TETHYS OIL

Annual Report 2017

Contents

Annual General Meeting

The Annual General Meeting will be held on 9 May 2018, 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.

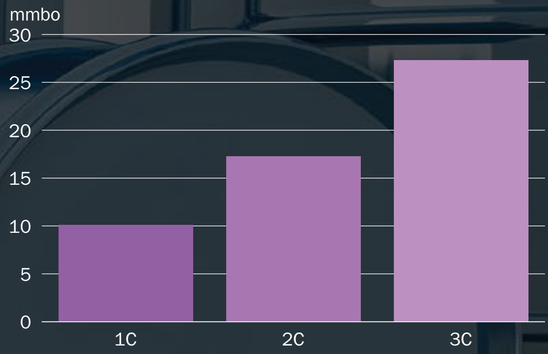
Another successful year for Tethys Oil

- **Expansion of Tethys Oil's operations back into operatorship with the award of Block 49.**

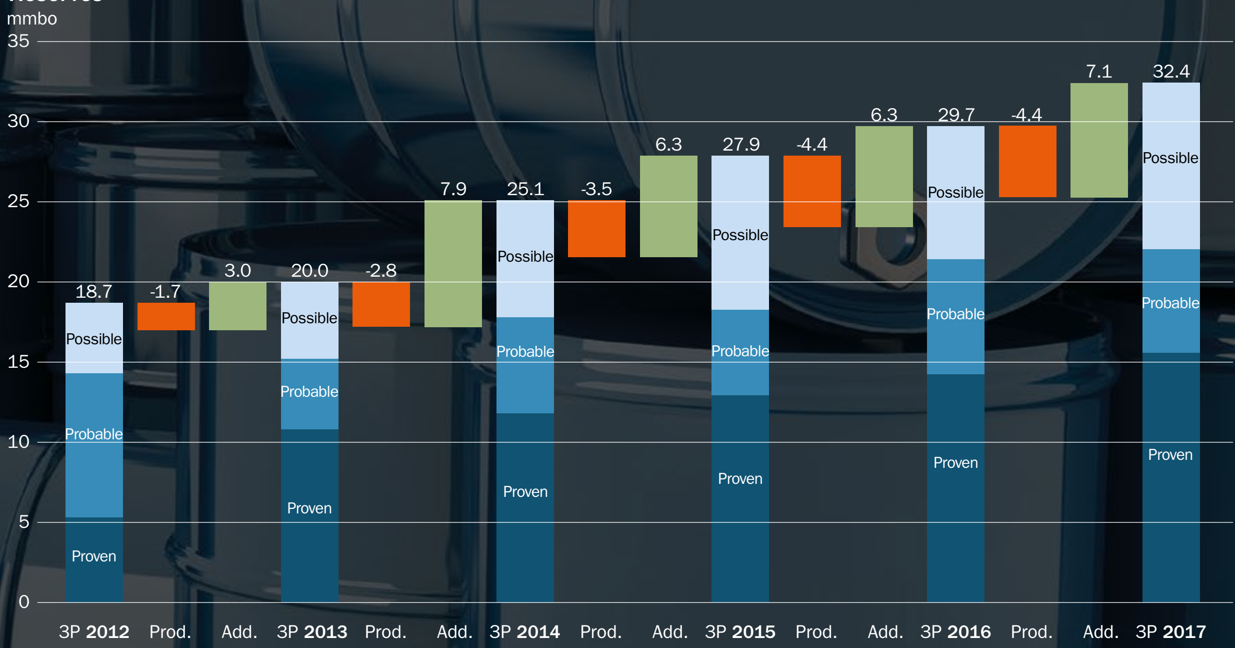
- **Exploration success resulted in doubling of combined resources base of 3P reserves and 3C contingent resources**

Contingent resources

New discoveries made in 2017, total 31 December 2017



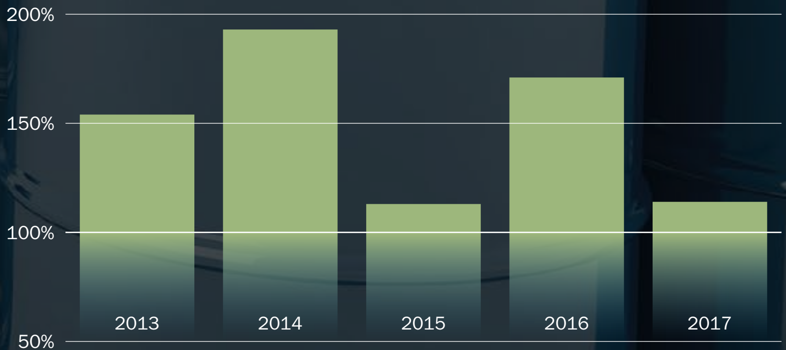
Reserves



Prod.= Production Add. = Additions

- **Excellent continuation of the 2P reserves replacement ratio – amounted to 114 percent in 2017**

