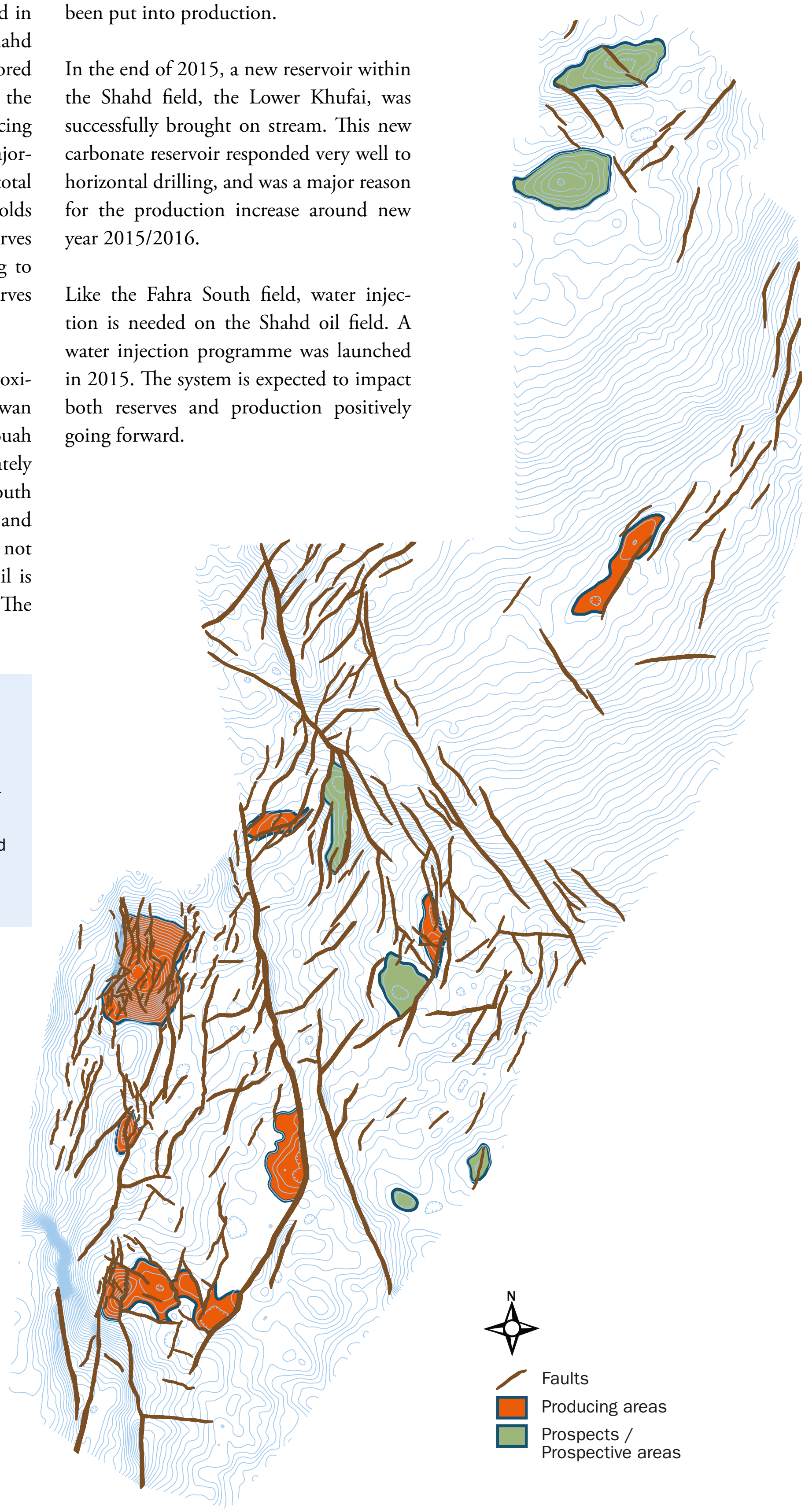
2P reserves, net: 7.8 mmbo

Discovery well: Shahd B-1, 2013

Main producing layer: Lower Buah carbonate at depth of about 2,000 meters

Production also from Lower al Bashir and Khufai

Oil quality: approx. 38 degrees API



The Saiwan East oil field

The Saiwan oil field was the second field to be discovered and put on stream on Blocks 3&4. The field was discovered with the drilling of the Saiwan East-2 well in 2009. Here, the oil is produced from an even greater depth from the Khufai carbonate at depths ranging from 1,700 to 2,400 metres. This reservoir, previously unknown as an oil producer in Oman, is today in production on the field, producing oil with a density of on average 32 degrees API. The field is the smallest so far discovered on the blocks, holding 2.0 mmbo of proved and possible reserves (2P) net to Tethys Oil, corresponding to 9 percent of Tethys Oil's total 2P reserves on the blocks. The Khufai carbonate has turned out to be challenging in many regards. The bringing on stream of the Khufai reservoir also on the Shahd field is of great interest for further understanding also of the Saiwan East field.

Large quantities of oil with different gravities and viscosities have also been found on the field. However, the findings suggest that any potential production from the heavy oil in Saiwan East will require enhanced oil recovery techniques.

Facts

2P reserves, net: 2.0 mmbo

First well with Tethys Oil as partner: Saiwan East-2, 2009

Main producing layer: Khufai carbonate at depth of about 1,700–2,400 meters

Oil quality: on average approx. 32 degrees API

Transportation and sales

The oil produced at all of the fields are transported through a pipeline to Qarn Alam metering station, west of the blocks. Here the oil volumes are recorded and the quality is measured. From Qarn Alam, the oil is transported through the Omani national pipeline system to the Mina Al Fahal crude export terminal in Muscat. At this terminal, the oil is lifted and loaded into oil tankers. From Muscat, the oil is shipped to different destinations in Asia.

Blocks 3&4 are held through an Exploration and Production Sharing Agreement (EPSA). The Omani government fiscal terms are attractive and typically allow the holder of a licence to recover their costs up to 40 percent of the value of total oil production. This is referred to as cost oil. After deducting any allowance for cost oil, the remaining oil production is typically split 80/20 between the government and the partners.

Tethys Oil sells all of its oil through Mitsui Energy Trading Singapore, which is part of Mitsui & Co Ltd. The price is determined based on the monthly average price of the two month future contract of Oman blend as traded on Dubai Mercantile Exchange, with a premium following the higher quality of the oil produced on Blocks 3&4.

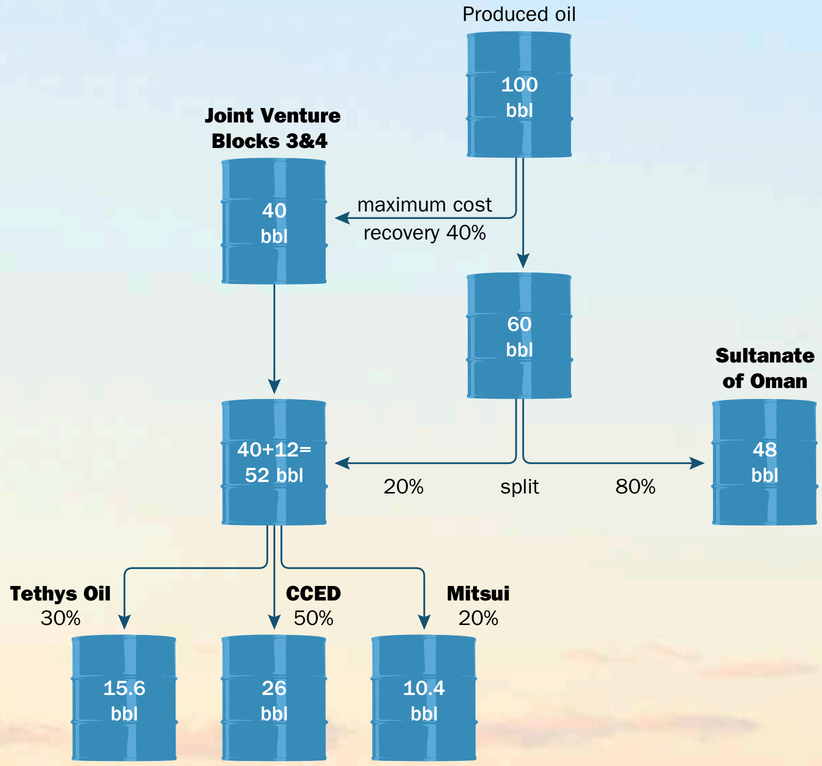


Photo by Marco Zanferrari

Tethys Office and personnel

Tethys Oil personnel consist of highly motivated individuals from six different nationalities, ranging in age from early twenties to mid seventies and with a balanced gender representation (41 percent female and 59 percent male). A majority of the staff have graduated from universities and colleges, primarily with geosciences, engineering or business.

Muscat Office

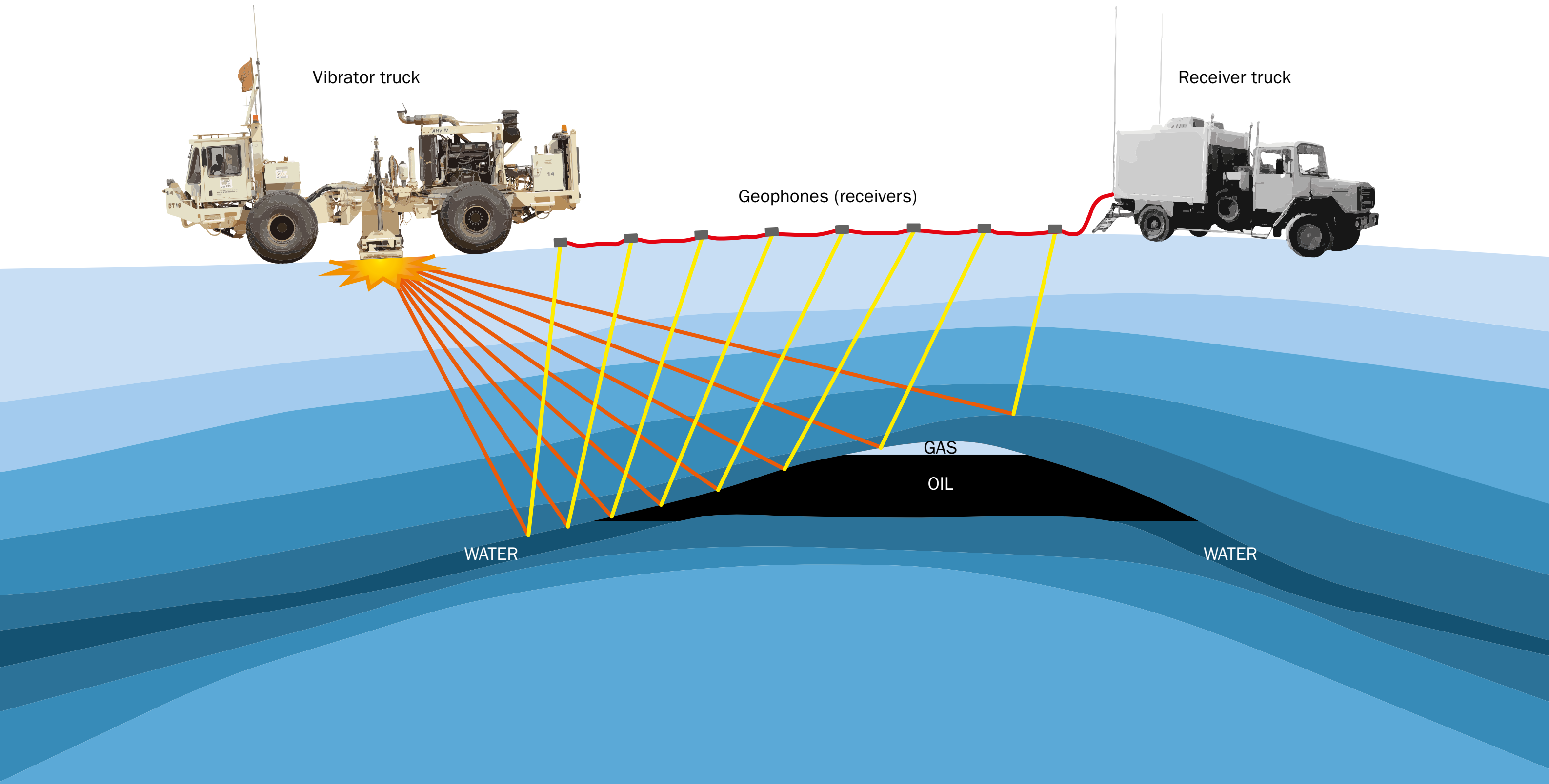
A team of highly trained subsurface senior specialists has been recruited and are based at the Tethys Oil office in Muscat. As per the Omani government directive related to the employment, preference is given to Omani nationals. The Muscat office is the base for the Group's Chief Technical Officer.

In addition, and as part of the Company's corporate social responsibility activities, Tethys Oil is closely coordinating with Sultan Qaboos University in Muscat in offering Master degree sponsorship to Omani geoscience graduate students.

Stockholm Office

Tethys Oil head office is located in central Stockholm, Sweden. The Stockholm office is the base for the Managing Director and the Chief Financial Officer, along with the Group's financial and communication teams.

Background photo by Tristan Schmurr



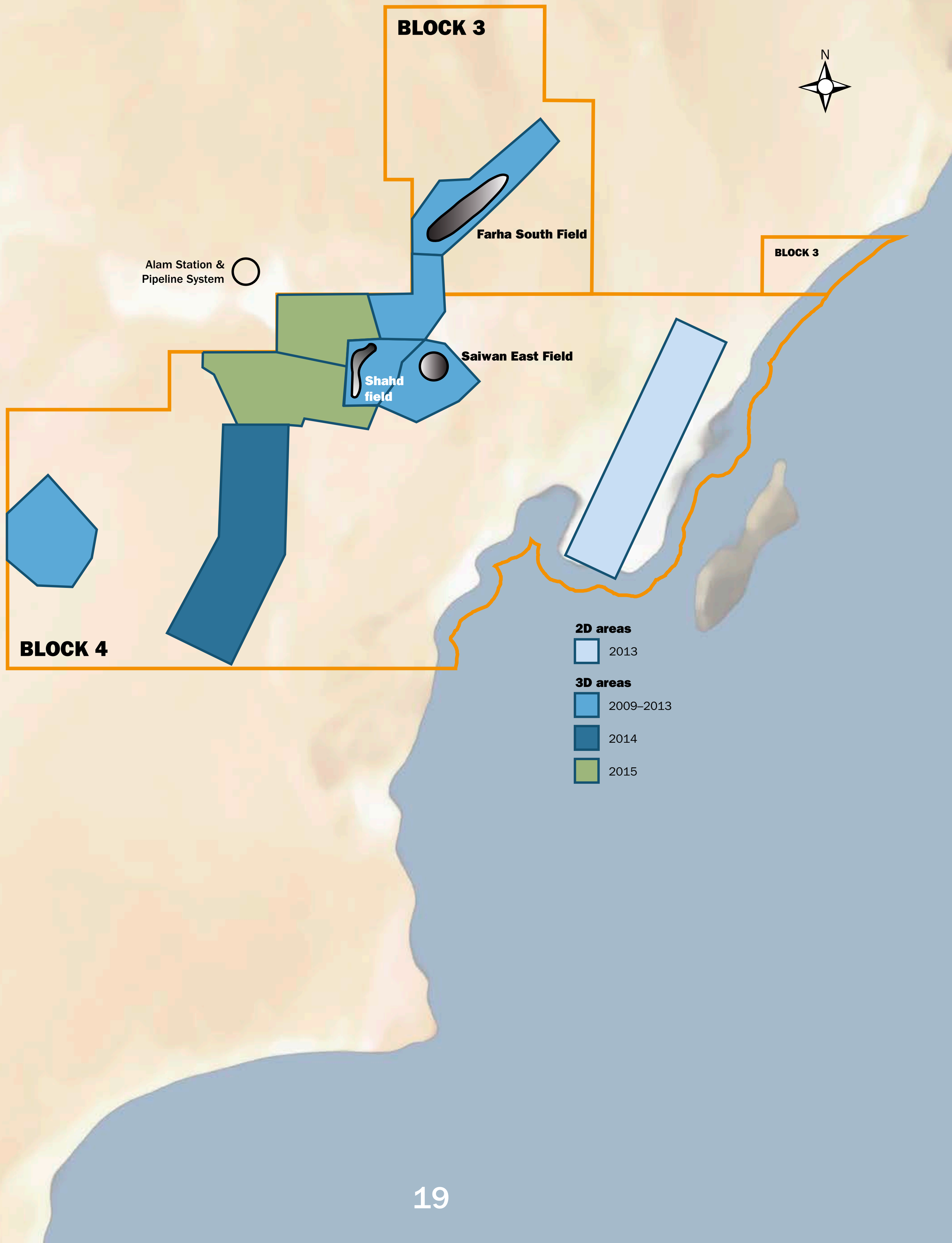
Seismic studies

A key exploration activity is geophysical seismic. The principle behind seismic is that sound waves travel at different speeds in different materials and that the sound waves, at the transition between different materials, partly bend and reflect back to the surface. Since rocks have different compositions, it is possible based on variations in the speed of the sound wave and angle, to estimate the location of structures that could hold oil and/or natural gas reserves in an exploration area.

Single linear lines of seismic provide information about the subsurface rocks directly beneath the seismic equipment. This type of seismic data is referred to as two-dimensional or 2D seismic, because it provides data along two axis, length and depth. If seismic acquisition is done across multiple lines simultaneously, the third dimension of width is gained, hence referred to as three-dimensional seismic, or 3D seismic. 3D seismic offers much greater density of information about the subsurface but is much more costly and covers a smaller area. Since the oil at both the Farha South oil field and the Shahd oil field is trapped in smaller structures, 3D seismic has been essential in the mapping of possible oil bearing structures.

Vibrator trucks at Blocks 3&4

Seismic mapping Blocks 3&4, Oman



The Baltic licences

Tethys Oil's portfolio also includes licences in Europe. The Company has indirect interests in three onshore licenses in Lithuania and two dormant onshore licences in France. The French licences have passed the expiring date, and discussions regarding the future of them are ongoing.

Lithuania is located by the Baltic Sea in the north east part of Europe. Lithuania is not a notable oil producer, but oil was discovered in Lithuania some 60 years ago. The Lithuanian oil production reached its peak at about 10,000 barrels of crude oil per day by the turn of the millennium, but has now dropped to about 2,000 barrels per day. The production is located in the western part of the country. It might seem like that there are better places to explore for oil, but the Lithuania tax regime is very attractive, so even smaller amounts of oil can generate good value.

Tethys Oil's Lithuanian licences cover some 4,000 square kilometres onshore the Baltic Sedimentary Basin. The Gargzdai licence is in production with 114 bopd net to Tethys Oil in 2016. The oil produced at the Gargzdai licence has an API of about 42 degrees and is normally sold on a weekly basis to a nearby refinery. The price is based on and set close to the daily Brent price.

The Rietavas and the Raseiniai licences are exploration licences. Since the acquisition of the licence interests in 2012, a couple of exploration wells have been drilled and seismic studies been conducted. The work programmes on the licenses are focused on evaluation for both conventional and unconventional hydrocarbon potential. On the Rietavas licence oil discoveries have been made in the Cambrian sandstones, but it is yet quite unexplored. The Raseiniai licence covers a trend of Silurian reefs. One exploration wells drilled in 2015 flowed oil to surface.

Facts

Gargzdai licence:

Partners: Odin Energi (25%), Geonafta (50%), Tethys (25% indirect)

Licence area: 884 km²

License awarded in 1995. Tethys Oil acquired interests in 2012

Tethys share of production: 114 bopd

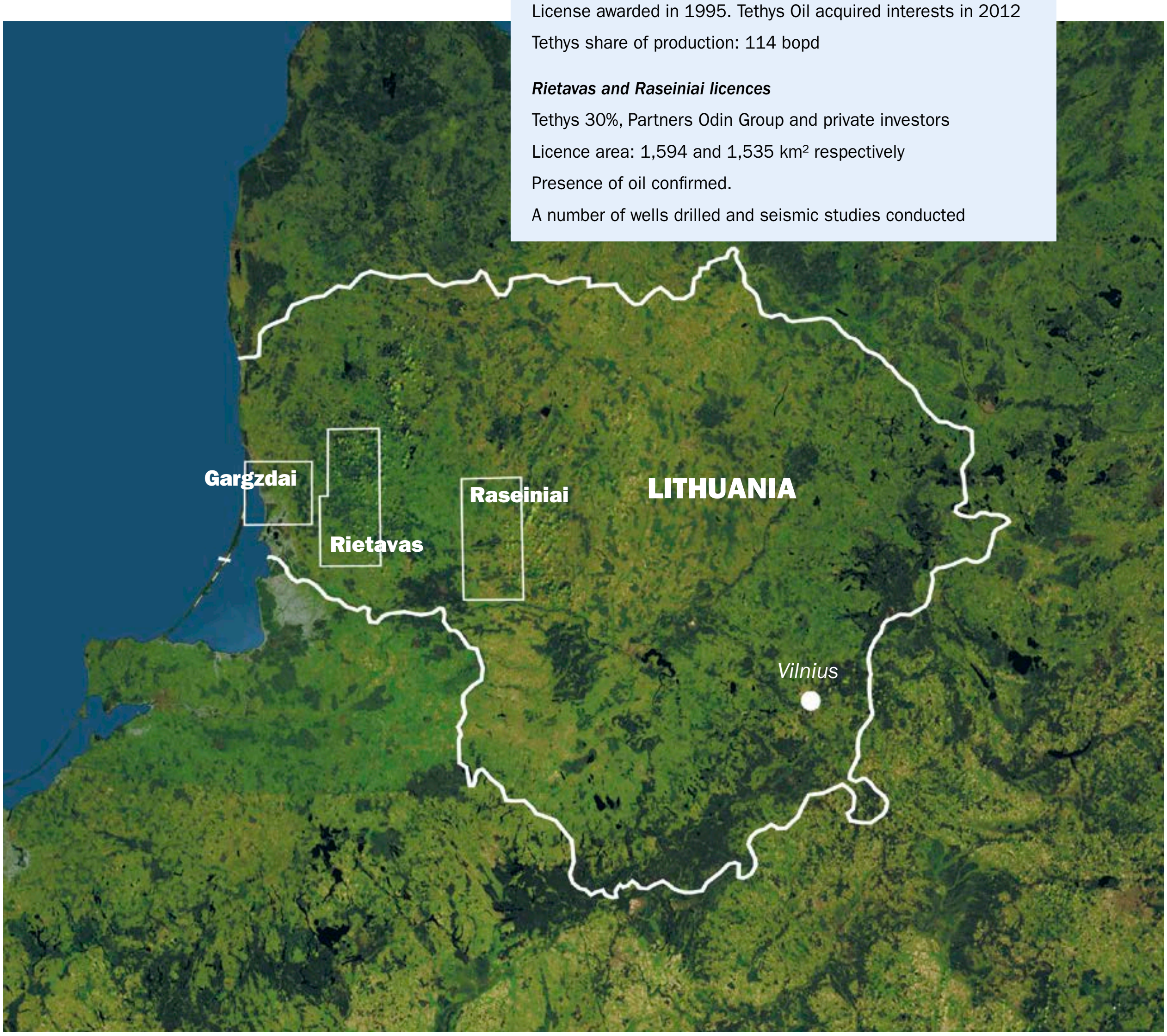
Rietavas and Raseiniai licences

Tethys 30%, Partners Odin Group and private investors

Licence area: 1,594 and 1,535 km² respectively

Presence of oil confirmed.

A number of wells drilled and seismic studies conducted



Sustainability report

Tethys Oil is an oil and gas exploration and production company with a primary objective of creating shareholder value working across the whole upstream industry lifecycle of exploration, development and production. The Group considers a sustainable approach to its operations and projects to be critical to deliver long-term shareholder value.

A central tenet of Tethys Oil's business model is to explore for and produce oil and gas in an economically, socially, and environmentally responsible way. The Group applies the same standards to its activities worldwide to satisfy both its commercial and ethical requirements. Tethys Oil strives to continuously improve its performance and to act in accordance with good industry practice and high standards of corporate citizenship.

Sustainability and Corporate Social Responsibility ("CSR") is viewed by the Group as a question of strategic importance and thus Tethys Oil's board of directors has approved a CSR policy to be implemented by the Group management. This policy underpins the Group's work on sustainability and corporate social responsibility. The policy clearly defines the Group's core values, a code of conduct to be applied by employees, contractors, and partners as well as policies in a number of key areas within CSR and sustainability.

Tethys Oil's Core Values

- To act in a fair, honest and equitable way.
- To observe local laws and regulations.
- To respect local customs and traditions.
- To observe applicable international laws and standards.
- To uphold the ten principles of the United Nations Global Compact on human rights, labour standards, environment and anti-corruption.

Health and Safety

The principles behind the Health and Safety ("HSE") policies are to provide a healthy and safe working environment for the Group's employees and to minimise the potential impact of the Group's activities on the environment. Corporate HSE goals set corporate requirements on operational entities, which include identifying relevant HSE issues and ways of addressing them through environmental studies, establishing plans and procedures, training staff and attributing HSE responsibilities, maintaining emergency response and contingency plans, monitoring and reporting performance.

The Group has a policy to conduct all its operations in compliance with all applicable legislation. The Group recognises that the prevention of accidents and ill health is essential to the efficient operation of its business.

It is the Group's objective to provide a safe working environment for employees, contract personnel and members of the general public who may be put at risk by the activities of its operations.

Community Relations

The Group has a commitment to have a beneficial impact on the community through engaging in a dialogue with the Group's stakeholders, whether these are local communities or relevant interest groups, such as the government and civil society. The Group engages in an active relationship with the stakeholders in order to understand the concerns surrounding the group's operations and jointly set goals.

The Group has the policy, while engaging in oil exploration and production activities, to operate in a manner that is consistent with the welfare of neighbouring communities.

The Group seeks to enhance and contribute to the local communities through the hiring of local staff and participation in local projects. The Muscat office has a majority of Omani nationals as employees and Tethys Oil has for several years offered a master degree scholarship to Omani geoscience students in cooperation with Sultan Qaboos University in Muscat.

Environment

Tethys Oil and its affiliated partners will strive to ensure that the exploration and production operations are conducted in compliance with all applicable environmental laws and regulations. The Group will continue to work to minimise the environmental impact within the scope of its operations. It will co-operate with industry, government and the public on programmes to protect the environment.

The Group will provide the necessary training for its employees to ensure that they have the knowledge and capability to conduct operations in a manner that is consistent with sound environmental practices.

Human Rights

Tethys Oil has committed firmly to the United Nations Global Compact (stated further in the Code of Conduct), as well as follow the United Nations Guiding Principles on Business and Human Rights. The Group has made a commitment to support internationally recognised human rights wherever it operates.

Human Rights are to be understood as those referred to in the Universal Declaration of Human Rights (UDHR), the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights and in the International Labour Organisation's (ILO) Conventions, and in relation to business activities, in the Global Compact, the OECD Guidelines for Multinational Enterprises, and the UN Guiding Principles.

The Group recognises the importance of respecting the rights of local communities, and thus prior to any new investment, it analyses potential impacts on human rights. While the Group respects all human rights, it focuses primarily on those human rights that potentially may be most impacted by its operations. The Group furthermore expects all its affiliated partners to respect human rights and to observe highest standards of professional integrity.

Personnel

Tethys Oil recognises that its performance as a company is dependent upon the performance of its employees as individuals. The Group seeks to promote diversity amongst its employees with a mix of gender, age and nationality as a step towards improving the Group's performance and attractiveness as an employer. Although a small organisation, Tethys Oil personnel consist of highly motivated individuals of six different nationalities, ranging in age from early twenties to mid seventies and with a balanced gender representation (41 percent female and 59 percent male).

Anti-Corruption

Tethys Oil has a zero-tolerance policy with regards to corruption. Its policy on corruption is laid out clearly under the Code of Conduct part of its CSR policy that employees should refrain from accepting or offering improper payments, gifts or engaging in bribery or any form of corrupt business practices. The policy also applies to partners, contractors and suppliers.

Sustainability – a continuous process

As of 31 December 2016 all of Tethys Oil's various license interests and holdings are non-operated and as a result Tethys Oil executes the sustainability work on its projects indirectly and in cooperation with the relevant operator. During the year, the Group has actively worked to apply its CSR policy in all its projects where possible and applying the same standards when screening new venture projects. All non-operated assets are, however, independently reviewed by Tethys Oil out of a HSES (health, safety, environment and social) perspective and Tethys Oil will closely monitor any contractor or operator. Wherever changes can be favourably employed, such will be recommended.

By implementing the sustainability and CSR policies in its own organisation Tethys Oil seeks to set a standard for its partners and lead by example.

Photo by Carola Brunnbauer

Corporate governance report

Corporate governance practices refer to the decision-making systems through which owners, directly or indirectly, control a company. Tethys Oil is a publicly traded company listed on Nasdaq Stockholm, Mid Cap. Tethys Oil adheres to the Swedish Code of Corporate Governance ("the Code"). The Code is published on www.bolagsstyrning.se, where a description of the Swedish Corporate Governance model can be found. This Corporate Governance Report 2016 is submitted in accordance with the Swedish Annual Accounts Act and the Code. It explains how Tethys Oil has conducted its corporate governance activities during 2016. Tethys Oil does not report any deviations from the Code, Nasdaq Stockholm's rule book for issuers, recommendations from the Swedish Securities Council, decisions from Disciplinary Committee at Nasdaq Stockholm or statements from the Swedish Securities Council. The report has been reviewed by the Company's auditors, please see page 29.

External and internal framework for governance in Tethys Oil

External:

- Swedish Companies Act
- Accounting legislation (e.g. Swedish accounting act, Swedish Annual Accounts Act and IFRS)
- Nasdaq Stockholm's rule book for issuers
- Swedish Code of Corporate Governance

Internal:

- Articles of Association
- Board instructions, Rules of procedures
- Polices such as Administration policy, Information policy, CSR policy etc

Shareholders

Tethys Oil's shares are traded on Nasdaq Stockholm. At year end 2016 the share capital amounted to MSEK 6, represented by 35,543,750 shares, each with a par value of SEK 0.17. All shares represent one vote each. At 31 December 2016, the number of shareholders was 5,529 (5,563). Of the total number of shares, foreign shareholders accounted for approximately 64 percent. 18 percent of the Swedish shareholding was held by legal entities. Tethys Oil's holding of its own shares amounted to 1,329,224 (3.74%). For further information on share, share capital development and shareholders, see pages 33–35 and Tethys Oil's website.

Annual General Meeting

The Annual General Meeting ("AGM") must be held within six months of the close of the fiscal year. All shareholders who are listed in the share registry on the record date, and who have notified the Company of their participation in due time, are entitled to participate in the AGM. The AGM was held in Stockholm on 18 May 2016. The AGM was attended by 179 shareholders, representing 38 percent of the votes and share capital in the company. The resolutions passed by the meeting included the following;

- Adoption of the income statements and balance sheets for 2015 and discharge of liability for the board of directors and the managing director
- Re-election of Per Brilioth, Dennis Harlin, Magnus Nordin, Katherine Støvring and Geoffrey Turbott and election of Richard Rettig as director. Dennis Harlin was elected chairman of the board
- The chairman will be paid a fee of SEK 560,000 and each AGM elected member not employed by the company will be paid SEK 250,000. The chairman of the audit committee and the chairman of the remuneration committee will be paid SEK 65,000 respectively and each of the committees' members will be paid SEK 35,000. The total fees for committee work, including committee chairmen fees shall not exceed SEK 410,000. In addition, the AGM approved a frame of SEK 250,000 for work by directors outside of regular board work, payable following resolution of the board of directors
- Auditors will be paid as invoices are approved
- Principles of remuneration to senior executives
- Incentive programme as part of the remuneration package to employees. Issuance of 350,000 warrants where each warrant entitled to subscription to one new share in Tethys Oil. The warrants have a three year duration and the strike price of the warrants was SEK 65.50 per share
- Authorization for the board to decide on repurchasing own shares up to not more than one-tenth of all outstanding shares
- Rules for the appointment and work of the nomination committee
- Authorization for the board to resolve to issue new shares and/or convertibles with consideration in cash and/or with consideration in kind or by set-off, to enable the company to make business acquisitions and to raise capital for the Company's business operations
- Authorization for the board to resolve to purchase own shares in Tethys Oil AB

The minutes recorded at the AGM can be found at Tethys Oil's website, www.tethysoil.com.

Extraordinary General Meeting

An Extraordinary General Meeting ("EGM) was held in Stockholm on 25 October 2016. The EGM was attended by 129 shareholders, representing 32 percent of the votes and share capital in the company. The resolutions passed by the meeting included the following;

- Share split, reduction of share capital and increase of share capital by way of a bonus issue, enabling the share redemption program of SEK 3.00 per share

The minutes recorded at the EGM can be found at Tethys Oil's website, www.tethysoil.com.

Nomination process

In accordance with the nomination committee process approved by the AGM 2016, the nomination committee for the AGM 2017 consists of members appointed by three of the largest shareholders of the Company based on shareholdings as per 30 September 2016 and the chairman of the board. The names of the members of the nomination committee were announced and posted on the Company's website on 16 November 2016, i.e. within the time frame of six months before the AGM as prescribed by the Code.

The nomination committee for the AGM 2017 has held four meetings during its mandate and informal contacts have taken place between such meetings. The nomination committee report, including the final proposals to the AGM 2017, is published on the Company's website together with the notice of the AGM.

The Nomination Committee's assignment is to produce proposals for the following matters, which will be presented to the AGM for resolution:

- AGM chairman
- Board members
- Chairman of the board
- Board fees and remuneration for committee work allocated to each member
- Auditors and auditor's fee
- Proposal regarding procedures and principles for establishing a nomination committee and issues pertaining thereto for the AGM 2018

The work of the nomination committee included evaluation of the board's work, competence and composition, as well as the independence of the members. The nomination committee also considered other criteria such as the background and experience and also taken part of the board evaluation.

The nomination committee for the AGM 2016 consisted of the following members:

- Erik Norman, chairman of the nomination committee, representing himself,
- Viktor Modigh, representing Magnus Nordin
- Mikael Petersson, representing Lansdowne Investment Company Limited, and
- Dennis Harlin, chairman of Tethys Oil

The board and its work

Board composition

The articles of association stipulate that the board of directors of Tethys Oil shall consist of no less than three and no more than ten board members with no more than three deputy board members. Board members are elected for a maximum of one year at a time. The board of directors of Tethys Oil since the AGM 2016 has consisted of six directors and no deputies. Dennis Harlin has been chairman of the board. Five board members are independent from the Company, the Company's management and the Company's larger shareholders, and six board members are independent from larger shareholders.

Board of directors elected at the AGM 2016

Member	Elected	Position	Year of birth	Nationality	Independent in relation to the Company	Independent in relation to the Company's larger shareholders
Dennis Harlin	2015	Chairman	1941	Sweden	Yes	Yes
Per Brilioth	2013	Member	1969	Sweden	Yes	Yes
Magnus Nordin	2001	Member	1956	Sweden	No	Yes
Richard Rettig	2016	Member	1978	Sweden	Yes	Yes
Katherine Støvring	2012	Member	1965	United States	Yes	Yes
Geoffrey Turbott	2015	Member	1963	New Zealand	Yes	Yes

Rules of procedure

The board of directors' work is governed by annually adopted rules of procedure. The board of directors supervise the work of the managing director by continually following up the Company's operations. The board of directors also ensures that the Company's organisation, administration and control are properly managed. The board of directors adopts strategies and goals and resolves on larger investments, acquisitions and disposals of business activities or assets. The board of directors also appoints the managing director and determines the managing director's salary and other compensation.

The chairman of the board of directors supervises the work and is responsible for it being well organised and efficient. This entails, among other things, continually following the Company's operations in contact with the managing director and being responsible for other board members receiving the information and documentation needed to ensure high quality discussions and well-founded decisions by the board of directors. The chairman is responsible for the evaluation of the board of directors' and the managing director's work and represents the board of directors in ownership matters.

According to the current rules of procedure the board of directors shall, after the constituent board meeting following the AGM, hold a minimum of seven ordinary meetings during a calendar year.

Timing and main items for ordinary meetings 2016	
February	Fourth quarter and year-end report 2015
April	Annual report 2015 and AGM 2016
May	First quarter report 2016
August	Second quarter report 2016
September	Strategy
November	Third quarter report 2016
December	Budget

Assessment of the board's work

The chairman of the board is responsible for assessing the board's work including the performance of individual board members. This is done on an annual basis through a questionnaire which is anonymous for the directors. The assessment focuses on such factors as the board's way of working, number of meetings and effectiveness, time for preparation, available competence and individual board members influence of the board's work. The nomination committee takes part of the results, and it is a component in the nomination committee's work to submit proposals concerning board members.

The board's work in 2016

During 2016 the board held seven ordinary meetings and nine extraordinary meetings.

Board of directors and committee attendance

Board member	Member Audit committee	Member Remuneration committee	Board meetings	Audit committee meetings	Remuneration committee meetings
Dennis Harlin (Chairman)	Yes	Yes	16/16	4/4	3/3
Per Brilioth	Yes	Yes (Chairman)	13/16	4/4	3/3
Magnus Nordin	No	No	16/16	–	–
Richard Rettig	Yes	Yes	8/9	2/2	0/0
Katherine Støvring	Yes	Yes	15/16	4/4	3/3
Geoffrey Turbott	Yes (Chairman)	Yes	16/16	4/4	3/3

Remuneration committee

The board has established a remuneration committee for the period up to and including the AGM 2017, consisting of all board members with the exception of the managing director Magnus Nordin. Per Brilioth is the chairman of the committee. The remuneration committee convened three times in 2016. The work has mainly focused on establishing principles for remuneration to management, to monitor and evaluate variable remuneration and the application of the guidelines for remuneration as well as to construct and propose an incentive programme to the AGM 2016. The remuneration committee reports to the board, normally in conjunction with the following board meeting.

Audit committee

The board has established an audit committee for the period up to and including the AGM 2017, consisting of all board members with the exception of the managing director Magnus Nordin. Geoffrey Turbott is the chairman of the committee. The audit committee convened four times in 2016. The work has mainly focused on supervising the Company's financial reporting and assessing the efficiency of the Company's financial internal controls, with the primary objective of providing support to the board in the decision making processes regarding such matters. The audit committee also regularly liaises with the Group's statutory auditor as part of the annual audit process and reviews the audit fees and the auditor's independence and impartiality. The Audit committee reports to the board, normally in conjunction with the following board meeting.

External auditors of the Company

Statutory auditor

Pursuant to its Articles of Association, Tethys Oil must have one or two auditors, and no more than two deputies. A registered firm of auditors may be appointed as the Company's auditor. Tethys Oil's auditor is PricewaterhouseCoopers AB with Johan Malmqvist as Lead partner and Ulrika Ramsvik as co-signing auditor. PricewaterhouseCoopers AB was elected as the Company's auditor at the AGM 2016.

Tethys Oil's auditor: PricewaterhouseCoopers AB

	Johan Malmqvist	Ulrika Ramsvik
Role	Lead partner	Co-signing auditor
Year of birth	1975	1973
Company auditor since	2015	2014

The audit firm has, besides the audit, conducted a limited number of other assignments on behalf of Tethys Oil. These assignments mainly consisted of services associated with auditing, such as in-depth reviews during audit. Remuneration to the auditors of Tethys Oil is paid in accordance with approved current accounts. In 2016, remuneration to PricewaterhouseCoopers AB amounted to MUSD 0.1 (MUSD 0.1). For details on remuneration to auditors, see note 10, auditor's fees.

Independent qualified reserves auditor

Tethys Oil's independent qualified reserves auditor annually certifies Tethys Oil's oil reserves, although such assets are not included in the Company's balance sheet. The current independent qualified reserves auditor is DeGolyer and MacNaughton. For further information, see Reserves on page 39.

Managing director and executive management

The executive management in Tethys Oil at the time of the AGM consisted of the managing director, the chief financial officer ("CFO") and the executive vice president ("EVP") corporate development.

The board of directors has adopted an instruction for the managing director which clarifies the responsibilities and authority of the managing director. According to the instruction, the managing director shall provide the board of directors with decision data in order to enable the board to make well-founded decisions and with documents to enable it to continually monitor the activities for the year. The managing director shall take the decisions needed for developing the business, within the legal framework, the business plan, the budget and the instruction for the managing director adopted by the board of directors as well as in accordance with other guidelines and instructions communicated by the board of directors.

Changes to executive management

The executive management structure was unchanged until September 2016 when a chief technical officer ("CTO") was appointed and included in the executive management. Beginning December the position of EVP seized to exist. The executive management at year-end consists of the managing director, the CFO and the CTO. The board of directors have approved these changes to the executive management, being a permitted deviation.

Remuneration policy to executive management

Remuneration policy to the executive management includes five elements:

- Basic salary
- Pension arrangements
- Yearly variable salary, including the right to participate in share-based long-term incentive
- Other benefits
- Severance pay

Basic salary

The basic salary shall be in line with market conditions, be competitive, and shall take into account the scope and responsibility associated with the position, as well as the skills, experience, and performance of the executive.

Pension arrangements

The pension benefits comprise a defined contribution scheme with premiums calculated on the full basic salary. The pension contributions shall be in relation to the basic salary and is set on an individual basis but shall not be higher than what is tax deductible.

Variable salary

Senior executives shall be part of two variable remuneration systems payable in cash and/or in combination with a right to acquire warrants in the Company in a long-term incentive programs. Variable salary to employees will be based upon their individual contribution to the Company's performance. The yearly variable cash salary shall be within the range of 1–4 monthly salaries per person and year. The targets for variable cash remuneration shall be determined by the board prior to each financial year and individual agreements shall be arranged with each participant, the content of which depends on the participant's position at the time the agreement is arranged. The targets shall be objectively quantifiable and related to budget. The targets shall consist of financial and operational key indicators. The yearly variable salary will be determined annually in connection with publication of the year-end report for the respective financial year based on an evaluation of the participants' achievement of the targets as described in the individual agreements. Payment of variable cash remuneration shall be conditional upon the participant remaining employed for the duration of the programme. The board has the right to adjust the incentive program during the term of the programme in the case of, for example, extraordinary increases or decreases in the group's earnings.

Share based incentive programme

The share based incentive programme has the purpose to retain and recruit qualified and committed personnel on a global market for oil companies. The programme is available to all employees and is intended to be re-occurring annually.

Other benefits

Non-financial benefits shall be based on market terms and shall facilitate the duties of each senior executive.

Severance arrangements

A termination period of twelve months applies between the Company and managing director and nine months between the company and other members of executive management. All members of executive management are entitled to twelve months payments if the Company terminates their contracts. The board is entitled to deviate from the proposed guidelines if special reasons exist.

Remuneration to executive management 2016

(amounts in SEK thousands)

	Basic salary	Pension arrangements	Variable salary	Share based long-term incentive	Other benefits	Total 2016	Total 2015
Managing director	2,082	443	340	1,288	12	4,164	3,886
Other executive management	3,080	485	454	1,584	241	5,844	4,474
Total	**5,162**	**927**	**794**	**2,871**	**253**	**10,008**	**8,360**

The increase in remuneration to executive management primarily relate to increased base salaries and changes to the executive management structure during the year. For further information, please see note 12.

Remuneration to the board 2016

Remuneration to be paid to the board of directors for the period between the AGMs of 2016 and 2017 amounts to a total of TSEK 1,970, allocated among the board members in the way shown in the below table. The annual general meeting 2016 resolved that remuneration of the chairman of the board of directors shall be TSEK 560 per annum and of the other members TSEK 250 per member per annum. Remuneration is not paid for service of the boards or directors of subsidiaries. Magnus Nordin, who is employed by Tethys Oil, does not receive any remuneration for his service on the board of directors. Annual fees for committee members are TSEK 35 per committee assignment and annual fees for the chairman of each of the audit and remuneration committee are TSEK 65. Further, if a member of the board of directors, following a resolution by the board of directors, performs tasks which are outside the regular board work, separate remuneration in the form of hourly fees on market terms may be paid by resolution of the Board of Directors, for which purpose a frame of TSEK 250 was allowed. Out of this frame, a total of TSEK 120 has been paid.

Remuneration to board and committee members for the period between the AGMs of 2016 and 2017
(amounts in SEK thousands)

Member	Board of directors	Audit committee	Remuneration committee	Separate renumeration	Total
Dennis Harlin	560	35	35	–	630
Per Brilioth	250	35	65	–	350
Magnus Nordin	–	Not member	Not member	–	–
Richard Rettig	250	35	35	–	320
Katherine Støvring	250	35	35	–	320
Geoffrey Turbott	250	65	35	120	470
Total	**1,560**	**205**	**205**	**120**	**2,090**

Financial reporting and control

The board of directors has the ultimate responsibility of the internal control for the financial reporting. Tethys Oil's system of internal control, with regard to financial reporting, is designed to minimize risks involved in financial reporting process and ensure a high level of reliability in the financial reporting. Furthermore, the system of internal control ensures compliance with applicable accounting requirements and other requirements that Tethys Oil must meet as a listed company.

Tethys Oil's main assets are owned in partnership and furthermore, Tethys Oil only holds non-operated interest. The focus of internal control is therefore to ensure reliability and accuracy of the operator's financial information. The control is conducted by monthly and quarterly cost controls, quarterly budget reviews and interviews with operator to understand and explain deviations.

Internal control

Tethys Oil continually works on improving the financial reporting through evaluating the risk of errors in the financial reporting and related control activities. Control activities include following up on instructions and the application of accounting principles. The board of directors is responsible for and monitors the control activities, which involve all levels of the organisation. The activities limit the identified risks and ensure correct and reliable financial reporting. The Company's central financial department analyses and follows up on budget deviations, draws up forecasts, follows up on significant variations between periods and reports to the board of directors, which minimizes the risks for errors in the financial reporting. The control activities also include following up on the authorization manual and accounting principles. These control activities also include the operators in partnerships. The board of directors further decides on specific control activities and auditing of operators in partnerships. The financial department regularly follows up on deviations and irregularities and report to the audit committee. This structure is considered sufficient and suitable given the size and nature of the Company's business. At the current size of the Company and the fact that the Company holds non-operated interest it is not considered necessary for a dedicated internal auditor function.

Information and communication

The board has adopted an information policy for the purpose of ensuring that the external information is correct and complete. There are also instructions regarding information security and how to communicate financial information.

Monitoring

Both the board and the management follow up on the compliance and effectiveness of the company's internal controls to ensure the quality of internal processes. The board receives detailed monthly reports on the financial situation and development of the business to this end. The audit committee ensures and monitors that control activities are in place for important areas of risk related to financial reporting.

Stockholm, 18 April 2017

Tethys Oil AB (publ)
The board of directors

Auditor’s report on the Corporate Governance Statement

To the general meeting of the shareholders in Tethys Oil AB (publ), corporate identity number 556615-8266

Engagement and responsibility

It is the board of directors who is responsible for the corporate governance statement for the year 2016 on pages 24–28 and that it has been prepared in accordance with the Annual Accounts Act.

The scope of the audit

Our examination has been conducted in accordance with FAR’s auditing standard RevU 16 The auditor’s examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

Opinions

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the annual accounts and the consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm, 18 April 2017

PricewaterhouseCoopers AB

Johan Malmqvist
Authorized Public Accountant
Lead Partner

Ulrika Ramsvik
Authorized Public Accountant

Board of directors



Member	Dennis Harlin	Per Brilioth	Magnus Nordin
Function	Chairman of the board, member audit and remuneration committee	Board member, member of audit committee and chairman of the remuneration committee	Board member and managing director
Elected	2015	2013	2001
Year of birth	1941	1969	1956
Education	Military Academy higher technical course	Bachelor of Science in Business Administration, University of Stockholm, Master of Finance, London Business School	Bachelor of Arts, University of Lund and Master of Arts, University of California Los Angeles
Experience	Brigadier general (ret.). Vice president SAAB/Gripen International 1996–2009. Defence attaché in Switzerland and Italy and seconded to Ministry for Foreign Affairs	Executive positions in companies investing in emerging markets and the oil and gas sector. Currently CEO of Vostok New Ventures AB.	Several executive positions in different oil companies
Other board duties	Member of the board of directors Harlin Consulting AB	Chairman of the board of directors of Pet Sounds AB, Gavald Holdings AB, Pet Sounds Digitalt AB, Pomegranate Investment AB and thunderroad AB. Member of the board of directors Vostok New Ventures Ltd., Kontakt East Holding AB, FG Stores Stockholm AB, Fotografiska Holding AB, LeoVegas AB, Garantibil Sverige AB, Avito AB, NMS INVEST AB and Vostok Emerging Finance Ltd. Deputy member of the board of directors of Digital Agency Ryssland AB.	Member of the board of directors of Minotaurus AB, Minotaurus Fastigheter AB and Minotaurus Energi AS
Shares in Tethys Oil (per 31 December 2016)*	142,071	10,000	1,464,127
Remuneration for board and committees (SEK thousands)	630	350	–
Independent in relation to the Company	Yes	Yes	No
Independent in relation to the Company's larger shareholders	Yes	Yes	Yes

* Privately, via company and via insurance policy.

Member	Richard Rettig	Katerine Støvring	Geoffrey Turbott
Function	Board member and member of audit and remuneration committee	Board member and member of audit and remuneration committee	Board member, member of remuneration committee and chairman of audit committee
Elected	2016	2012	2015
Year of birth	1978	1965	1963
Education	Master of Science in Business and Economics, Stockholm School of Economics	Master of Law, University of Oslo and MSc in Business Management, London Business School	Former member of New Zealand's institute of chartered accountants
Experience	Founded and operated companies within asset management and equities trading. Is today active as private investor.	Several executive positions in the energy and shipping industry	Worked with public companies in which the Lundin family holds a major shareholding from 1995 to 2013, whereof as Chief Financial Officer and Vice President of Finance at Lundin Petroleum AB from 2002 to 2013
Other board duties	Member of the board of directors Invium Partners AB		Member of the board of directors of Tetbury Forestry Ltd and Progress Land Ltd
Shares in Tethys Oil (per 31 December 2016)*	312,500	–	–
Remuneration for board and committees (SEK thousands)	320	320	470
Independent in relation to the Company	Yes	Yes	Yes
Independent in relation to the Company's larger shareholders	Yes	Yes	Yes

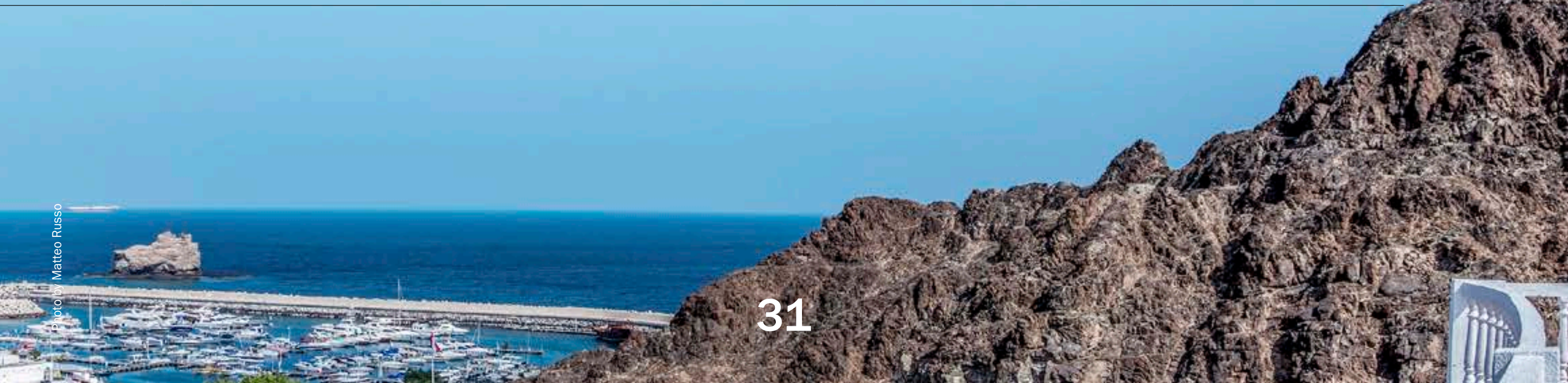


Photo: Matteo Russo

Executive management



	Magnus Nordin	Jesper Alm	Fredrik Robelius
Function	Managing director	Chief Financial Officer	Chief Technical Officer
Employed since	2004	2014	2011
Year of birth	1956	1975	1973
Education	Bachelor of Arts, University of Lund and Master of Arts, University of California Los Angeles	M.Sc. Business Administration, University of Lund	PhD Engineering Physics, Uppsala University; Postgraduate Diploma Petroleum Engineering, Heriot-Watt University
Experience	Several executive positions in different oil companies	Various positions in Corporate Finance at Pareto Securities	Energy engineering positions in Fortum, petroleum engineering related positions in Tanganyika Oil and Sinopec
Shares in Tethys Oil (per 31 December 2016)*	1,464,127	5,750	7,000
Warrants in Tethys Oil (per 31 December 2016)	Warrants 2015/18: 78,000 Warrants 2016/19: 70,000	Warrants 2015/18: 39,000 Warrants 2016/19: 47,000	Warrants 2015/18: 43,000 Warrants 2016/19: 45,000

* Privately, via company and via insurance policy.

The Tethys Oil share

Tethys Oil's shares are traded on Nasdaq Stockholm. With the purpose of improving liquidity and reducing the spread between buyers and sellers of Tethys Oil shares, the Company has assigned Pareto Securities AB to act as a liquidity provider for the shares of the Company.

Shares outstanding

Tethys Oil's registered share capital at 31 December 2016 amounts to SEK 5,923,958 represented by 35,543,750 shares with a quota value of SEK 0.17. All shares in Tethys Oil represent one vote each. All outstanding shares are common shares and carry equal rights to participation in Tethys Oil's assets and earnings. As per 31 December 2016 the board of directors had remaining outstanding authorization from the AGM to issue up to 10 percent of the shares up until the next AGM. As per 31 December 2016, Tethys Oil held 1,329,224 of its own shares which were purchased during 2014 to 2016 at an average price of SEK 57.40. The share repurchase programme is based on a mandate from the respective AGM and repurchased shares are still part of the total number of outstanding shares but however not included in the number of shares in circulation, which amount to 34,214,526.

Tethys Oil has a warrant programme as part of the remuneration package to employees. Warrants have been issued following the AGMs in 2015 and 2016. The terms for each warrant series have been recalculated as a consequence of recalculation events, being the distribution to shareholders in 2015 and 2016, respectively. The current terms are:

Warrant program	Issued	Allotted	Strike price, SEK	No of shares each warrant entitle to
2015/2018	356,000	312,000	76.80	1.08
2016/2019	350,000	335,000	62.60	1.05

As the strike price is below the share price as per year-end 2016, the warrants are included in the fully diluted number of shares.

Share capital development

Since the company's inception in September 2001 and up to 31 December 2016 the parent company's share capital has developed as shown below:

Year	Share capital development	Quota value, SEK	Change in number of shares	Total number of shares	Change in total share capital, SEK	Total share capital, SEK
2001	Formation of the Company	100.00	1,000	1,000	100,000	100,000
2001	Share issue	100.00	4,000	5,000	400,000	500,000
2001	Split 100:1	1.00	495,000	500,000	–	500,000
2003	Share issue	1.00	250,000	750,000	250,000	750,000
2004	Split 2:1	0.50	750,000	1,500,000	–	750,000
2004	Share issue	0.50	2,884,800	4,384,800	1,442,400	2,192,400
2006	Non-cash issue	0.50	400,000	4,784,800	200,000	2,392,400
2006	Share issue	0.50	876,960	5,661,760	438,480	2,830,880
2006	Share issue	0.50	80,000	5,741,760	40,000	2,870,880
2007	Share issue	0.50	300,000	6,041,760	150,000	3,020,880
2007	Exercise of warrants	0.50	2	6,041,762	1	3,020,881
2007	Share issue	0.50	125,000	6,166,762	62,500	3,083,381
2007	Set-off issue	0.50	226,000	6,392,762	113,000	3,196,381
2008	Split 3:1	0.17	12,785,524	19,178,286	–	–
2008	Share issue	0.17	4,800,000	23,978,286	800,000	3,996,381
2008	Exercise of warrants	0.17	1,800	23,980,086	300	3,996,681
2009	Share issue	0.17	1,300,000	25,280,086	216,667	4,213,348
2009	Share issue	0.17	2,000,000	27,280,086	333,333	4,546,618
2009	Exercise of warrants	0.17	176,186	27,456,272	29,364	4,576,045
2009	Exercise of warrants	0.17	592,819	28,049,091	98,803	4,674,849
2010	Exercise of warrants	0.17	252,080	28,301,171	42,013	4,716,862
2010	Exercise of warrants	0.17	137,429	28,438,600	22,905	4,739,767
2010	Exercise of warrants	0.17	754,942	29,193,542	125,824	4,865,590
2010	Share issue	0.17	250,000	29,443,542	41,667	4,907,257
2010	Share issue	0.17	250,000	29,693,542	41,667	4,948,924
2010	Exercise of warrants	0.17	482,528	30,176,070	80,421	5,029,345
2010	Exercise of warrants	0.17	185,795	30,361,865	30,966	5,060,311
2010	Exercise of warrants	0.17	84,971	30,446,836	14,162	5,074,473
2010	Exercise of warrants	0.17	2,057,653	32,504,489	342,942	5,417,415
2011	Non-cash issue	0.17	39,261	32,543,750	6,544	5,423,958
2012	Share issue	0.17	3,000,000	35,543,750	500,000	5,923,958
2015	Share split 1:2 (redemption shares)	0.08	35,543,750	71,087,500	–	5,923,958
2015	Redemption	0.08	-35,543,750	35,543,750	-2,961,979	5,923,958
2015	Bonus issue	0.17	–	35,543,750	2,961,979	5,923,958
2016	Share split 1:2 (redemption shares)	0.08	35,543,750	71,087,500	–	5,923,958
2016	Redemption	0.08	-35,543,750	35,543,750	-2,961,979	5,923,958
2016	Bonus issue	0.17	–	35,543,750	2,961,979	5,923,958

Capital structure target and dividend policy

Tethys Oil's primary objective is to create shareholder value and in doing so the company will have a balanced approach to growth and shareholder distributions, with a long term capital structure target of a zero net cash position.

For the financial year 2016, the board of directors proposes to the AGM 2017 a total distribution of SEK 1.00 per share (AGM 2016 SEK 1.00, equal to MSEK 34 (MSEK 34). The distribution, subject to approval by the AGM, is proposed to be made by a cash dividend.

During 2016, following an EGM in October, a further SEK 3.00 per share was distributed via a share redemption program, equal to MSEK 102.

Share ownership structure

The 20 largest shareholders in Tethys Oil as per 28 February 2017.

Name	Number of shares	Share of capital and votes
Lansdowne Investment Company Cyprus	3,165,694	8.91
JPM Chase NA	1,871,851	5.27
Magnus Nordin	1,464,127	4.12
SEB Funds	1,398,305	3.93
Grandeur Peak Funds	1,278,231	3.60
SIX SIS AG	810,012	2.28
Avanza Pension	768,172	2.16
Skandinaviska Enskilda Banken S.A.	731,100	2.06
Öhman Bank S.A.	671,280	1.89
JP Morgan Securities LLC	631,508	1.78
Carl Erik Norman	585,000	1.65
BNYMSANV re GCLB re BNY GCM Client	584,567	1.64
Handelsbanken Funds	528,579	1.49
Norges Bank	483,504	1.36
John Hancock Funds	472,540	1.33
Nordnet Pensionsförsäkringar AB	435,364	1.22
Banque Pictet Cie SA	431,574	1.21
SSB Client Omnibus AC OM07 (15 PCT)	430,963	1.21
Morgan Stanley and Co LLC	420,446	1.18
SSBTC A/C London Branch Clients	410,364	1.15
Total, 20 largest shareholders	**15,444,470**	**43.45**
Tethys Oil AB	1,329,224	3.74
Summary other (appr. 5,870) shareholders	18,770,056	52.81
Total number of shares	**35,543,750**	**100.00**

Source: Euroclear and the Company

Distribution of shareholdings

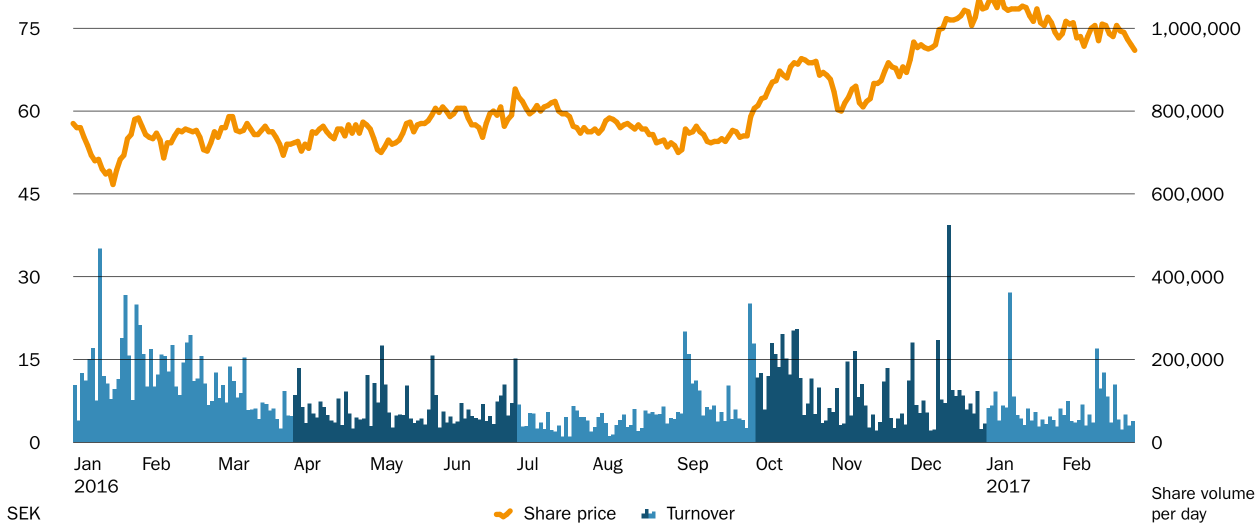
Distribution of shareholdings per 28 February 2017.

Holding	Number of shares	Percentage of shares	Number of shareholders	Percentage of shareholders
1 – 500	560,339	1.58%	4,042	68.52%
501 – 1,000	642,420	1.81%	760	12.88%
1,001 – 5,000	1,654,260	4.65%	707	11.99%
5,001 – 10,000	1,075,852	3.03%	146	2.47%
10,001 – 15,000	489,618	1.38%	37	0.63%
15,001 – 20,000	640,486	1.80%	35	0.59%
20,001 –	30,480,775	85.76%	172	2.92%
Total	**35,543,750**	**100.00%**	**5,899**	**100.00%**

Share statistics 2016

The final transaction price in 2016 was SEK 78.75 corresponding to a total market capitalization of MSEK 2,799. During the year the price of Tethys Oil's share increased by 37.0 percent. The highest transaction price in 2016 was SEK 80.25 on 28 December and the lowest was SEK 45.70 on 21 January. The turnover velocity was 76.4 percent on Nasdaq Stockholm.

Share price development and turnover 2016



Key financial data

Group	2016	2015	2014	2013	2012
Operational items					
Production before government take, bbl	4,478,121	3,578,488	2,807,653	1,709,706	1,399,518
Production per day, bbl	12,235	9,804	7,692	4,684	3,824
Net sales after government take, bbl	2,357,701	1,805,056	1,464,228	850,926	776,248
Achieved oil price, USD/bbl	40.5	58.1	103.9	106.6	110.3
Items regarding the income statement and balance sheet					
Revenue, MUSD	87.1	107.0	149.3	92.2	85.5
EBITDA, MUSD	44.1	58.6	108.0	74.8	74.5
EBITDA-margin, %	51%	55%	72%	81%	87%
Operating result, MUSD	-0.5	23.0	57.1	45.1	49.3
Operating margin, %	-1%	21%	38%	49%	58%
Net result, MUSD	2.7	23.4	49.4	38.1	46.0
Net margin, %	3%	22%	33%	41%	54%
Cash and cash equivalents, MUSD	39.0	51.2	47.8	44.8	37.5
Shareholders' equity, MUSD	196.8	217.2	214.3	168.4	130.1
Balance sheet total, MUSD	238.9	253.6	233.5	238.7	207.8
Capital structure					
Equity ratio, %	82%	86%	92%	71%	63%
Leverage ratio, %	neg.	neg.	neg.	12%	20%
Investments, MUSD	48.5	40.8	39.3	44.1	132.1
Net cash, MUSD	39.0	51.2	47.8	-14.9	-21.3
Profitability					
Return on shareholders' equity, %	1.29%	10.85%	25.82%	25.56%	46.81%
Return on capital employed, %	4.20%	13.59%	30.87%	29.82%	49.38%
Other					
Average number of full time employees	19	17	18	17	19
Dividend per share, SEK	1.00*	1.00*	n.a.	n.a.	n.a.
Cash flow from operations per share, USD	1.53	1.69	2.89	1.45	2.25
Number of shares at year end, thousands	35,544	35,544	35,544	35,544	35,544
Shareholders' equity per share, USD	5.54	6.11	6.03	4.74	3.66
Weighted number of shares (before dilution) for the year, thousands	34,324	34,964	35,524	35,544	34,465
Weighted number of shares (after dilution) for the year, thousands	34,372	34,964	35,524	35,544	34,465
Earnings per share before dilution, USD	0.08	0.67	1.39	1.07	1.34
Earnings per share after dilution, USD	0.08	0.67	1.39	1.07	1.34

* Not including share redemption of 3.00 SEK per share in 2016, and 2.00 SEK per share in 2015.

Definitions of key ratios

Relevant reconciliations of alternative performance measures

MUSD	2016	2015	2014	2013	2012
Operating result	-0.5	23.0	57.1	45.1	49.3
Depreciation, depletion and amortization	44.4	34.7	31.1	21.1	8.0
Exploration costs	0.1	1.0	19.8	8.6	17.2
EBITDA	44.1	58.6	108.0	74.8	74.5
Cash and bank	39.0	51.2	47.8	44.8	37.5
Interest bearing debt	–	–	–	-59.7	-58.8
Net cash	39.0	51.2	47.8	-14.9	-21.3
Cash flow from operations	52.7	59.1	102.7	51.5	77.7
Investment in oil and gas properties	-48.5	-40.8	-39.3	-44.1	-132.1
Cash flow from operations after investments	4.2	18.3	63.4	7.4	-54.4

Margins

Operating margin
Operating result as a percentage of yearly turnover.

Net margin
Net result as a percentage of yearly turnover.

Capital structure

Equity ratio
Shareholders' equity as a percentage of total assets.

Leverage ratio
Net interest bearing debt as a percentage of shareholders' equity.

Adjusted equity ratio

Shareholders' equity plus equity part of untaxed reserves as a percentage of total assets.

Interest coverage ratio
Earnings before interest, taxes, depreciation, depletion, amortisation and exploration costs (EBITDA) divided by net financial result.

Net cash/net debt
Cash and equivalents less interest bearing debt.

Investments

Total investments during the year.
Profitability

Return on shareholders' equity
Net result as percentage of average shareholders' equity.

Return on capital employed
Net result plus financial costs as a percentage of average capital employed (total assets less non interests-bearing liabilities).

Other

Number of employees
Average number of employees full-time.

Shareholders' equity per share
Shareholders' equity divided by the number of outstanding shares.

Weighted numbers of shares
Weighted number of shares during the year.

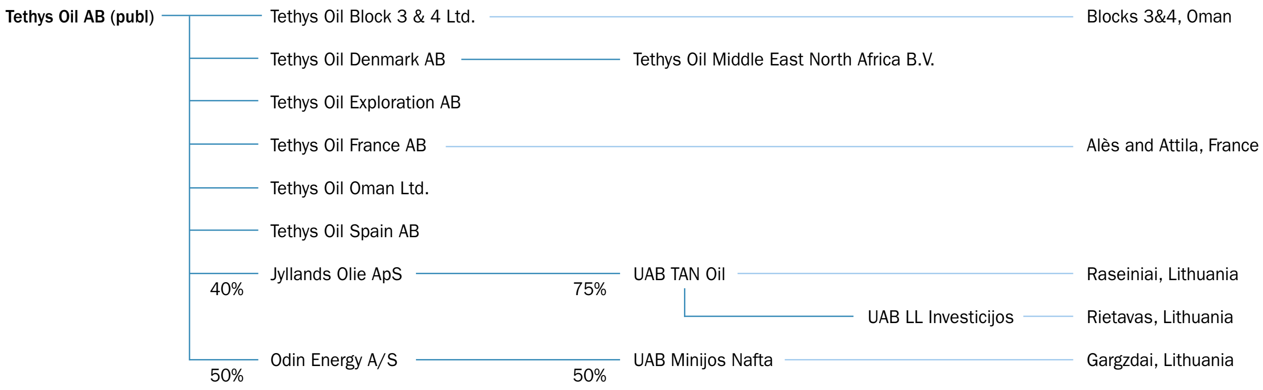
Earnings per share
Net result divided by the number of outstanding shares.

n.a.
Not applicable.

n.m.
Not meaningful.

Administration report

(An English translation of the Swedish original)



Above are material group companies of the Tethys Oil group.
Ownership in subsidiary companies is 100% unless otherwise stated.

The consolidated financial statements of the Tethys Oil Group (hereafter referred to as "Tethys Oil" "Tethys" or the "Group"), where Tethys Oil AB (publ) (the "Company") with organisational number 556615-8266 is the parent company, are hereby presented for the twelve months period ended 31 December 2016. The amounts relating to the comparative period (equivalent period of last year) are shown in parenthesis after the amount for the current period. Segments of the Group are geographical markets. The numbers in the tables in this report may not add exactly due to rounding.

OPERATIONS

Tethys Oil is a Swedish energy company focused on exploration and production of oil and natural gas. Tethys Oil's core area is Oman, where the company is one of the largest onshore oil and gas concession holders. The company's strategy is twofold: to explore for oil and natural gas near existing and developing infrastructure and markets; and to develop proven reserves that have previously been sub-economic due to location or technological reasons. As at year end 2016 the company had interests in licences in Oman, France and Lithuania.

Production

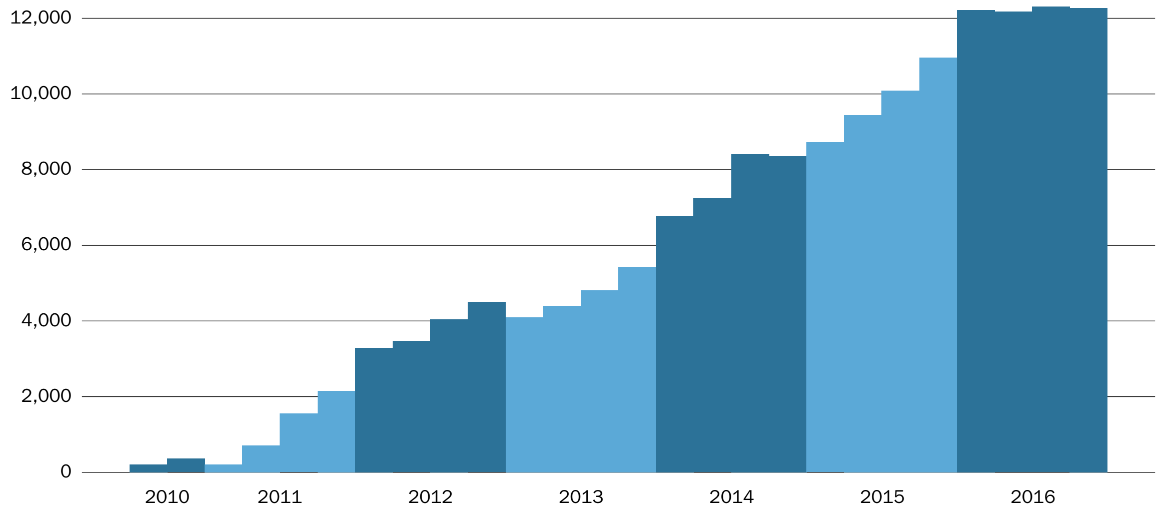
Tethys Oil's core area is the Sultanate of Oman, where the company holds a 30 percent interest in Blocks 3&4. Tethys Oil also has interests in three licenses onshore Lithuania and two licenses onshore France. The primary production comes from the three fields; Farha South, Shahd and Saiwan East on Blocks 3&4. The production growth of 25 percent year on year has generally been in line with expectations. The production from the Shahd field during the fourth quarter was somewhat below expectations, primarily caused by a slower implementation of water injection than anticipated. Tethys Oil has additional production in Lithuania.

The terms of the Exploration and Production Sharing Agreement ("EPSA") on Blocks 3&4 allows the joint operations partners to recover their costs from up to 40 percent of the value of total oil production, this is referred to as cost oil. After deducting any allowance for cost oil, the remaining production is split 80/20 between the government and the joint operations partners. If there are no costs to be recovered the joint operations partners receive after government take 20 percent of the oil produced. The terms of the EPSA thus result in the joint operations partners' share of production after government take in the interval 20–52 percent, depending on available recoverable cost. So far on Blocks 3&4, the joint operations partners' share of production after government take has been in the high end of the interval, 52 percent, as the joint venture partners have continued to invest on Blocks 3&4. The estimated recoverable costs as per 31 December 2016, net to Tethys Oil, amounts to MUSD 58.1.

Tethys Oil's share of Gargzdai is indirectly owned through Odin Energi A/S, a Danish associated company.

Tethys Oil's share of volumes, before government take (bbls)	2016	2015	2014	2013	2012
Tethys Oil's share of annual production, (bbl)					
Oman, Blocks 3&4					
Production	4,436,438	3,539,631	2,765,654	1,663,069	1,345,854
Average daily production	12,121	9,698	7,577	4,556	3,687
Lithuania, Gargzdai					
Production	41,684	38,857	42,000	46,637	53,664
Average daily production	114	106	115	128	147
Total production	**4,478,121**	**3,578,488**	**2,807,653**	**1,709,706**	**1,399,518**
Total average daily production	**12,235**	**9,804**	**7,692**	**4,684**	**3,824**

Average daily production net to Tethys Oil, quarterly



Reserves

Oman

Tethys Oil's net working interest reserves in Oman as per 31 December 2016 amounted to 14,222 thousand barrels of oil ("mbo") of proven reserves (1P), 21,408 mbo of proven and probable reserves (2P) and 29,729 mbo of proven, probable and possible reserves (3P).

Development of reserves, Blocks 3&4

(Audited by DeGolyer and MacNaughton Canada Limited)

Mbo	1P	2P	3P
Total 31 December 2015	12,905	18,244	27,863
Production 2016	-4,436	-4,436	-4,436
Discoveries	146	238	304
Revisions	5,607	7,362	5,998
Total 31 December 2016	**14,222**	**21,408**	**29,729**

In 2016 Tethys Oil added 1P reserves of 5,753 mbo, representing an increase of 45 percent; 2P reserves of 7,600 mbo, representing an increase of 42 percent; and 3P reserves of 6,302 mbo, representing an increase of 23 percent. The increase in 2P reserves represents and internal reserve replacement ratio of 171 percent.

Reserves Blocks 3&4, 31 December 2016

(Audited by DeGolyer and MacNaughton Canada Limited)

Mbo	1P	2P	3P
Farha South field	8,672	11,569	14,028
Shahd field	4,728	7,847	13,000
Saiwan East field	822	1,992	2,701
Total 31 December 2016	**14,222**	**21,408**	**29,729**

The review of the reserves in Oman has been conducted by independent petroleum consultant DeGolyer and MacNaughton Canada Limited. The report has been estimated using 2007 Petroleum Resources Management System (PRMS), Guidelines of the Society of Petroleum Engineers (SPE), World Petroleum Council (WPC), American Association of Petroleum Geologists (AAPG) and Society of Petroleum Evaluation Engineers (SPEE).

Export reporting error

Tethys Oil has been informed by the operator of Blocks 3&4 that an inadvertent fiscal metering calibration problem has resulted in over-reporting of exported oil from Blocks 3&4 during the period August 2010 until February 2016 (the "Export Reporting Error"). Tethys Oil estimates that its share of the overestimated volume of oil amounts to 157,000 barrels (before government take). To rectify the over-reported quantity of delivered oil, the Blocks 3&4 partners have agreed with the pipeline operator and the Ministry of Oil and Gas to repay the over-lifted amount in cash. Tethys Oil estimates, that Tethys Oil's share of the cash repayment, will amount to MUSD 5.9, which consequently have reduced Tethys Oil's 2016 revenue and result with that amount. The mechanism for the settlement details are being discussed, but Tethys Oil expects that the final settlement will reflect the relevant agreements. Tethys Oil estimates that the negative undiscounted net cash effect for Tethys Oil will be less than MUSD 1.4. The discounting effect has been estimated to be immaterial.

Of the total error amount of MUSD 5.9, MUSD 1.9 is included in current provisions and MUSD 4.0 is included in non-current provisions as per 31 December 2016.

Revenue

Revenue	2016	2015	2014	2013	2012
Barrels sold, bbl	**2,357,701**	1,805,056	1,464,228	850,926	776,248
Underlift (overlift) movement, bbl	**(50,754)**	35,552	(26,088)	13,870	(76,404)
Oil price, USD/bbl	**40.5**	58.1	103.9	106.6	110.4
Net sales, MUSD	**95.4**	104.9	152.1	90.7	85.7
Underlift (overlift), MUSD	**(2.4)**	2.2	(2.8)	1.5	(0.2)
Overlift adjustment reporting error, MUSD	**(5.9)**	–	–	–	–
Revenue, MUSD	**87.1**	**107.0**	**149.3**	**92.2**	**85.5**

Revenue for 2016 is down 19 percent compared to revenue 2015 and the main reason is the decline in oil prices which are down 30 percent between the years. There has been a transition from underlift to overlift during 2016.

During 2016, Tethys Oil sold 2,357,701 barrels of oil from Blocks 3&4, representing 31 percent increase in comparison with 2015 when 1,805,056 barrels of oil were sold. This resulted in net sales during 2016 of MUSD 95.4 compared to MUSD 104.9 during 2015. In addition to Net sales, there has been an adjustment for overlift amounting to MUSD 8.3 of which MUSD 5.9 relate to the Export Reporting Error, which together with Net sales adds up to Revenue of MUSD 87.1.

Sale quantities for oil sales are nominated two months in advance and are not based upon the actual production in a month; as a result, sales quantities can be above or below production quantities. Where the sales quantity exceeds the quantity of barrels produced an overlift position occurs and where it is less, an underlift position occurs. There was a movement from underlift to overlift between year-end 2016 and 2015. The total overlift position as per 31 December 2016 is 28,029 barrels. The valuation of both over and underlift is based on market price.

Tethys Oil sells all of its oil through Mitsui Energy Trading Singapore, which is part of Mitsui & Co Ltd. All oil sales come from Blocks 3&4 and are made on a monthly basis. The selling price is the monthly average of the two month future price for Omani blend.

The average selling price amounted to USD 40.5 per barrel during 2016, 30 percent lower compared to 2015. The average price for Dated Brent oil during 2016 amounted to USD 43.7 per barrel.

Result

Tethys Oil reports a net result after tax for 2016 of MUSD 2.7, representing earnings per share of USD 0.08. The result for 2016 is down 88 percent compared to 2015. Net result is mainly down due to lower oil prices, which has created lower results on all levels as expenditures are in line or higher compared to the previous year.

Operating expenses

Operating expenses	2016	2015	2014	2013	2012
Production costs, MUSD	**33.5**	38.4	32.7	20.5	13.7
Well workovers, MUSD	**3.1**	4.5	4.4	3.0	0.2
Total operating expenses, MUSD	**36.5**	**42.9**	**37.2**	**23.5**	**13.9**
Operating expenses per barrel, USD	**8.2**	12.1	13.4	14.1	10.4

Operating expenses during 2016 amounted to MUSD 36.5 compared to MUSD 42.9 during 2015. Operating expenses are related to oil and gas production on Blocks 3&4, and comprise expenses for field staff, expenses related to maintenance, well workovers and interventions and administration.

Operating expenses per barrel since 2012 have been in the range USD 8 to 14 per barrel. During 2016 operating expenses per barrel has been significantly reduced compared with 2015. The reduction in operating expenditures per barrel has been expected and is the result of general cost reductions and higher production.

Depletion, depreciation and amortisation

DD&A	2016	2015	2014	2013	2012
DD&A, MUSD	**44.4**	34.6	31.0	21.0	8.0
DD&A per barrel, USD	**10.0**	9.8	11.2	12.6	5.9

Depletion, depreciation and amortisation ("DD&A") for 2016 amounted to MUSD 44.4, which is higher than 2015 and attributable to higher production. The DD&A charge relates to Blocks 3&4.

Net back

Net back, USD/bbl	2016	2015	2014	2013	2012
Oil price achieved (sales barrels)	**40.5**	58.1	103.9	106.6	110.4
Revenue (after government take)	**21.0**	30.2	54.0	55.4	57.4
Operating expenses	**8.2**	12.1	13.4	14.1	10.4
Net back	**12.8**	**18.1**	**40.6**	**41.3**	**47.0**

The reduction in net back per barrel during 2016 has mainly been driven by the oil price development.

Net result from associated companies

Tethys Oil holds indirect interest in the three Lithuanian licences; Gargzdai, Rietavas and Raseiniai, through associated companies Jylland Olie and Odin Energi. The result from Tethys Oil's share in these associated companies during 2016 amounted to MUSD -0.7 compared to MUSD -0.4 during 2015. There has been a long term trend of declining production from Gargzdai, which is in line with expectations. Reduced revenues following the fall in oil price has led to cost reduction measures being introduced.

Administrative expenses

Administrative expenses amounted to MUSD 5.8 for 2016 compared to MUSD 5.2 during 2015. Administrative expenses are mainly salaries, rents, listing costs and external services. Administrative expenses have been stable between years 2016 and 2015.

Tax

In Oman, Tethys Oil's oil and gas operations are governed by an Exploration and Production Sharing Agreement (EPSA) whereby Tethys Oil receives its share of oil after government take. Under the terms of the EPSA, Tethys Oil is subject to Omani income taxes and royalties which are paid in full, on behalf of Tethys Oil, from the government share of oil. As Omani income tax is not paid directly by Tethys Oil but is taken in kind, these taxes are not presented in Tethys Oil's income statement.

Net financial result

The result for the full year 2016 has been impacted by net foreign exchange losses and fees on long term debt. The net currency exchange effect of the group amounts to MUSD 5.3 and most of the effect relates to the stronger US dollar in relation to the Swedish krona. Currency translation differences recorded on loans between the parent company and subsidiaries are non-cash related items. Interest and fees related to the credit facility amounted to MUSD 0.6 and other financial expenditures amounted to MUSD 1.8. The currency exchange effect and fees on long term debt is part of net financial result amounting to MUSD 3.1 for the full year.

Investments and work programme

Summary of oil and gas interests (MUSD):

Country	Book value 31 Dec 2016	Book value 31 Dec 2015	Investments Jan–Dec 2016
Oman	190.8	189.1	48.2
Lithuania	–	–	–
France	–	–	–
New ventures	0.3	0.1	0.3
Total	**191.1**	**189.1**	**48.5**

Blocks 3&4

During 2016, total investments amounted to MUSD 48.5 of which almost all relate to Blocks 3&4. Investments during the year have been in line with investments 2015. There has been an increased focus on development and production drilling during 2016.

Investments Block 3&4, MUSD	2016	2015	2014	2013	2012
Drilling – Exploration/ Appraisal	**2.4**	4.8	9.6	7.5	1.2
Drilling – Development	**25.5**	14.4	9.2	13.2	19.9
G&G	**4.1**	8.4	6.2	8.6	1.2
Facilities	**10.7**	7.6	6.6	7.8	24.7
Pipeline	**1.6**	2.9	4.7	0.6	10.2
Other capex	**3.9**	2.6	1.9	2.3	72.9*
Total investments Blocks 3&4	**48.2**	**40.7**	**38.3**	**40.0**	**130.1**

* The high level of other capex during 2012 relate to the repayment to Mitsui regarding the carry agreement for investments made on Tethys Oil's behalf during 2010 and 2011.

A total of 38 wells were completed on Blocks 3&4 in 2016. The main focus during the first nine months of 2016 was on the Shahd field, where in total 30 wells were drilled. Towards the end of the third quarter 2016, the drilling resumed on the Farha South oil field, where a total of eight wells were drilled in 2016.

Planned maintenance work was carried out on all three fields on Blocks 3&4 during the spring 2016. The work included temporary shut downs of the fields, which had some effect on the production. The main objectives of the maintenance work were to verify asset integrity of the systems and to add and change components. As part of the work, the whole plant has been flushed with water and nitrogen. Asset integrity of the whole plant as well as separate components have been tested and verified. Internal cleaning and inspection of components, e.g. separators and heater treaters have been conducted. New pumps have been installed. Tie-ins for future separators and heater treaters have also been added. The work was finished in the second quarter, and completed the maintenance work on the Blocks 3&4 fields.

A total of five rigs including a work over rig are in operations on the blocks.

Block 3: Farha South Field

A total of six appraisal/production wells were drilled on the Farha South field in 2016. One of these, the FS-130 well, was drilled in a previously undrilled fault block. The new fault block AO is located about one kilometre to the west of fault block Z, in the south west part of the field. FS-130 was drilled vertically down to the target, the Barik sandstone, with a total vertical depth of 1,680 metres. FS-130 encountered oil and the AO fault block is now in production. The water injection system at Farha South oil field was further developed during the year, and two injector wells were drilled.

The produced water treatment system on Farha South field was expanded in order to handle the increasing volumes of the water produced in connection with the oil production. The expansion of the system decreases the need for new water wells as well as taking care of the water by-product.

Block 4: Shahd and Saiwan East oil fields

17 appraisal/production wells were drilled on the Shahd field in 2016. The water injection programme continued on the Shahd field with eight new injection wells and four new water wells.

In addition, one near field exploration well was drilled in a previously undrilled structure in the northern extension of the Shahd area. The well discovered oil and is producing from the Khufai layer.

A set of new separators were installed on the Saiwan East field in 2016.

Associated companies

Lithuania

As per 31 December 2016, the value of the shareholding in the two associated Danish companies holding the interests in Lithuanian licenses, amounted to MUSD 0.3 compared to MUSD 2.0 at the end of 2015. The reduction in book value is explained by a loss from associated companies of MUSD -0.7 (-0.4) and dividends received during the period which amounted to MUSD 0.7 (2.7). The book value is also impacted by currency exchange differences. The book value related to Minijos Nafta (Gargzdai) is zero and as there are no liabilities related to Minijos Nafta, Tethys Oil does not recognize any negative net result from Minijos Nafta.

Production continued on the Gargzdai licence, with cost cutting measures implemented in the first three quarters of 2016. With the higher oil price environment at the end of the year, some high water rate production wells previously shut-in were being reopened for testing and possibly being put back into production.

The long term production testing of the exploration well Tidikas-1, which was completed in 2015 on the Raseiniai licence continued in 2016 but was terminated in August 2016. The results suggest that the main target, the Silurian reef, has poor reservoir properties. Oil is clearly present, but flows have been small and barely sustainable. During the later part of the test, small, but more sustainable flows, have however been established from the carbonate 'platform' below the reef. The presence of live oil within this rock layer suggests a stratigraphic element. Nearby focus will be on better understanding the carbonate layers below the reefal structures and the extent of the 'platform' will be evaluated from seismic.

Tethys Oil has received the data from a 50 kilometres 2D survey over the Nemunas area in the south of the Raseiniai licence.

The operator has been granted a five year extension to the Raseiniai license. The remaining commitments will be additional 3D seismic and one well. The license is now valid until September 2022.

Liquidity and financing

Cash and bank and Net cash as per 31 December 2016 amounted to MUSD 39.0 compared to MUSD 51.2 as per 31 December 2015.

In May 2016 a dividend of SEK 1.00 per share was paid to shareholders, which in total amounted to MUSD 4.1. Furthermore MUSD 1.7 was used to repurchase 245,555 shares during the twelve months ending 31 December 2016.

An extra general meeting ('EGM) of shareholders was held 25 October 2016 in Stockholm. The EGM resolved to distribute SEK 3.00 per share through a share redemption programme. The total value of the distribution amounted to MUSD 11.5. The redemption programme was completed at the end of November.

During the twelve months ended 31 December 2016, the cash flow from operations amounted to MUSD 52.7 and investments in oil and gas amounted to MUSD 48.5. For the twelve months 2016 the cash flow from operations after investments in oil and gas amounted to MUSD 4.2.

Tethys Oil's operations on Blocks 3&4, including investment programme, are expected to be funded from cash flow from operations and from available funds.

Tethys Oil's operations in Lithuania are expected to be funded from cash flow from operations and available cash in the associated Lithuanian companies.

Parent company

The Parent company reports a net result after tax for 2016 amounting to MSEK 23.4 compared to MSEK 310.2 for 2015. Administrative expenses amounted to MSEK 31.3 for 2016 compared to MSEK 29.2 2015. Net financial result amounted to MSEK 46.6 during 2016 compared to MSEK 372.5 for 2015. The stronger USD in comparison to SEK is the main reason for the positive net financial result during the year. The reason behind the strong net financial result in 2015 was an anticipated dividend from the wholly owned subsidiary Tethys Oil Block 3&4 Ltd. No such dividend was expected at the end of 2016.

Significant agreements and commitments

In Tethys Oil's oil and natural gas operations there are two main categories of agreements; one that governs the relationship with the host country; and one that governs the relationship with partners.

The agreements that govern the relationship with host countries are referred to as licences or Exploration and Production Sharing Agreements (EPSA or PSA). Tethys Oil holds its interest directly through aforementioned agreements in Oman and France. The agreements with host countries have a time limit and are normally divided into periods. Financial commitments and or work commitments normally relates to the different periods. Tethys Oil has fulfilled its commitments on Blocks 3&4. In the other areas of operations the commitments are either fulfilled or there are no commitments of which Tethys Oil can be held liable for. In some of Tethys Oil's areas of interest there are requirements of work to be done or minimum expenditures in order to retain the licences, but no commitments of which Tethys Oil can be held liable for.

The agreements that govern the relationship with partners are referred to as Joint Operating Agreements (JOA). Tethys Oil has JOAs with its partners in all areas of operation.

Other than the aforementioned agreements, there are no individual agreements or similar circumstances relating to the business which are of crucial significance for the group's operations or profitability.

Board of directors

At the Annual General Meeting ("AGM")of shareholders on 18 May 2016 Per Brilioth, Magnus Nordin, Dennis Harlin, Katherine Støvring and Geoffrey Turbott were re-elected members of the board. Richard Rettig was a newly elected director. No deputy directors were appointed. At the same meeting Dennis Harlin was appointed chairman of the board.

The work of the board is subject to an established work procedure that defines the distribution of work between the board and the managing director. The work procedure is evaluated each year and revised if deemed appropriate. The board had 16 meetings during 2016. Most importantly the board has approved the interim reports of the year and a capital structure target for the company as well as the budget for 2017. The six members of the board have consisted of five non-executive directors. These five non-executive directors are also members of the audit committee and the remuneration committee. Geoffrey Turbott is chairman of the audit committee and Per Brilioth is chairman of the remuneration committee.

Remuneration to executive management

The intention of the board of directors is to propose to the 2017 AGM the adoption of a policy on remuneration for 2017. The remuneration committee has adopted a policy that fundamentally will be the proposition to the 2017 AGM, containing the following elements of remuneration for the executive management; base salary; pension arrangements; yearly variable salary; non-financial benefits; long term incentive programme. For a detailed description on remuneration applied in 2016 and policy on remuneration as adopted by the remuneration committee, refer to page 27 of the Corporate Governance report and note 12 of the consolidated financial statements.

Organisation

At the end of the year, Tethys Oil had an average of 19 (17) full time employees. Of these, 7 (6) were women. In addition, contractors and consultants are engaged in Tethys Oil's operations.

The environment

All oil and gas related operations impact the environment and therefore entail risk. Directly or indirectly through joint operations, the Group complies with the environmental legislation and regulations applicable in each country. Areas which are normally regulated include air pollution, discharges to watercourses, water use, handling of hazardous substances and waste, land and groundwater contamination, and restoration of the environment around the facilities after operations have ceased. Directly and indirectly through partnerships, Tethys Oil strives to minimise the environmental impact and avoid the occurrence of accidents.

There have been no significant issues with regard to Health, Safety and Environment ("HSE") on any of Tethys Oil's assets. For more information, see the section Sustainability.

Group structure

Tethys Oil AB (publ), with organizational number 556615-8266, is the parent company in the Tethys Oil Group. Material subsidiaries include Tethys Oil Oman Limited, Tethys Oil Block 3&4 Limited, Tethys Oil Denmark AB, Tethys Oil Spain AB, Tethys Oil France AB and Tethys Oil Exploration AB. The Tethys Oil Group was established 1 October 2003.

Share data

As per 31 December 2016, the number of outstanding shares in Tethys Oil amount to 35,543,750, with a quota value of SEK 0.17. All shares represent one vote each. The Company has the same amount of shares outstanding as per 31 December 2015. Tethys Oil has a warrant based incentive programme for employees, for further information please see note 21. As the subscription price is below the share price as per the reporting date in this report, the warrants are included in the diluted number of shares which amount to 36,232,460 per 31 December 2016.

As per 31 December 2016, Tethys Oil held 1,329,224 of its own shares which have been purchased since commencement of the programme during the fourth quarter 2014. 245,555 shares were purchased during 2016. The repurchased shares are still included in the total number of shares, but are not included in the average number of shares in circulation. The weighted average number of shares in circulation during 2016 before dilution is 34,324,020 and after dilution 34,372,065.

After 31 December 2016 and up to the date of publication for this report, Tethys Oil has not acquired any further shares.

Seasonal effects

Tethys Oil has no significant seasonal variations.

Transactions with related parties

There have been no transactions with related parties during the full year 2016, nor for any comparative periods.

Risk and uncertainties

A statement of risks and uncertainties are presented in note 1.

Appropriation of profit

The board of directors proposes to the AGM a total distribution of SEK 1.00 (SEK 1.00) per share, equal to MSEK 34.2 (MSEK 34.5) or MUSD 3.6 (MUSD 3.7), be paid for the 2016 fiscal year. The distribution is proposed to be made by a cash dividend of SEK 1.00 per share. It is also proposed that the balance of retained earnings after the dividend be retained in the business as described below.

MSEK	
Retained earnings	245.8
Profit for the year	23.4
	269.2

The Board of Directors proposes that these earnings be appropriated as follows:	
To the shareholders, a distribution of SEK 1.0 per share	34.2
To be retained in the business	235.0
	269.2

Cash dividend

The board of directors' proposal consists of a cash dividend of SEK 1.00 per share amounting to SEK 34,214,526. The dividend is subject to approval at the AGM 2017. The preliminary record day for the dividend is 19 May 2017 and preliminary day of payment of dividend is 24 May 2017.

As per 31 December 2016, the group's and the parent company's equity ratio amounted to 82.4 percent and 96.9 percent, respectively. After the dividend, the group's and the parent company's equity ratio will amount to 82.1 percent and 96.6 percent, respectively.

Tethys Oil has generated significant cash flows in recent years and the Group's financial position is strong. The board has considered the Parent company and the Group's consolidation needs through a comprehensive valuation of the Parent company and the Group's financial position and the Parent company and the Group's possibilities to fulfil their commitments in the long term. The Parent company and the Group's financial position does not give rise to any other conclusion than that the Parent company and the Group can continue its operations and meet its obligations in the short and long term and make the necessary investments. The board believes that the size of the equity, even after the proposed dividend, is in reasonable proportion to the scale of the Parent company and the Group's business as well as the risks associated with conducting the business.

With reference to the above and what has come to the board's attention, it is the board's assessment that the Parent company's and the Group's financial position implies that the proposed dividend is justifiable pursuant to Chapter 17, Section 3 second and third paragraph of the Swedish Companies Act, i.e. with reference to the requirements that the nature, scope and risks of business put on the size of the Parent company's and the Group's equity as well as the Parent company's and the Group's need to strengthen its balance sheet, liquidity and financial position.

Financial statements

The result of the Group's and Parent company's operations and the financial position at the end of the financial year is shown in the following income statements, balance sheets, cash flow statements, statements of changes in equity and related notes. Balance sheets and income statements will be resolved at the AGM, 17 May 2017.

Consolidated statement of comprehensive income

MUSD	Note	2016	2015
Revenue	3	87.1	107.0
Operating expenses	9	-36.5	-42.9
Gross profit		**50.5**	**64.2**
Depletion, depreciation and amortisation	3, 8	-44.4	-34.7
Exploration costs	8	-0.1	-1.0
Share of net profit/loss from associates	6	-0.7	-0.4
Administrative expenses	10–12, 21	-5.8	-5.2
Operating result		**-0.5**	**23.0**
Financial income and similar items	13	9.3	7.1
Financial expenses and similar items	14	-6.2	-6.6
Net financial result		**3.1**	**0.5**
Result before tax		**2.7**	**23.5**
Income tax	15	–	-0.1
Result for the period		**2.7**	**23.4**
Other comprehensive result			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences		-7.0	-3.5
Other comprehensive result for the period		**-7.0**	**-3.5**
Total comprehensive result for the period		**-4.4**	**19.9**
Attributable to:			
Shareholders in the parent company		-4.4	19.9
Non controlling interest		–	–
Number of shares outstanding	17	35,543,750	35,543,750
Number of shares outstanding (after dilution)	17	36,232,460	35,543,750
Weighted average number of shares (before dilution)	17	34,324,020	34,964,288
Weighted average number of shares (after dilution)	17	34,372,065	34,964,288
Earnings per share (before dilution), USD	17	0.08	0.67
Earnings per share (after dilution), USD	17	0.08	0.67

Consolidated balance sheet

MUSD	Note	31 Dec 2016	31 Dec 2015	1 Jan 2015
ASSETS				
Non current assets				
Oil and gas properties	8	191.1	189.1	166.4
Office equipment		0.1	0.1	0.2
Investment in associates	6	0.3	1.7	5.2
Long term receivables		–	0.3	–
		191.4	**191.3**	**171.8**
Current assets				
Other receivables	16	7.4	9.2	11.4
Prepaid expenses		1.1	1.9	2.5
Cash and cash equivalents		39.0	51.2	47.8
		47.5	**62.3**	**61.7**
TOTAL ASSETS		**238.9**	**253.6**	**233.5**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity	17			
Share capital		0.8	0.8	0.8
Additional paid in capital		71.0	71.0	71.0
Reserves		-1.1	5.9	9.4
Retained earnings		126.2	139.5	133.1
Total shareholders' equity		**196.8**	**217.2**	**214.3**
Non current liabilities				
Non current provisions	7	8.8	4.0	3.3
Loan facility	18	–	–	–
		8.8	**4.0**	**3.3**
Current liabilities				
Current provisions	7	1.9	–	–
Accounts payable		0.2	0.1	0.3
Accrued expenses	19	9.8	20.2	14.5
Other current liabilities		21.5	12.1	1.1
		33.3	**32.4**	**15.9**
Total liabilities		**42.1**	**36.3**	**19.2**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**238.9**	**253.6**	**233.5**

Consolidated statement of changes in equity

	Attributable to shareholders of the parent company				
MUSD	**Share capital**	**Paid in capital**	**Other reserves**	**Retained earnings**	**Total equity**
Opening balance 1 January 2015	**0.8**	**71.0**	**9.4**	**133.1**	**214.3**
Comprehensive income					
Result for twelve months 2015	–	–	–	23.4	**23.4**
Currency exchange differences twelve months 2015	**–**	**–**	**-3.5**	**–**	**-3.5**
Total comprehensive income	**–**	**–**	**-3.5**	**23.4**	**19.9**
Transactions with owners					
Purchase of own shares	**–**	**–**	**–**	**-4.9**	**-4.9**
Dividends paid	**–**	**–**	**–**	**-4.1**	**-4.1**
Share redemption	**–**	**–**	**–**	**-8.3**	**-8.3**
Incentive programme	–	–	–	0.3	**0.3**
Total transactions with owners	**–**	**–**	**–**	**-17.0**	**-17.0**
Closing balance 31 December 2015	**0.8**	**71.0**	**5.9**	**139.5**	**217.2**
Opening balance 1 January 2016	**0.8**	**71.0**	**5.9**	**139.5**	**217.2**
Comprehensive income					
Result for twelve months 2016	–	–	–	2.7	**2.7**
Currency exchange differences twelve months 2016	–	–	-7.0	–	**-7.0**
Total comprehensive income	–	–	**-7.0**	**2.7**	**-4.4**
Transactions with owners					
Purchase of own shares	–	–	–	-1.5	**-1.5**
Dividends paid	–	–	–	-3.7	**-3.7**
Share redemption	–	–	–	-10.9	**-10.9**
Incentive programme	–	–	–	0.3	**0.3**
Total transactions with owners	**–**	**–**	**–**	**-15.8**	**-15.8**
Closing balance 31 December 2016	**0.8**	**71.0**	**-1.1**	**126.2**	**196.8**

Consolidated cash flow statement

MUSD	Note	2016	2015
Cash flow from operations			
Operating result		-0.5	23.0
Interest received	13	–	–
Interest paid	14	-0.7	-1.0
Income tax		–	-0.1
Adjustment for exploration costs	8	0.1	1.0
Adjustment for depletion, depreciation and other non-cash related items	8	45.7	32.8
Total cash flow from operations before change in working capital		**44.7**	**55.7**
Change in receivables		-1.8	-8.9
Change in liabilities		9.8	12.3
Cash flow from operations		**52.7**	**59.1**
Investment activity			
Investment in oil and gas properties	8	-48.5	-40.8
Investment in other fixed assets		–	-0.0
Cash from associated companies, net	6	0.1	2.8
Cash flow from investment activity		**-48.4**	**-38.1**
Financing activity			
Purchase of own shares	17	-1.7	-4.8
Share redemption		-11.5	-8.5
Dividend		-4.1	-4.3
Long term credit, net after issue costs	18	–	-0.1
Cash flow from financing activity		**-17.4**	**-17.7**
Period cash flow		**-13.1**	**3.4**
Cash and cash equivalents at the beginning of the period		51.2	47.8
Exchange gains/losses on cash and cash equivalents		0.9	0.0
Cash and cash equivalents at the end of the period		39.0	51.2

Parent Company income statement

MSEK	Note	2016	2015
Other income	5	10.6	10.5
Share of net profit/loss from associates	6	-5.6	-3.2
Administrative expenses	10–12, 21	-31.3	-29.2
Operating result		**-26.3**	**-21.9**
Financial income and similar items	13	85.1	410.9
Financial expenses and similar items	14	-31.5	-38.2
Write down of shares in subsidiaries	20	-7.0	-0.2
Net financial result		**46.6**	**372.5**
Appropriations	24	3.1	-40.4
Result before tax		**23.4**	**310.2**
Income tax	15	–	–
Result for the year *		**23.4**	**310.2**

* As there are no items in the parent company's other comprehensive income, no separate report on total comprehensive income is presented.

Parent Company balance sheet

MSEK	Note	31 Dec 2016	31 Dec 2015
ASSETS			
Non-current assets			
Other fixed assets		0.2	0.3
Shares in subsidiaries	20	1.0	7.3
Long term receivables from group companies		245.2	126.0
Investment in associates	6	2.7	14.8
		249.1	**148.2**
Current assets			
Other receivables	16	2.8	0.8
Prepaid expenses		0.7	1.5
Cash and cash equivalents		104.6	365.8
		108.1	**368.1**
TOTAL ASSETS		**357.2**	**516.6**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	17		
Restricted equity:			
Share capital		5.9	5.9
Statutory reserve		71.1	71.1
Unrestricted equity:			
Share premium reserve		481.0	481.0
Retained earnings		-235.2	-396.4
Result for the year		23.4	310.2
Total shareholders' equity		**346.2**	**471.9**
Current liabilities			
Accounts payable		1.5	0.9
Other current liabilities to group companies		7.1	43.2
Other current liabilities		2.1	0.2
Accrued expenses	19	0.2	0.4
Total liabilities		**10.9**	**44.8**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**357.2**	**516.6**

Parent Company statement of changes in equity

MSEK	Restricted equity: Share capital	Restricted equity: Statutory reserve	Unrestricted equity: Share premium reserve	Unrestricted equity: Retained earnings	Unrestricted equity: Net result	Total equity
Opening balance 1 January 2015	**5.9**	**71.1**	**481.0**	**-399.6**	**147.9**	**306.3**
Transfer of prior year net result	–	–	–	147.9	-147.9	**–**
Comprehensive income						
Result for the year	–	–	–	–	310.2	**310.2**
Period result	**–**	**–**	**–**	**–**	**310.2**	**310.2**
Total comprehensive income	**–**	**–**	**–**	**–**	**310.2**	**310.2**
Transactions with owners						
Purchase of own shares			–	-41,6	–	**-41.6**
Dividends paid				-35.2	–	**-35.2**
Share redemption				-70.4	–	**-70.4**
Incentive programme	–	–	–	2.5	–	**2.5**
Total transactions with owners			**–**	**-144.7**	**–**	**-144.7**
Closing balance 31 December 2015	**5.9**	**71.1**	**481.0**	**-396.4**	**310.2**	**471.9**
Opening balance 1 January 2016	**5.9**	**71.1**	**481.0**	**-396.4**	**310.2**	**471.9**
Transfer of prior year net result	–	–	–	310.2	-310.2	**–**
Comprehensive income						
Result for the year	–	–	–	–	23.4	**23.4**
Period result	**–**	**–**	**–**	**–**	**23.4**	**23.4**
Total comprehensive income	**–**	**–**	**–**	**–**	**23.4**	**23.4**
Transactions with owners						
Purchase of own shares			–	-14.6	–	**-14.6**
Dividends paid				-34.4	–	**-34.4**
Share redemption				-102.6	–	**-102.6**
Incentive programme	–	–	–	2.6	–	**2.6**
Total transactions with owners			**–**	**-149.0**	**–**	**-149.0**
Closing balance 31 December 2016	**5.9**	**71.1**	**481.0**	**-235.2**	**23.4**	**346.2**

Parent Company cash flow statement

MSEK	Note	2016	2015
Cash flow from operations			
Operating result		-26.3	-21.9
Interest received	13	0.0	4.1
Interest paid	14	–	–
Adjustment for non cash related items		9.5	-34.5
Adjustment for dividends not yet paid		–	350.0
Total cash flow from operations before change in working capital		**-16.8**	**297.7**
Change in receivables		-1.2	207.5
Change in liabilities		-33.9	38.3
Cash flow from operations		**-51.9**	**543.5**
Investment activity			
Dividend from associated companies	6	6.4	22.8
Investment in long term receivables		-71.9	-61.1
Investment in other fixed assets		–	-0.1
Investments in derivative instruments		–	-2.5
Cash flow from investment activity		**-65.6**	**-40.8**
Financing activity			
Purchase of own shares	17	-14.6	-41.6
Dividends paid		-34.4	-35.2
Share redemption		-102.6	-70.4
Cash flow from financing activity		**-151.7**	**-147.1**
Cash flow for the year		**-269.2**	**355.6**
Cash and cash equivalents at the beginning of the year		365.8	14.7
Exchange gains on cash and cash equivalents		8.0	-4.5
Cash and cash equivalents at the end of the year		104.6	365.8

Notes

General information

Tethys Oil AB (publ) ("the Company"), corporate identity number 556615-8266, and its subsidiaries (together "the Group" or "Tethys Oil") are focused on exploration for and production of oil and natural gas. The Group has interests in exploration licences in Oman, France and Lithuania. The Company is a limited liability company incorporated and domiciled in Stockholm, Sweden. The Company is listed on Nasdaq Stockholm.

These consolidated financial statements have been approved for issue by the board of directors on 18 April 2017.

Basis of preparation

The annual report of Tethys Oil AB/the Group have been prepared in accordance with prevailing International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations adopted by the EU Commission and the Swedish Annual Accounts Act (1995:1554). In addition RFR 1 "Supplementary Rules for Groups" has been applied as issued by the Swedish Financial Reporting Board.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 2.

The consolidated financial statements have been prepared under the historical cost basis except as disclosed in the accounting policies below.

Accounting principles

The accounting principles applied in the preparation of these consolidated financial statements are set out below. The same accounting principles were used in the Annual report 2015 and have been consistently applied to all the years presented. The Annual report of the Group has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, the Annual Accounts Act and RFR 1 "Supplementary rules for groups". The Annual report for the Parent company has been prepared in accordance with the Annual Accounts Act and Swedish Financial Accounting Standards Council's RFR 2 "Accounting for legal entities". RFR 2 means that the parent company in the annual report for the legal entity shall apply IFRS' rules and statements as adopted by the EU, so far this is possible within the framework of the Annual Accounts Act and with regard to the connection between accounting and taxation. The recommendation states which exceptions and additions that shall be or are allowed to be made from IFRS. The accounting principles of the Parent company are the same as for the Group, except in the cases specified below in the section entitled "Parent Company accounting principles".

New accounting principles for 2016

IASB has issued several amendments to financial standards effective as from 1 January 2016 of which no one has had any material impact on the consolidated financial statements of the Group.

IAS 21 allows financial reporting in currencies other than Swedish kronors (SEK), for Swedish groups. Tethys Oil's board of directors have decided to adopt USD as the reporting currency for the Group in order to improve the understanding of Tethys Oil's financial reporting and to increase transparency. See page 54 for details.

New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these consolidated financial statement. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The group is assessing the impact of IFRS 15 and at present does not expect any material effect on the group financial reporting apart from possible changes in presentation.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The group is yet to assess IFRS 9's full impact.

IFRS 16, 'Leases' In January 2016, IASB issued a new lease standard that will replace IAS 17 Leases and the related interpretations IFRIC 4, SIC-15 and SIC-27. The standard requires assets and liabilities arising from all leases, with some exceptions, to be recognized on the balance sheet. This model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. The accounting for lessors will in all material aspects be unchanged. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted. The EU has not yet adopted the standard. The standard will primarily impact the accounting of the group's operational leases. At present the group only has leases for office rent and other leases concerning items of lesser value, such as copying machines. Considering the few leases in the group, the preliminary assessment is that the standard will have no material impact on the group.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

Principles of consolidation

Subsidiaries are all entities (including structured entities) over which the group has control. The Group controls an entity when the group is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Joint arrangements
Under IFRS 11 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. Tethys Oil has joint operations.

Joint operations
Tethys Oil recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings. The Group conducts oil- and gas operations as a joint operation that does not have a separate legal entity status through licenses which are held jointly with other companies. The Groups financial statements reflect the Groups share of production, capital costs, operational costs, current assets and liabilities in the joint operations.

Associated companies
An investment in an Associated company is an investment in an undertaking where the Group exercises significant influence but not control, generally accompanying a shareholding of at least 20 percent but not more than 50 percent of the voting rights. Such investments are accounted for in the consolidated financial statements in accordance with the equity method and are initially recognized at cost. The difference between the acquisition cost of shares in an associated company and the net fair value of the assets, liabilities and contingent liabilities of the associated company recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. The Group's share in the post-acquisition results of the associated company is recognised in the income statement and the Group's share in post-acquisition movements in other comprehensive income of the associated company is recognised directly in other comprehensive income of the Group. When the Group's accumulated share of losses in an associated company equals or exceeds its interest in the associated company, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's percentage in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Foreign currencies
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('functional currency'). The consolidated financial statements are presented in US dollars (USD) which is the currency the Group has elected to use as the presentation currency.

New financial reporting currency
IAS 21 allows financial reporting in currencies other than Swedish kronors (SEK), for Swedish groups. Tethys Oil's board of directors have decided to adopt USD as the reporting currency for the Group in order to improve the understanding of Tethys Oil's financial reporting and to increase transparency. As a consequence recalculations have been made for non-USD reporting entities with, the comparative figures translated into USD whereby assets and liabilities are translated at the closing rate at the date of that balance sheet and income and expenses are translated at the exchange rates at the dates of the transactions. Share capital and additional paid in capital has been recalculated using the balance day rate at 31 December 2014. Retained earnings are translated against historical year end rates. As a consequence a redistribution between retained earnings and reserves has taken place. The financial reporting in USD has commenced as from 1 January 2016. The parent company will continue to use SEK as financial reporting currency.

Transactions and balances
Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at the balance sheet date and foreign exchange currency differences are recognised in the income statement. Transactions in foreign currencies are translated at exchange rates prevailing at the transaction date. Exchange differences are included in financial income/expenses in the income statement. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the balance sheet rate of exchange.

Presentation currency
The balance sheets and income statements of foreign Group companies are translated for consolidation purposes using the current rate method. All assets and liabilities of the subsidiary companies are translated at the balance sheet date rates of exchange, whereas the income statements are translated at average rates of exchange for the year, except for transactions where it is more relevant to use the rate of the day of the transaction. The translation differences which arise are recorded directly in the foreign currency translation reserve within other comprehensive income. Upon disposal of a foreign operation the translation differences relating to that operation will be transferred from equity to the income statement and included in the result on sale. Translation differences arising from net investments in subsidiaries, used for financing exploration activities, are recorded directly in other comprehensive income.

For the preparation of the financial statements for the reporting period, the following exchange rates have been used.

	31 December 2016		31 December 2015	
Currency	**2016 Average**	**2016 Period end**	**2015 Average**	**2015 Period end**
SEK/USD	8.63	9.42	8.45	8.51
SEK/EUR	9.52	9.80	9.42	9.30
SEK/CHF	8.75	9.17	8.80	8.60

Segment reporting
Operating segments are based on geographic perspective and reported in a manner consistent with the internal reporting provided to the Executive Management. Information for segments is only disclosed when applicable.

Classification of assets and liabilities
Non-current assets, long-term liabilities and provisions consist for the most part solely of amounts that are expected to be recovered or paid more than twelve months after the balance sheet date. Current assets and current liabilities consist solely of amounts that are expected to be recovered or paid within twelve months after the balance sheet date.

Oil and gas properties
Oil and gas properties are initially recorded at historical cost, where it is probable that they will generate future economic benefits. All costs for acquiring concessions, licences or interests in production sharing contracts and for the survey, drilling and development of such interests are capitalised on a field area cost centre basis. This includes capitalisation of decommissioning and restoration costs associated with provisions for asset retirement (see "Provisions"). Oil and gas properties are subsequently carried at cost less accumulated depreciation, depletion and amortisation (including any impairment). Gains and losses on disposals are determined by comparing the proceeds with the carrying amounts of assets sold and are recognised in income.

Routine maintenance and repair costs for producing assets are expensed to the income statement when they occur.

Proceeds from the sale or farm-out of oil and gas concessions in the exploration stage are off set against the related capitalised costs of each cost centre with any excess of net proceeds over all costs capitalised included in the income statement. In the event of a sale in the exploration stage any deficit is included in the income statement.

Oil and gas properties are categorised as either producing or non-producing.

Depreciation, depletion and amortisation
Producing oil and gas properties are depleted on a unit-of-production basis over the proved and probable reserves of the field concerned, except in the

case of assets whose useful lives differ from the lifetime of the field, in which case the straight-line method is applied.

In accordance with the unit of production method, net capitalised costs to reporting date, together with anticipated future capital costs for the development of the proved and probable reserves determined at the balance sheet date price levels, are depleted based on the year's production in relation to estimated total proved and probable reserves of oil and gas. Depletion of a field area is charged to the income statement once commercial production commences, under Depletion, depreciation and amortisation.

Proved reserves are those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods and governmental regulations. Proved reserves can be categorised as developed or undeveloped. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimates.

Probable reserves are those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. In this context, when probabilistic methods are used, there should be at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves.

Exploration costs
Exploration costs relate to non-producing oil and gas properties and are recognised in the income statement when a decision is made not to proceed with an oil and gas project, or when expected future economic benefits of an oil and gas project are less than capitalised costs. No depletion is charged to non-producing oil and gas properties.

Costs related to non-producing oil and gas properties and directly associated with an exploration well are capitalised until the determination of reserves is evaluated. If it is determined that a commercial discovery has not been achieved, these exploration costs are charged to the income statement as exploration costs.

The field will be transferred from the non-production cost pool to the production cost pool within oil and gas properties once commercial production commences, and accounted for as a producing asset.

Impairment
Tethys Oil continuously assesses its producing oil and gas properties for any need for impairment. This is performed in conjunction with each balance sheet date or if there are events or changes in circumstances that indicate that carrying values of assets may not be recoverable. Such indicators include changes in the Group's business plans, relinquished licences, changes in raw materials prices leading to lower revenues and, for oil and gas properties, downward revisions of estimated reserve quantities.

Testing for impairment losses is performed for each cash generating unit, which corresponds to licence right, production sharing agreement or equivalent owned by Tethys Oil. A cash generating unit thus usually corresponds to each acquired asset in each country in which Tethys Oil carries on oil and gas operations. Impairment testing means that the balance sheet item amount for each cash generating unit is compared to the recoverable amount for the assets, which is the higher of the fair value of the assets less sales expenses and the value in use. The value in use of the assets is based on the present value of future cash flows discounted by a discount rate; see also Note 8 under the section Impairment testing. An impairment loss is recorded when an asset's or a cash generating unit's recorded value exceeds the recoverable amount. Impairment losses are charged to the income statement, under Depletion, depreciation and amortisation.

Interest
Interest on borrowings to finance the acquisition of producing oil and gas properties is charged to income as incurred. Interest on borrowings to finance fields under development is capitalized within oil and gas properties until production commences.

Valuation principles financial items

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and other liabilities. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Tethys Oil reports a financial asset or a financial liability in the balance sheet when the company becomes a party to the instrument's contractual terms. The company derecognises a financial liability or part thereof when the obligation stated in the relevant contract is fulfilled or otherwise terminated.

Tethys Oil bases the fair value of financial instruments depending on available market data at time of valuation. Data are categorised into three categories; Level 1: quoted prices in active markets. Level 2: valuation based on observable market data. Level 3: valuation techniques incorporating information other than observable market data. The reported value – after any impairment – of accounts receivable and accounts payable is assumed to equate to their fair value, since these entries are short-term in nature.

A) Financial assets and liabilities at fair value through profit or loss
Financial assets and liabilities at fair value through profit or loss are financial assets held for trading. A financial asset and liabilities are classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets and liabilities in this category are classified as current assets or liabilities if expected to be settled within 12 months; otherwise, they are classified as non-current.

Financial assets and liabilities carried at fair value through profit or loss are both initially and subsequently recognised at fair value, and transaction costs are expensed in the income statement.

B) Receivables and other receivables
Receivables and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The group's receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet. Receivables and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Assets are also measured less provision for impairment.

C) Other liabilities
Other liabilities are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. They are included in current liabilities, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current liabilities. Other liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

D) Impairment of financial assets
The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

Fixed assets other than oil and gas

Other tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is based on cost and is calculated on a straight line basis over the estimated economic life of 3 to 5 years for office equipment and other assets.

Additional costs to existing assets are included in the assets' net book value or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

The net book value of any replaced parts is written off. Other additional expenses are deemed to be repair and maintenance costs and are charged to the income statement when they are incurred. The net book value is written down immediately to its recoverable amount when the net book value is higher. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, including offsetting bank overdrafts, short-term deposits, money market funds and commercial paper that have a maturity of three months or less at the date of acquisition.

Equity

Share capital consists of the registered share capital for the Parent Company. Share issue costs associated with the issuance of new equity are treated as a direct reduction of proceeds. Excess contribution in relation to the issuance of shares is accounted for in the item additional paid-in-capital.

The currency translation reserve contains unrealised translation differences due to the conversion of the functional currencies into the presentation currency.

Retained earnings contain the accumulated results attributable to the shareholders of the Parent Company.

Provisions

A provision is reported when the Company has a legal or constructive obligation as a consequence of an event and when it is more likely than not that an outflow of resources is required to settle the obligation and a reliable estimate can be made of the amount. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as financial expense.

On fields where the Group is required to contribute to site restoration costs, a provision is recorded to recognise the future commitment. An asset is created, as part of the oil and gas properties, to represent the discounted value of the anticipated site restoration liability and depleted over the life of the field on a unit of production basis. The corresponding accounting entry to the creation of the asset recognises the discounted value of the future liability. The discount applied to the anticipated site restoration liability is subsequently released over the life of the field and is charged to financial expenses. Changes in site restoration costs and reserves are treated prospectively and consistent with the treatment applied upon initial recognition.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised costs using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or a shorter period where appropriate.

Revenue

Revenues from the sale of oil and gas are recognised in the income statement net of royalties in kind or in cash (government take). Revenues associated with the sale of crude oil are recognized at the fair value of the consideration received or receivable when the significant risks and rewards of ownership have been transferred, which is when title passes from the Company to the customer. For Tethys Oil's operations, customers take title when the crude oil is loaded onto a tanker.

Underlift and overlift

Crude oil and natural gas produced and sold, below or above the Company's working interest share in the related oil and gas property, results in production underliftings, or overliftings. Underliftings are recorded as Other receivables valued at market value, and overliftings are recorded in Other current liabilities and accrued at the market value. Underliftings are reversed from Other receivables when the crude oil is lifted and sold. Overliftings are reversed from Other current liabilities when sufficient volumes are produced to make up the overlifted volume.

Profit oil and cost recovery

Blocks 3&4, being Tethys Oil's main and only producing oil and gas property, is governed by an Exploration and Production Sharing Contract (EPSA). Under the EPSA, revenues are derived from cost recovery oil and gas and profit oil and gas. Cost recovery oil and gas allows Tethys Oil to generally recover all investments and operating expenses (CAPEX and OPEX). Profit oil and gas is allocated to the host government and contract parties in accordance with their respective equity interests.

Other

Incidental revenues from the production of oil and gas are offset against capitalised costs of the related cost centre until quantities of proven and probable reserves are determined or commercial production has commenced. Service income, generated by providing technical and management services to joint operations, is recognised as other income.

Income taxes

Presented income taxes include tax payable or tax receivable for the reporting period, adjustments in regard to previous year's taxes and changes in deferred tax.

Valuations of all tax liabilities/claims is in nominal amounts and are prepared in accordance with tax legislation and tax rates decided or announced and at which they are likely to be resolved.

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively. Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Employee benefits

Short-term employee benefits such as salaries, social premiums and holiday pay, are expensed when incurred.

Pension obligations

The majority of the pension obligations of the Group are governed by legally required social costs. Additional pension schemes exists which are funded through payments to insurance companies. These are defined contribution plans. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions should this legal entity not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods.

Share based incentive programme

Equity-settled share based payments are recognized in the income statement as administrative expenses and as equity in the balance sheet. The option is measured at fair value at the date of grant using the Black & Scholes options pricing model and is charged to the income statement without revaluation of the value of the option.

Severance pay

Severance pay is payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for the severance pay. The Group recognises severance pay when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing severance pay as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

Related party transactions

Tethys Oil recognises the following related parties: associated companies, jointly controlled entities, members or the family of the key management personnel or other parties that are partly, directly or indirectly, controlled by key management personnel or of its family or of any individual that controls, or has joint control or significant influence over the entity.

Parent Company accounting principles

The Parent Company has prepared its Annual Report in compliance with Swedish Annual Accounts Act and recommendation RFR 2, Accounting for Legal Entities of the Swedish Financial Reporting Board.

Financial instruments

Assets and liabilities are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost unless stated otherwise. Financial assets are derecognised when the rights to receive cash flows from the investments have expired, or have been transferred and the Group has transferred substantially all risks and rewards of ownership. IAS 39 is not applied.

Subsidiaries

Holdings in subsidiaries are recognized in the Parent Company financial statements according to the cost method of accounting. The values of subsidiaries are tested for impairment when there is an indication of a decline in the value.

Group contributions

The parent company uses the alternative method in accounting for group contributions and records paid as well as received contributions as appropriations in the income statement.

Taxes

The Parent Company's financial statements recognize untaxed reserves including deferred tax. The consolidated financial statements, however, reclassify untaxed reserves to deferred tax liability and equity.

Note 1, Risk management

The Group's activities expose it to a number of risks and uncertainties which are continuously monitored and reviewed. Presented below are the main risks and uncertainties of the group as identified by the directors and how the group handles these risks.

Operational risk management

Technical and geological risk

At its current stage of development Tethys Oil is partly commercially producing oil and partly exploring for and appraising undeveloped known oil and/ or natural gas accumulations. The operational risk is different in these different parts of Tethys Oil's operations. The main operational risk in exploration and appraisal activities is that the activities and investments made by Tethys Oil and its partners will not evolve into commercial reserves of oil and gas.

Oil price

The oil price is of significant importance to Tethys Oil in all parts of operations as income and profitability is and will be dependent on prices prevailing from time to time. Significantly lower oil prices will reduce current and expected profitability in projects and can make projects sub economic. Lower oil prices could also decrease the industry interest in Tethys Oil's projects regarding farmout or sale of assets. There were no oil price hedges in place as per 31 December 2016.

Tethys Oil's has a flexible approach towards oil price hedging, based on an assessment of the benefits of the hedge contract in specific circumstances. Based on analysis of the circumstances Tethys Oil will assess the benefits of forward hedging sales contracts for the purpose of establishing a secured cash flow. If Tethys Oil believes that the hedging contract will provide an enhanced cash flow or if the risk of not being able to meet investment commitments is high, then Tethys Oil may choose to enter into an oil price hedge.

Net result in financial statements (MUSD)	2.7	2.7
Shift in oil price (USD/barrel)	+5	-5
Total effect on net result (MUSD)*	**+11.8**	**-11.8**

* Excluding over-/underlift

Access to equipment

An operational risk factor is access to equipment in Tethys Oil's project. Especially in the drilling/development phase of a project the group is dependent on advanced equipment such as rigs, casing, pipes etc. A shortage of theses supplies can present difficulties for Tethys Oil to fulfil projects. Limited access to drilling rigs has in the past led to cost increases and has in part been the cause of project delays.

Political risk

Tethys Oil has operations, alone or with partners, in several different countries and can therefore be subject to political risk. The political risks are monitored and factored in when evaluating possible projects. Asset diversification is again Tethys Oil's principal approach to deal with this risk. Specifically, Tethys Oil also deals with political risk by emphasising continuous close dialog with host country authorities and interest groups, nationally as well as locally. Tethys Oil holds its oil and gas interest through licences, directly or indirectly, which are granted by national governments. Tethys Oil's operations are often also subject to local permits. Therefore Tethys Oil and the industry are subject to a wide range of political risks on different levels and the business is highly sensitive to political changes.

Environment

Oil and gas operations can be environmentally sensitive. Tethys Oil devotes considerable effort and expense to identify and mitigate any perceived environmental risk. The operations are subject to extensive regulatory control with regard to environmental matters, both on national and international levels. Environmental legislation regulates inter alia the control of water and air contamination, waste material, licensing requirements, restrictions on carrying out operations in environmentally sensitive and littoral areas.

Key personnel

Tethys Oil is dependent on certain key personnel, some of whom have founded the Company at the same time as they are among the existing shareholders and members of the board of directors of the company. These people are important for the successful development of Tethys Oil. The Company actively tries to strike an optimal balance between its dependence of key personnel and its methods for retaining these.

Licenses

Tethys Oil's direct interests are held through agreements with host countries, for example licenses or production sharing agreements. These agreements are often limited in time and there are no guarantees that the agreements can be extended when a time limit is reached.

Financial risk management

The Group's activities expose it to a variety of financial risks, mainly categorized as exchange rate risk and liquidity risk. The Group's risks are continuously monitored and analysed by the board of directors and management. The aim is to minimise potential adverse effects on the Group's financial performance.

Foreign currency risk

The Group is exposed to fluctuations in the foreign exchange markets as fluctuations in exchange rates can negatively affect the result, cash flow and equity. The major proportion of the Group's assets relate to international oil and gas discoveries valued in USD and which generate revenues in USD. During 2016, all of Tethys Oil's oil sales and operative expenditures were denominated in USD. The exchange risk affect the Group by transaction risk and translation risk.

Transaction risk

Transaction exposure arises in the cash flow when invoicing or the costs of invoiced goods and services are not in the local currency. By operating in several countries, Tethys Oil is exposed to fluctuations in a number of currencies. Tethys Oil further holds bank accounts denominated in foreign currencies and is exposed to fluctuations in exchange rates. Presented below is the exposure to currencies with reference to items in the financial statements:

	2016	2015
Revenue	100% in USD	100% in USD
Investments	99% in USD	99% in USD
External financing at year end	No	No

Tethys Oil does not currently hedge exchange rates. The Group's policy is to hold a large portion of liquidity in USD to reduce the exchange rate risk.

Translation risk

Exchange-rate changes affect the Group in conjunction with the translation of the income statements of group entities to USD as the Group's operating profit is affected and when net assets are translated into USD which can negatively affect the Group's operating profit and statement of financial position. The parent company has issued loans to its subsidiaries denominated in USD and exchange rate changes impact the income statement of the parent company. The Group does not hedge its translation exposure and fluctuating currency rates might negatively affect the operating profit and financial position of the Group.

Net result in financial statements (MUSD)	2.7	2.7
Shift in SEK/USD	+10%	-10%
Total effect on net result (MUSD)	**4.1**	**-4.2**

Liquidity risks and capital risk
By operating in several countries, Tethys Oil is exposed to fluctuations in a number of currencies. Income is and will also most likely be denominated in foreign currencies, US dollars in particular. Furthermore, Tethys Oil has since inception been equity and debt financed through share and bond issues and bank loans and also financed by asset divestment. Additional capital could be needed to finance Tethys Oil's future operations and/or for acquisition of additional licences. The main risk is that this need could occur during less favourable market conditions. Tethys Oil continuously ensures that sufficient cash balances are maintained in order to cover day to day operations. Management relies on cash forecasting to assess the Company's cash position (including available amounts from lending facility) based on expected future cash flows.

Fall due profile on Tethys Oil's financial liabilities	31 December 2016		31 December 2015	
MUSD	<1 year	1–3 year	<1 year	1–3 year
Accounts payables and other liabilities	21.7	–	12.2	–
Total	**21.7**	**–**	**12.2**	**–**

Credit risk
Tethys Oil's policy is to limit credit risk by limiting the counter-parties to major banks and oil trading companies. Tethys Oil is selling all of its oil through Mitsui Energy Trading Singapore which is part of Mitsui & Co. Ltd. As at 31 December 2016 the Group's receivables on oil sales amounted to MUSD 7.1 (MUSD 7.5), this also represents the maximal exposure on accounts receivable. There is no history of default. Cash and cash equivalents are maintained with banks having strong long-term credit ratings. Maximal exposure regarding other financial assets are those presented in the balance sheet.

It is the responsibility of the board of directors to overview the Group's capital structure and financial management, approve certain business regarding acquisition, investments, possible lending as well as on-going monitoring exposure to financial risks.

Fair value
IAS 39 valuation categories and related balance sheet items

	31 December 2016		
MUSD	Financial assets and liabilities at fair value through profit or loss	Financial assets at amortised cost	Financial liabilities at amortised cost
Other receivables	–	7.4	–
Cash and bank	–	39.0	–
Accounts payables	–	–	0.2
Other current liabilities	–	–	21.5

	31 December 2015		
MUSD	Financial assets and liabilities at fair value through profit or loss	Financial assets at amortised cost	Financial liabilities at amortised cost
Other receivables	–	9.2	–
Cash and bank	–	51.2	–
Accounts payables	–	–	0.1
Other current liabilities	–	–	12.1

All financial assets and liabilities are current and the fair value of these are deemed to be the carrying amount as the discounting effects are not material.

Events after the balance sheet date
All events up to the date when the financial statements were authorised for issue and which have a material effect in the financial statements have been disclosed.

Note 2, Critical accounting estimates and judgements
Estimates and judgements are continuously evaluated and are based on historical experience and other factors, including expectations of future events which are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year are discussed below.

Estimates in oil and gas reserves and resources
The business of the Group is the exploration for, development of and production of oil and gas reserves. Estimates of oil and gas reserves and resources are used in the calculations for impairment tests, in-house modeling and accounting for depletion and site restoration. Changes in estimates in oil and gas reserves and resources, resulting in different future production profiles, will affect the discounted cash flows used in impairment testing, the anticipated date of site decommissioning and restoration and the depletion charges in accordance with the unit of production method.

Investments in associated companies
The Group determines if the carrying value for investments in associated companies has suffered any impairment where any objective evidence of impairment exists. Objective evidence could for example come from reserve report updates, production reports and other third party studies of the asset. This assessment is performed to identify where the carrying value exceeds its recoverable amount. The recoverable amounts have been determined based on value in use calculations. Assessments used in these calculations include judgement of the future cash flows, discount rates and exchange rates.

Site restoration provision
Amounts used in recording a provision for site restoration are estimates based on current legal and constructive requirements and current technology and price levels for the removal of facilities and plugging and abandoning of wells. Due to changes in relation to these items, the future actual cash outflows in relation to the site decommissioning and restoration can be different. To reflect the effects due to changes in legislation, requirements and technology and price levels, the carrying amounts of site restoration provisions are reviewed on a regular basis. The effects of changes in estimates do not give rise to prior year adjustments and are treated prospectively over the estimated remaining commercial reserves of each field. While the Group uses its best estimates and judgement, actual results could differ from these estimates.

Impairment of oil and gas properties
The Group annually tests, on a field by field basis, oil and gas properties to determine that the net book amount of capitalized costs within each field less royalties and deferred production or revenue related taxes is covered by the anticipated future net revenue from oil and gas reserves attributable to the Group's interest in related fields (note 8). The Group has used its judgement and made assumptions e.g. future oil prices, discount rates and reserves and resources to perform these tests.

Tax
The company has not recorded a deferred tax asset in relation to the tax losses carried forward as there is uncertainty as to if the tax losses may be utilised (note 15).

Note 3, Segment information

The Group's accounting principle for segment describes that operating segments are based on geographic perspective and reported in a manner consistent with the internal reporting which is primarily based on income statement ratios and provided to the executive management, which is considered to be the chief operating decision maker. Previous years, the company's chief operating decision maker has been considered to be the board of directors. There have been no changes to the operating segments due to the change of operating decision maker. The operating result for each segment is presented below. Revenue and income relate to external (non-intra group) transactions.

	Group income statement Jan–Dec 2016				
MUSD	**Oman**	**Lithuania**	**Sweden**	**Other**	**Total**
Revenue	87.1	–	–	–	**87.1**
Operating expenses	-36.5	–	–	–	**-36.5**
Depreciation, depletion and amortisation	-44.4	–	–	–	**-44.4**
Exploration costs	–	–	–	-0.1	**-0.1**
Other income	–	–	–	–	**–**
Net profit/loss from associates	–	-0.7	–	–	**-0.7**
Administrative expenses	-1.7	–	-3.6	-0.4	**-5.8**
Operating result	**4.5**	**-0.7**	**-3.6**	**-0.5**	**-0.5**
Total financial items					**3.1**
Result before tax					**2.7**
Income tax					**–**
Result for the period					**2.7**

	Group income statement Jan–Dec 2015				
MUSD	**Oman**	**Lithuania**	**Sweden**	**Other**	**Total**
Revenue	107.0	–	–	–	**107.0**
Operating expenses	-42.9	–	–	–	**-42.9**
Depreciation, depletion and amortisation	-34.6	–	–	–	**-34.7**
Exploration costs	-1.0	–	–	–	**-1.0**
Other income	–	–	–	–	**–**
Net profit/loss from associates	–	-0.4	–	–	**-0.4**
Administrative expenses	-1.7	–	-3.4	-0.1	**-5.2**
Operating result	**26.8**	**-0.4**	**-3.4**	**-0.1**	**23.0**
Total financial items					**0.5**
Result before tax					**23.5**
Income tax					**-0.1**
Result for the period					**23.4**

As per 31 December 2016 (and comparative periods) in Tethys Oil, the only oil producing area is Oman, from which net sales are recorded. Revenue, operating expenses and depletion, which is presented in notes 4, 8 and 9, therefore only relate to Oman and Blocks 3&4 in particular.

Regarding Oil and gas properties, segment reporting is provided in note 8. Please refer to note 3 regarding Credit risk exposure on accounts receivables.

Note 4, Revenue

MUSD	**2016**	**2015**
Net sales,	95.4	104.9
Underlift (overlift)	-2.4	2.2
Overlift adjustment Export Reporting Error	-5.9	–
Revenue	**87.1**	**107.0**

2016 includes an overlift adjustment of MUSD 5.9 following the estimated effects of a export reporting error on Blocks 3&4 (the "Export Reporting Error"), which occurred during the period August 2010 to February 2016. Tethys Oil estimates that its share of the overestimated volume of oil amounts to 157,000 barrels (before government take). To rectify the over-reported quantity of delivered oil, the Blocks 3&4 partners have agreed with the pipeline operator and the Ministry of Oil and Gas to repay the over-lifted amount in cash. Tethys Oil estimates, that Tethys Oil's share of the cash repayment, will amount to approximately MUSD 5.9, which consequently will reduce Tethys Oil's 2016 revenue and result with that amount.

Tethys Oil sells all of its oil through Mitsui Energy Trading Singapore, which is part of Mitsui & Co Ltd. All oil sales come from Blocks 3&4 and are made on a monthly basis. The selling price is the monthly average of the two month future price for Omani blend.

Note 5, Other income

Parts of the administrative expenses in Tethys Oil, such as overhead costs in the Parent company, are charged to oil and gas projects where the expenditures are capitalised. Other income in the Parent company during 2016 amounted to MSEK 10.6 compared to MSEK 10.5 in 2015. In case of Tethys Oil being the operator, these administrative expenditures are, through the above, also funded by the partners. The chargeout to the projects where Tethys Oil is operator is presented in the consolidated income statement as Other income. All other internal chargeouts are eliminated in the consolidated financial statements. Tethys Oil is as per 31 December 2016 not operator in any of its licences.

Note 6, Associated companies

Tethys Oil holds an indirect interest of three Lithuanian companies holding three licences; Gargzdai, Rietavas and Raiseiniai licences. The interest is held through two Danish private companies which are part of the Odin Group of companies, Odin Energi and Jylland Olie. The table below presents the ownership and the result from associates for the full year 2016.

	owns	of	owns	of	owns	of	owns	of	Tethys Oil's indirect interest
Tethys Oil AB (publ)	50%	Odin Energy A/S	50%	UAB Minijos Nafta			100%	Gargzdai, Lithuania	**25%**
	40%	Jyllands Olie ApS	75%	UAB TAN Oil			100%	Raseiniai, Lithuania	**30%**
					100%	UAB LL Investicijos	100%	Rietavas, Lithuania	**30%**

MUSD	31 Dec 2016	31 Dec 2015
1 January	**1.7**	**5.2**
Tethys Oil's share of net profit from associated companies	-0.7	-0.4
Dividend from associated companies	-0.7	-2.7
Exchange differences	–	-0.4
Balance end of period	**0.3**	**1.7**

Note 7, Provisions

Tethys Oil estimates that Tethys Oil's share of site restoration regarding Blocks 3&4 amounts to MUSD 4.8 (4.0). As a consequence of this provision, oil and gas properties have increased with an equal amount. The change in the provision is related to a more detailed calculation of the site restoration provision affecting the provision's net present value.

Tethys Oil has a non-current provision of MUSD 4.0 from of the estimated total error amount of MUSD 5.9 from the Export Reporting Error on Blocks 3&4. Tethys Oil also has a current provision of 1.9 MUSD related to the Export Reporting Error.

MUSD	Abandonment provision	Other provisions
1 January 2016	4.0	–
Additions	–	5.9
Changes in estimates	0.5	–
Unwinding of discount	0.3	–
31 December 2016	**4.8**	**5.9**
Current	–	1.9
Non-current	4.8	4.0
Total	**4.8**	**5.9**

MUSD	Abandonment provision	Other provisions
1 January 2015	3.3	–
Additions	–	–
Changes in estimates	0.5	–
Unwinding of discount	0.2	–
31 December 2015	**4.0**	**–**
Current	–	–
Non-current	4.0	–
Total	**4.0**	**–**

Note 8, Oil and gas properties

Country	Licence name	Phase	Expiration date	Remaining commitments	Tethys Oil	Partners (operator in bold)
Oman	Blocks 3&4	Production	July 2040	None	30%	**CCED,** Mitsui, Tethys Oil
France	Attila	Exploration	2015[1]	None	40%	**Galli Coz,** Tethys Oil
France	Alès	Exploration	2015[1]	MUSD 1.5[2]	37.5%	**Tethys Oil,** MouvOil
Lithuania	Gargzdai[3]	Production	No expiration date	None	25%	Odin, GeoNafta, Tethys Oil
Lithuania	Rietavas[3]	Exploration	No expiration date	None	30%	Odin, Tethys Oil, private investors
Lithuania	Raseiniai[3]	Exploration	Sep 2022	MEUR 1.2	30%	Odin, Tethys Oil, private investors

MUSD	31 Dec 2016	31 Dec 2015
Producing cost pools	190.8	189.1
Non-producing cost pools	0.3	–
Total oil and gas properties	**191.1**	**189.1**

1 In accordance with the licence terms, Tethys Oil has in connection with the licence extension filed a mandatory application of relinquishment of part of the licence which is still pending approval from French authorities. Discussions regarding the future of the French licences are ongoing.

2 Tethys Oil has a commitment towards the partner MouvOil and the French authorities to pay for seismic and drilling. The work is estimated to amount to MUSD 1.5.

3 The interest in the three Lithuanian licences are indirectly held through a shareholding in two Danish private companies, which in turn hold shares in Lithuanian companies holding 100 percent of the licences. The two Danish companies, Odin Energi and Jylland Olie, are not consolidated in Tethys Oils financial statements due to the ownership structure, which is why there are no oil and gas properties related to the licences. The ownership of Jylland Olie and Odin Energi are presented in the balance sheet under Shares in associated companies.

MUSD Country	Asset type	Book value 31 Dec 2016	Other non-cash adjustments 1 Jan–31 Dec 2016	DD&A 1 Jan–31 Dec 2016	Exploration costs 1 Jan–31 Dec 2016	Investments 1 Jan–31 Dec 2016	Book value 1 Jan 2016
Oman Blocks 3&4	Producing	190.8	-2.1	-44.4	–	48.2	189.1
Oman Block 15	Non-producing	–	–	–	–	–	–
France Attila	Non-producing	–	–	–	–	–	–
France Alès	Non-producing	–	–	–	–	–	–
New ventures	Non-producing	0.3	–	–	-0.1	0.3	0.1
Total		**191.1**	**-2.1**	**-44.4**	**-0.1**	**48.5**	**189.1**

MUSD Country	Asset type	Book value 31 Dec 2015	Other non-cash adjustments 1 Jan–31 Dec 2015	DD&A 1 Jan–31 Dec 2015	Exploration costs 1 Jan–31 Dec 2015	Investments 1 Jan–31 Dec 2015	Book value 1 Jan 2015
Oman Blocks 3&4	Producing	189.1	17.6	-34.6	–	40.7	165.4
Oman Block 15	Non-producing	–	–	–	-1.0	–	1.0
France Attila	Non-producing	–	–	–	–	–	–
France Alès	Non-producing	–	–	–	–	–	–
New ventures	Non-producing	0.1	–	–	–	0.1	–
Total		**189.1**	**17.6**	**-34.6**	**-1.0**	**40.7**	**166.4**

Impairment testing

In Tethys Oil's impairment testing, the Company uses its best efforts to estimate production profiles, general cost and development environment. To calculate future free cash flows, the forward oil price as traded in the market as per 31 December 2016 was used. With regard to discount rates, a rate of 8 per cent after tax has been used for Omani and Lithuanian assets respectively. There has been no impairment of assets during 2016 or 2015.

Exploration costs during 2016 amounted to MUSD 0.1 and were mainly related to new venture projects which were rejected or no longer pursued. Exploration costs during 2015 amounted to MUSD 1.0 and were mainly related to Block 15 as the project was terminated during the year.

MUSD **Investments Block 3&4** **Categories**	**2016**	**2015**
Drilling – Exploration/Appraisal	-2.4	-4.8
Drilling – Development	-25.5	-14.4
G&G	-4.1	-8.4
Facilities	-10.7	-7.6
Pipeline	-1.6	-2.9
Other capex	-3.9	-2.6
Total	**-48.2**	**-40.7**

MUSD **Oil & gas properties Block 3&4** **Categories**	**31 Dec 2016**	**31 Dec 2015**
Drilling – Exploration/Appraisal	37.8	35.3
Drilling – Development	107.9	80.9
G&G	38.2	33.8
Facilities	83.1	71.8
Pipeline	22.1	20.4
Tethys Oil sole cost	5.1	4.5
Other capex	35.4	36.9
Accumulated depreciation	-138.9	-94.5
Total	**190.8**	**189.1**

Note 9, Operating expenditures

	Group MUSD		**Parent** MSEK	
Operating expenditures	**2016**	**2015**	**2016**	**2015**
Production costs	-33.5	-38.4	–	–
Well workovers	-3.1	-4.5	–	–
Total	**-36.5**	**-42.9**	**–**	**–**

Note 10, Remuneration to Company auditor

	Group MUSD		**Parent** MSEK	
Remuneration to company auditor include:	**2016**	**2015**	**2016**	**2015**
PwC:				
Audit fee	-0.1	-0.1	-1.0	-1.0
Audit-related fees	0	0	-0.2	-0.2
Tax consultation	–	–	–	–
Other	–	–	–	–
Total	**-0.1**	**-0.1**	**-1.2**	**-1.2**

Note 11, Administrative expenses

	Group MUSD		**Parent** MSEK	
Administrative expenses	**2016**	**2015**	**2016**	**2015**
Personnel costs	-3.5	-2.9	-16.5	-13.7
Rent	-0.3	-0.3	-1.8	-1.7
Other office costs	-0.1	-0.3	-0.5	-1.6
Listing costs	-0.1	-0.1	-0.8	-1.0
Costs of external relations	-0.1	-0.1	-1.1	-1.0
Other costs	-1.7	-1.5	-10.5	-10.2
Total	**-5.8**	**-5.2**	**-31.3**	**-29.2**

Note 12, Employees

Average number of full time employees per country	2016 Total	2016 Total men	2015 Total	2015 Total men
Parent company				
Sweden	7	5	6	4
Total parent company	**7**	**5**	**6**	**4**
Subsidiary companies in Sweden	**–**	**–**	**–**	**–**
Subsidiary companies foreign				
Oman	10	7	9	6
United Arab Emirates	2	1	2	1
Total subsidiary companies foreign	**12**	**8**	**11**	**7**
Total group	**19**	**13**	**17**	**11**

TSEK Salaries, other remuneration and social costs	2016 Salaries, other remune-ration	2016 Social costs	2015 Salaries, other remune-ration	2015 Social costs
Parent company				
Sweden	-1.4	-0.4	-1.2	-0.4
Total parent company	**-1.4**	**-0.4**	**-1.2**	**-0.4**
Subsidiary companies in Sweden				
Subsidiary companies foreign				
Oman	-1.3	–	-1.0	–
United Arab Emirates	-0.3	–	-0.3	–
Total subsidiary companies foreign	**-1.6**	**–**	**-1.3**	**–**
Total group	**-3.1**	**-0.4**	**-2.5**	**-0.4**

TSEK Salaries and other remuneration distributed between the board and other employees	2016 Board and Managing Director	2016 Other employees	2015 Board and Managing Director	2015 Other employees
Parent company				
Sweden	-0.5	-0.9	-0.5	-0.7
Total parent company	**-0.5**	**-0.9**	**-0.5**	**-0.7**
Subsidiary companies in Sweden	**–**	**–**	**–**	**–**
Subsidiary companies foreign				
Oman	–	-1.3	–	-1.0
United Arab Emirates	–	-0.3	–	-0.3
Total subsidiary companies foreign	**–**	**-1.6**	**–**	**-1.3**
Total group	**-0.5**	**-2.6**	**-0.5**	**-2.0**

The average number of full time employees in the group is currently 19.

Magnus Nordin as managing director is entitled to twelve months payment if the Company terminates the employment and other members of executive management are entitled to nine months payment if the Company terminates their employment.

Executive management consists of three members of which the managing director is one.

In 2016 and 2015 one woman has been a member of the board of directors and no women have been members of the executive management.

Salaries and other remuneration to executive management during 2016, MSEK	Basic salary	Pension arrange-ments	Variable Salary	Share based long term incentive*	Other benefits	Total 2016
Managing director	-2.082	-0.443	-0.340	-1.288	-0.012	-4.164
Other executive management	-3.080	-0.485	-0.454	-1.584	-0.241	-5.844
Total	**-5.162**	**-0.928**	**-0.794**	**-2.872**	**-0.253**	**-10.008**

Salaries and other remuneration to executive management during 2015, MSEK	Basic salary	Pension arrange-ments	Variable Salary	Share based long term incentive*	Other benefits	Total 2015
Managing director	-1.733	-0.324	-0.405	-1.413	-0.011	-3.886
Other executive management	-2.217	-0.432	-0.405	-1.397	-0.023	-4.474
Total	**-3.950**	**-0.756**	**-0.810**	**-2.810**	**-0.034**	**-8.360**

* Received warrants from the incentive programme in 2016 has been for the managing director 70,000 (78,000) and Other executive management 87,000 (78,000) totaling 157,000 (156,000). See note 21 for further details.

MSEK Salaries and other remuneration to board members (in their capacity as board members)	Salaries	Remune-ration	Total 2016	Total 2015	Atten-dance 2016
Per Brilioth	–	-0.250	-0.250	-0.225	13/16
Dennis Harlin	–	-0.560	-0.560	–	16/16
Staffan Knafve	–	–	–	-0.500	–
Magnus Nordin	–	–	–	–	16/16
Jan Risberg	–	–	–	-0.250	–
Katherine Støvring	–	-0.250	-0.250	-0.225	15/16
Geoffrey Turbott	–	-0.250	-0.250	–	16/16
Richard Rettig	–	-0.250	-0.250	–	8/9
Total	**–**	**-1.560**	**-1.560**	**-1.200**	

At the Annual General Meeting of shareholders on 18 May 2016 Per Brilioth, Magnus Nordin, Dennis Harlin, Katherine Støvring and Geoffrey Turbott were re-elected members of the board. Richard Rettig was a newly elected director. No deputy directors were appointed. At the same meeting Dennis Harlin was appointed chairman of the board.

There have not been any agreements on pensions for any of the directors of the board. For the executive management, the pension costs follow a defined contribution plan.

Remuneration policy to executive management

Remuneration policy to the executive management includes five elements:
- Basic salary
- Pension arrangements
- Yearly variable salary, including the right to participate in share-based long-term incentive
- Other benefits
- Severance pay

Basic salary
The basic salary shall be in line with market conditions, be competitive, and shall take into account the scope and responsibility associated with the position, as well as the skills, experience, and performance of the executive.

Pension arrangements
The pension benefits comprise a defined contribution scheme with premiums calculated on the full basic salary. The pension contributions shall be in relation to the basic salary and is set on an individual basis but shall not be higher than what is tax deductible.

Variable salary

Senior executives shall be part of two variable remuneration systems payable in cash and/or in combination with a right to acquire warrants in the Company in a long-term incentive programs. Variable salary to employees will be based upon their individual contribution to the Company's performance. The yearly variable cash salary shall be within the range of 1-4 monthly salaries per person and year. The targets for variable cash remuneration shall be determined by the board prior to each financial year and individual agreements shall be arranged with each participant, the content of which depends on the participant's position at the time the agreement is arranged. The targets shall be objectively quantifiable and related to budget. The targets shall consist of financial and operational key indicators. The yearly variable salary will be determined annually in connection with publication of the year-end report for the respective financial year based on an evaluation of the participants' achievement of the targets as described in the individual agreements. Payment of variable cash remuneration shall be conditional upon the participant remaining employed for the duration of the programme. The board has the right to adjust the incentive program during the term of the programme in the case of, for example, extraordinary increases or decreases in the group's earnings.

Share based incentive programme

The share based incentive programme has the purpose to retain and recruit qualified and committed personnel on a global market for oil companies. The programme is available to all employees and is intended to be reoccurring annually.

Other benefits

Non-financial benefits shall be based on market terms and shall facilitate the duties of each senior executive.

Severance arrangements

A termination period of twelve months applies between the Company and managing director and nine months between the company and other members of executive management. All members of executive management are entitled to twelve months payments if the Company terminates their contracts. The board is entitled to deviate from the proposed guidelines if special reasons exist.

Note 13, Financial income and similar items

	Group MUSD		**Parent** MSEK	
	2016	**2015**	**2016**	**2015**
Interest income	–	–	9.0	4.1
Gain on currency exchange rates	9.1	7.0	73.7	55.3
Other financial income	0.3	0.2	2.4	1.5
Anticipated dividend	–	–	–	350.0
Total	**9.3**	**7.1**	**85.1**	**410.9**

Note 14, Financial expenses and similar items

	Group MUSD		**Parent** MSEK	
	2016	**2015**	**2016**	**2015**
Interest expenses	-0.6	-1.0	–	–
Currency exchange losses	-3.8	-4.4	-31.2	-35.7
Other financial expenses	-1.8	-1.2	-0.3	-2.5
Total	**-6.2**	**-6.6**	**-31.5**	**-38.2**

Note 15, Tax

The group's income tax charge amount to MUSD 0.0 (MUSD 0.1). The company has not recorded a deferred tax asset in relation to the tax losses carried forward since there is uncertainty as to if the tax losses may be utilised. The tax losses are in another jurisdiction than where main profits are generated. Tax losses carried forward amounted to MSEK 200.7 (MSEK 234.5). There are no time limits to the utilization of the tax losses.

The tax on the Parent company's result before tax differs from the theoretical amount that would arise using the Swedish tax rate as follows:

Parent MSEK	**2016**
Result before tax	23.4
Tax at applicable tax rate 22%	-5.1
Non-deductible expenses	-3.1
Non-taxable income	0.5
Utilization of tax loss carry forwards previously not recorded as deferred tax assets	7.7
Tax expense	**0.0**

In Oman, Tethys Oil's oil and gas operations are governed by an Exploration and Production Sharing Agreement (EPSA), where it is stated that Tethys Oil is subject to income tax as per the Companies Tax Law. Under the EPSA, Tethys Oil receives its share of oil after government take (i.e net after royalties taken in kind). Omani income taxes are paid on behalf of Tethys Oil by the government and from the government take. As Omani income tax is not paid directly by Tethys Oil and are taken in kind before net sales, these taxes are not presented in the income statement. Based on this, taxes presented in the income statement are expected to be low in the future.

Note 16, Other receivables

	Group MUSD		**Parent** MSEK	
Other receivables	**2016**	**2015**	**2016**	**2015**
VAT	0.1	0.1	2.7	0.6
Receivables Oil sales	7.1	7.5	–	–
Other	0.3	1.6	0.2	0.2
Total	**7.4**	**9.2**	**2.8**	**0.8**

Note 17, Shareholders' equity

As per 31 December 2016, the number of outstanding shares in Tethys Oil amount to 35,543,750, with a quota value of SEK 0.17. All shares represent one vote each. The Company has the same amount of shares outstanding as per 31 December 2015. Tethys Oil has a warrant based incentive programme for employees, for further information please see Note 21. As the subscription price is below the share price as per the reporting date in this report, the warrants are included in the diluted number of shares which amount to 36,232,460 per 31 December 2016.

As per 31 December 2016, Tethys Oil held 1,329,224 of its own shares which have been purchased since commencement of the programme during the fourth quarter 2014. 245,555 shares were purchased during 2016. The repurchased shares are still included in the total number of shares, but are not included in the average number of shares in circulation. The weighted average number of shares in circulation during 2016 before dilution is 34,324,020 and after dilution 34,372,065.

After 31 December 2016 and up to the date of publication for this report, Tethys Oil has not acquired any further shares.

Earnings per share

Earnings per share before dilution are calculated by dividing profit for the year attributable to ordinary shareholders of the Parent Company by weighted average number of ordinary shares outstanding and in circulation during the year. Total repurchased shares amounting to 1,329,224 have been excluded from shares in circulation.

Earnings per share after dilution are calculated by dividing profit for the year attributable to ordinary shareholders of the Parent Company by weighted average number of ordinary shares outstanding and in circulation during the year while also including the effect of warrants where the subscription price is below the share price. There are no dilution effects for 2015.

Appropriation of profit

The Board of Directors proposes to the annual general meeting a total distribution of SEK 1.00 (SEK 1.00) per share, equal to MSEK 34.2 (MSEK 34.5) or MUSD 3.6 (MUSD 3.7), be paid for the 2016 fiscal year. The distribution is proposed to be made by a cash dividend of SEK 1 per share. It is also proposed to the annual general meeting that the balance of retained earnings after the dividend be retained in the business.

Note 18, Non-current liabilities

Tethys Oil has a four-year, up to MUSD 38, senior revolving reserve based lending facility. Security for the facility is the interest in the Blocks 3&4 licence. The interest rate of the credit facility is floating between LIBOR + 3.75 percent to LIBOR + 4.00 percent per annum, depending on the level of utilization of the facility. As per 31 December 2016 there was no outstanding balance on the lending facility.

Note 19, Accrued expenses

	Group MUSD		**Parent** MSEK	
Accrued expenses	**2016**	**2015**	**2016**	**2015**
Accruals related to oil and gas operations	9.7	19.8	–	–
Other accrued expenses	0.1	0.4	0.2	0.4
Total	**9.8**	**20.2**	**0.2**	**0.4**

Note 20, Shares in subsidiaries

Company	**Reg. Number**	**Reg. office**	**Number of shares**	**Percentage**	**Nominal value per share**
Tethys Oil Denmark AB	556658-1467	Sweden	1,000	100%	SEK 100
Tethys Oil Spain AB	556658-1442	Sweden	1,000	100%	SEK 100
Tethys Oil Turkey AB	556658-1913	Sweden	1,000	100%	SEK 100
Tethys Oil Exploration AB	556658-1483	Sweden	1,000	100%	SEK 100
Tethys Oil France AB	556658-1491	Sweden	1,000	100%	SEK 100
Tethys Oil Canada AB	556788-2872	Sweden	1,000	100%	SEK 100
Tethys Oil Oman Ltd	95212	Gibraltar	100	100%	GBP 1
Tethys Oil Block 3&4 Ltd	101981	Gibraltar	1,000	100%	USD 1
Windsor Petroleum (Spain) Inc.	549 282	British Virgin Islands	1	100%	USD 1

MSEK	**Parent**	**Parent**
Shares in subsidiaries	**31 December 2016**	**31 December 2015**
1 January	7.3	1.5
Acquisitions/Relinquishments	-6.4	2.4
Shareholder’s contribution	0.4	3.5
Write down of shares in subsidiaries	-0.4	-0.1
31 December	**1.0**	**7.3**

The write down of shares in group companies is mainly related to the exploration costs in various group entities described in note 8.

Note 21, Incentive programme

Tethys Oil has an incentive programme as part of the remuneration package to employees. The allocation is not guaranteed and the board of directors of the Company shall resolve on and implement the allocation. The warrants have been transferred free of charge to the participants and the group accounts for any income tax for the participants to the extent such tax is attributable to the programme. The market value of the warrants has been calculated in accordance with the Black & Scholes formula by an independent valuation institution. The subscription price is based on the volume-weighted average of the purchase price for the Company's share on NASDAQ OMX Stockholm during approximately a two week period prior to the date of allocation.

Warrants were issued 2016 and 2015 following a decision by the respective AGM. The number of issued warrants during 2016 was 350,000 (356,000) and the number of warrants allocated during 2016 was 335,000 (312,000). Issued but not allocated warrants are held by the company.

No warrants were exercised during the year.

Warrant incentive programme	Exercise period	Subscription price, SEK	Number of warrants				
			1 Jan 2016	Issued 2016	Expired 2016	Exercised 2016	31 Dec 2016
2015 incentive programme	23 May – 5 Oct, 2018	76,8	356,000	0	0	0	356,000
2016 incentive programme	28 May – 4 Oct, 2019	62,6	0	350,000	0	0	350,000
Total			**356,000**	**350,000**	**0**	**0**	**706,000**

Warrant incentive programme	Exercise period	Subscription price, SEK	Number of warrants				
			1 Jan 2015	Issued 2015	Expired 2015	Exercised 2015	31 Dec 2015
2015 incentive programme	23 May – 5 Oct, 2018	76,8	0	356,000	0	0	356,000
Total			**0**	**356,000**	**0**	**0**	**356,000**

	Group MUSD		**Parent** MSEK	
Warrant incentive programme	**2016**	**2015**	**2016**	**2015**
Incentive programme cost	-0.7	-0.6	-4.6	-4.2
Total	**-0.7**	**-0.6**	**-4.6**	**-4.2**

As the subscription price is below the share price as per 31 December 2016, the warrants are included in the diluted number of shares which amount to 36,232,460 on the balance day and in the diluted average number of shares in circulation during the fourth quarter ending 31 December 2016 of 34,405,662. The cost is calculated in accordance with the Black & Scholes formula where the main inputs are the factors in the above table and the expected volatility. The cost for the incentive programme is included as part of administrative expenses and includes tax and social charges where applicable

Note 22, Pledged assets

As per 31 December 2016, pledged assets amounted to MUSD 173.2 (213.0). Pledged assets are mainly a continuing security with regard to the credit facility where Tethys Oil has entered into a pledge agreement. The pledge relates to all shares in the subsidiary Tethys Oil Block 3&4 Ltd for the benefit of the lenders in the credit facility and the value of the pledge is equal to the shareholders' equity value in Tethys Oil Block 3&4 Ltd. Of pledged assets, MUSD 0.1 (0.1) relate to a pledge in relation to office rental in the parent company.

Note 23, Contingent liabilities

There are no outstanding contingent liabilities as per 31 December 2016, nor for the comparative period.

Note 24, Appropriations

Parent (MSEK)	**2016**	**2015**
Paid group contributions	–	-41.6
Received group contributions	3.1	1.2
Total	**3.1**	**-40.4**

Note, 25 Related party transactions

In the Tethys Oil Group, Tethys Oil AB (publ) with organisational number 556615-8266 is the parent company. There have been no related party transaction during 2016 nor for the comparative period.

Note, 26 Subsequent events

In December 2016, OPEC and certain non-OPEC members agreed to reduce each country's oil production for an initial period of six months starting 1 January 2017. Oman agreed to reduce production by 45,000 bopd. The Oman Ministry of Oil and Gas has advised the larger producers in the country of a production level recommendation. For Blocks 3&4 the production level recommendation is 41,000 bopd, or 12,300 bopd net to Tethys Oil. However, the recommendation also includes a recommendation to compensate individual production shortfalls within the group of producers.

Tethys Oil's share of the production, before government take, from Blocks 3&4 amounted in January and February 2017 to 383,059 and 347,152 barrels of oil respectively, corresponding to 12,357 and 12,398 barrels of oil per day, respectively.

Assurance

The board of directors and the managing director declare that the consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU and give a true and fair view of the Group's financial position and results of operations. The financial statements of the Parent Company have been prepared in accordance with generally accepted accounting principles in Sweden and give a true and fair view of the Parent Company's financial position and results of operations. The statutory Administration Report of the Group and the Parent Company provides a fair review of the development of the Group's and the Parent Company's operations, financial position and results of operations and describes material risks and uncertainties facing the Parent Company and the companies included in the Group.

Stockholm, 18 April 2017

Dennis Harlin, *chairman of the board*

Per Brilioth, *director*

Katherine Støvring, *director*

Geoffrey Turbott, *director*

Magnus Nordin, *managing director*

Richard Rettig, *director*

Auditor's report

To the general meeting of the shareholders of Tethys Oil AB (publ), corporate identity number 556615-8266

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Tethys Oil AB (publ) for the year 2016. The annual accounts and consolidated accounts of the company are included on pages 38–66 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our 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 opinions.

Our audit approach

Audit scope

Tethys Oil is a Swedish Oil and Gas company with its primary operations located in Oman. The operations in Oman represented 100% of the group's revenue for the financial year 2016 and 80% of the group's assets as per 31 December 2016. We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Board of Directors and the Managing Director made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the group operates.

Our planning of the audit included an assessment of the level of audit work to be performed at the group's headquarters and at local offices. Following the group's organisation certain processes for accounting and financial reporting is performed outside the group's headquarter which means that we performed our audit work both at the group's headquarters but also at the local office in Oman, where we have obtained reporting from specified procedures performed by our component team in Oman.

We have obtained reporting from our component auditors at two occasions in the 2016 financial year and we have reported the results from our procedures to management and the Audit Committee after the review of the Report for the nine months period ended 30 September, 2016 and after the year-end audit of the financial year 2016.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

We chose income before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. While the underlying business and level of operating activities across the group, including production volumes and transactions processed, are broadly consistent with prior years, income before tax has been materially impacted by the volatility in the oil price. Auditing standards specifically acknowledge that an alternative approach to determining materiality may be more appropriate where revenue and income are volatile and not representative of underlying or sustained business performance. Given the volatility in the profit before tax as a result of the volatility in the oil price, we have determined that our materiality should be based on an average of income before tax for the years 2014, 2015 and 2016.

Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Key audit matter	**How our audit addressed the Key audit matter**
Recoverability of the carrying value of oil and gas properties The carrying value of oil and gas properties represents the majority of the assets in the balance sheet in the group and amounted to MUSD 191.1 (MUSD 189.1) as per 31 December 2016. The carrying value of oil and gas properties is supported by the higher of either value in use calculations or fair value less cost of disposal (recoverable amount). Management has prepared an impairment test for the oil and gas properties associated with Blocks 3&4 in Oman. The test with the aim to assess the recoverability of the carrying value requires management to exercise significant judgement as described in the Accounting policies as well as in note 2 and 8 to the Annual Report where there is a risk that the valuation of oil and gas properties and any potential impairment charge or reversal of impairment may be incorrect. Management's test requires consideration of a number of factors, including but not limited to, the Group's intention to proceed with a future work programme, the success of future drilling, the size of proved and probable reserves, prospective resources, short and long term oil prices, future costs as well as discount and inflation rates. The estimation of oil and natural gas reserves and prospective resources is a significant area of judgement due to the technical uncertainty in assessing the estimated quantities. The estimates of proven and probable reserves has a direct impact on depletion charges forms the basis of the estimation of future planned production applied in the impairment tests of oil and gas properties. The estimation of reserves are also a fundamental indicator of the future potential of the group's performance and therefore becomes critical information provided in the annual accounts. The estimates of proven and probable reserves are certified by the group's external reserves auditor, DeGolyer and MacNaughton, which is considered to be an expert firm in this area. The estimates of prospective resources are performed by the group's in-house reservoir engineer. Management has incorporated all these judgmental factors in determining the recoverable amount of the assets and compared it with the carrying value. This test has concluded that the carrying value of oil and gas properties associated with Blocks 3&4 is considered to be recoverable.	We have obtained management's impairment test prepared for the purposes of determining the recoverable amount of oil and gas properties. The assumptions that underpin management's calculation of the recoverable amount of oil and gas assets are inherently judgmental. Our audit work therefore assessed the reasonableness of management's key judgements of the recoverable amount of Blocks 3&4. Specifically our work included, but was not limited to, the following procedures: • comparison of short-term oil price assumptions against external oil price forward curves; • comparison of long-term oil price assumptions against views published by brokers, economists, consultancies and respected industry bodies, which provided a range of relevant third-party data points; • comparison of production profiles and proved and probable reserves to the reserve reports from DeGolyer and MacNaughton and prospective resources estimates prepared by in-house reservoir engineer; • verification of estimated future operating costs and capital expenditures by agreement to budgets and where applicable, third party data; • assessing the reasonability of the assumptions for inflation and discount rate; • testing of the mathematical accuracy of the model to calculate the recoverable amount. We obtained the estimation of proven and probable reserves certified by the group's external reserves auditor and management's in-house estimation of prospective resources. Our audit work included but was not limited to: • determining that the group's process for collecting reserve reports was timely and robust; • assessing competence and objectivity of DeGolyer and MacNaughton, to satisfy ourselves they were appropriately qualified to carry out the volumes estimation; • assessing the process for making in-house estimates of prospective resources; • validation that the updated reserves estimates were included appropriately in the group's consideration of impairment and in accounting for depletion charges.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–23, 30–37 and 70–71. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, 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 the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden 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 annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsnämnden's website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor's report.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Tethys Oil AB (publ) for the year 2016 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our 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 opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on Revisorsnämnden's website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor's report.

Stockholm the 18 April 2017

PricewaterhouseCoopers AB

Johan Malmqvist
Authorized Public Accountant
Lead Partner

Ulrika Ramsvik
Authorized Public Accountant

Definitions and abbreviations

AGM	Annual General Meeting
EGM	Extraordinary General Meeting
IPO	Initial Public Offering
SEK	Swedish krona
TSEK	Thousands of Swedish kronor
MSEK	Millions of Swedish kronor
USD	US dollar
TUSD	Thousands of US dollars
MUSD	Million US dollars
CHF	Swiss francs
TCHF	Thousands of Swiss francs

bbl	Oil production is often given in numbers of barrels per day. One barrel of oil = 159 litres, Barrel Volume measurement.
boe	A volume unit used when oil, gas and NGL are to be summarized. The concept is tied to the amount of energy released upon combustion of different types of petroleum. Because oil equivalents depend on the amount of energy, it is not constant and different conversion factors are used. In “Oil Field Units” for example, are 5,800 cubic feet of gas = 1barrel of oil equivalents.
bopd	Barrels of Oil per Day
mbo	Thousand Barrels
mboe	Thousand Barrels of Oil Equivalents
mboepd	Thousand Barrels of Oil Equivalents per Day
mbopd	Thousand Barrels of Oil per Day
mmbo	Million Barrels
mmboe	Million Barrels of Oil Equivalent

API	A specific gravity scale developed by the American Petroleum Institute (API) for measuring the relative density of various petroleum liquids, expressed in degrees. API gravity is gradated in degrees on a hydrometer instrument and was designed so that most values would fall between 10° and 70° API gravity.
Block	A country’s exploration and production area is divided into different geographical blocks. An agreement is entered into with a host country granting the company the right to explore and produce oil and gas in the designated area, in return for paying to the government licence fees and royalties on production. (Also referred to as Concession(s) or Licence(s)).
Blocks 3&4	Blocks 3&4 onshore the Sultanate of Oman, in which license the Company holds a 30 percent interest.
Blowout	Uncontrolled release of oil, gas or water from an oil well.
Brent	A reference oil for the various types of oil in the North Sea, used as a basis for pricing. West Texas Intermediate (WTI) and Dubai are other reference oils.
Concession	Agreement entered into with a host country granting the company the right to explore and produce oil and gas in a designated area, in return for paying to the government licence fees and royalties on production. (Also referred to as Block(s) or Licence(s)).
Condensate	A mixture of the heavier elements of natural gas, i.e. pentane, hexane, heptane etc. Is a liquid at atmospheric pressure. Also called natural gasoline or nafta.
Cost oil	A share of oil produced used to cover ongoing operations costs and to recover past exploration, appraisal and development expenditures.
Crude oil	The oil produced from a reservoir, after the gas is removed in separation. Crude oil is a fossil fuel formed by plant and animal matter several million years ago.
EPSA	Exploration Production Sharing Agreement
Fault	A fracture within rock structures where relative motion has occurred across the fracture surface.
Farm out/ farm in	The holder of shares in an oil licence may transfer (farm out) shares to another company in exchange for this company taking over some of the work commitments in the licence, such as paying for a drilling or a seismic investigation within a certain period. In return, the company brought in receives a share in any future revenues. If the conditions are met the company may retain the licence shares if not the shares are taken back by the original holder. This is known as ”farm-in” and ”farm-out”.

Heavy oil	Heavy crude oil has been defined as any liquid petroleum with an API gravity less than 20. Heavy oil has in general higher viscosity and is thus not flowing as easy as light oil. It is therefore more difficult to produce than lighter oil and its combustion is more polluting.
Hydrocarbons	Naturally occurring organic substances composed of hydrogen (H) and carbon (C). If an occurrence primarily contains light hydrocarbons, they are most often in gas form in the reservoir, and are then called a gas field. If it is primarily heavy hydrocarbons, they are in liquid form in the reservoir, and called an oil field. Under certain conditions both can exist in the reservoir where a gas cap lies above the oil. Oil always contains a certain element of light hydrocarbons that are freed in production, also known as associated gas.
HSE	Health, Safety and Environment
Injection wells	Wells to be used for injection of fluids into reservoir for enhancement of hydrocarbon recovery. By injecting gas or water (or both) the degree of recovery can be increased.
Leads	Leads are possible accumulations of hydrocarbons where more geological data needs to be gathered and evaluations need to be performed before they can be called prospects, where drilling is considered to be feasible.
License	A permit to search for and produce oil and gas. Oil and natural gas assets are usually owned by the country in which the accumulation is discovered. The oil companies obtain permission from the respective country's government to explore for and extract oil and natural gas. These permits can be called concessions, permits, production sharing agreements or licenses depending on the country in question. A license usually consists of two parts an exploration permit and a production license.
LOGS	The result of surveys which gather information from the wellbore and surrounding formations which typically consist of traces and curves. These can be interpreted to give information about oil, gas and water.
Oman	The Sultanate of Oman.
Onshore	Designation for operations on land.
Offshore	Designation for operations at sea.
Operator	The member of a joint operations, designated to lead the work on an oil or gas license or field. The company needs approval from the authorities in the country.
Porosity	The porosity of a rock is determined by measuring the amount of cavities inside, and determining what percentage of the total volume that consists of cavitie.
Profit oil	The remaining share of oil produced after royalty been paid and cost recovery through the cost oil. The profit oil is shared according to the production sharing agreement and working interests.
Prospect	A geographical area which exploration has shown contains sedimentary rocks & structures that may be favourable for the presence of oil or gas.
PSA	Production Sharing Agreement
Reservoir	An accumulation of oil or gas in a porous type of rock with good porosity, such as sandstone or limestone.
Seismic data	Seismic investigations are made to be able to describe geological structures in the bedrock. Sonar signals are transmitted from the ocean surface or the surface of the ground (pings), and the echoes are captured by special measurement instruments. Used to localise occurrences of hydrocarbons.
Spud	To initiate drilling.
Sandstone	Sandstone is a sedimentary rock composed mainly of sand-sized minerals or rock grains. Most sandstone is composed of quartz, but also often consists of feldspar, rock fragments, mica and numerous other mineral grains held together with silica or another type of cement. The relatively high porosity and permeability of sandstone makes it to a valuable rock in reservoirs.
WTI	West Texas Intermediate – the primary reference oil used as a basis for pricing of oil in North America.

Financial information

The company plans to publish the following financial reports:

Three month report 2017 (January – March 2017) on 2 May 2017

Six month report 2017 (January – June 2017) on 15 August 2017

Nine month report 2017 (January – September 2017) on 7 November 2017

Year-end report 2017 (January – December 2017) on 13 February 2018

TETHYS OIL

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