Reserve replacement ratio



Operational and financial summary

MUSD[1] (unless specifically stated) (for year period or at year end)	**2017**	**2016**	**2015**	**2014**	**2013**
Average daily production, before government take, bbl	**12,261**	12,235	9,804	7,692	4,684
Average selling price per barrel, USD	**51.8**	40.5	58.1	103.9	106.6
Revenues	**119.3**	87.1	107.0	149.3	92.2
EBITDA	**78.2**	44.0	58.6	108.0	74.8
Net cash	**42.0**	39.0	51.2	47.8	-14.9
Investments in oil and gas properties	**40.4**	48.5	40.8	39.3	44.1
Distribution to shareholders, SEK per share	**1.00**	4.00	3.00	–	–
Market capitalization, MSEK	**2,337**	2,799	2,044	2,168	2,399
2P reserves in Oman (mmbo)	**22.0**	21.4	18.2	17.8	15.2
2C contingent resources in Oman (mmbo)	**17.3**	–	–	–	–

1 Starting 1 January 2016, the Tethys Oil group presents the financial reports in USD. Please note that comparative financials from 2013–2015 have been restated.

The Blocks 3&4 success story

Tethys Oil acquired an interest in Blocks 3&4 in 2007 and initiated the oil production on the blocks three years later. Since August 2010 up until year end 2017, Tethys Oil's net production, before government take, amounts to over 18.5 million barrels from Blocks 3&4. This has been achieved as a result of the skills and hard work of all the staff of Tethys Oil and the partner group, contractors and suppliers. The oil produced on Blocks 3&4 has created significant values for the people of Oman, the shareholders of Tethys Oil and the other stakeholders of the joint venture group, and generated employment. In 2017, Tethys Oil's operations in Oman were expanded when Tethys Oil as operator was awarded the licence for the exploration Block 49.

Letter to the shareholders

Dear friends and investors,

2017 turned out to be a very successful year for Tethys Oil, where our ability for organic value creation proved itself and where we further increased our future possibilities by adding the exploration Block 49 to our assets. Through exploration drilling in our existing Blocks 3&4, we discovered significant amounts of oil in previously undrilled structures. In fact so much oil, that our combined resources base of 3P reserves and 3C contingent resources more than doubled from 29.7 mmbo to 59.7 mmbo. The increase in 2P reserves represents an internal reserve replacement ratio of 114 percent. The new discoveries, Erfan, Ulfa and Samah, added more than 17 million barrels of 2C contingent resources and the majority of some five million barrels of 2P reserves added in 2017. A major focus for 2018 will be to complete the appraisal programmes on these discoveries and develop them into new oilfields and in the process mature the resources into reserves. In addition to our three successful exploration wells, we also put five previously undrilled fault blocks on the Farha South field and one previously undrilled structure on the Shahd field into production.

New exploration block in Oman adds opportunities

In late 2017, our scope of operations increased when we as operator were awarded a new exploration license in Oman. Block 49 is an onshore block that covers a prospective but still rather unexplored area with known oil shows in the South West of the Sultanate bordering the Kingdom of Saudi Arabia. Block 49 covers an area of 15,439 km² with known oil shows. Block 49 is the kind of opportunity Tethys Oil has been pursuing for some time. We are grateful to the Government of Sultanate of Oman for giving us the opportunity to explore this part of Oman. Tethys Oil's 10 years of experience in Oman, local knowledge and strong technical team, makes Tethys Oil well positioned to turn Block 49 into a success. The work programme on the block has already kicked off with geological studies and review of legacy seismic data.

Financial performance

We produced 4.48 mmbo in 2017, in line with the 4.48 mmbo produced during 2016. An increase in average realised price per barrel of 28 percent compared to 2016 contributed to our revenue growth of 37 percent to MUSD 119.3. Our strong revenues, coupled with our low operating costs, resulted in an EBITDA of MUSD 78.2, 78 percent higher than in 2016.

Additional distribution to our Shareholders

The stable production on Block 3&4 provides us with a good cash flow, with gives room for both continued investments in Oman as well as further distribution to our shareholders. Reflecting this strong operational and financial position of Tethys Oil, the board of directors is proposing an ordinary dividend of SEK 2.00 per share, as well as an extraordinary distribution of SEK 4.00 per share, in total SEK 6.00 per share.

Looking forward

Given our history of reserve replacement pared with our recent exploration success, we see large possibilities for continued organic growth on Blocks 3&4. Next to bringing our resources into reserves, the focus on exploration continues. In late 2017, we launched a 3D seismic study over 1,200 km² east of the Ulfa discovery in an area where we so far have identified more than ten leads based on the interpretation of old 2D seismic. The exploration drilling continues into 2018 and we are also upgrading of the infrastructure on the fields in preparation for many years of future production.

We expect our investments in Oman to amount to MUSD 53–62 in 2018, the bulk of which will be spent on Blocks 3&4.

We also give a production guidance for 2018, with a monthly average production of between 11,000–13,000 barrels of oil per day.

I now put this year's annual report in your hands. Stay with us, our success during 2017 shows that Blocks 3&4 still hold significant growth potential, on top of almost ten years' of continuous development. And we have an exciting new phase for Tethys Oil with operatorship of Block 49.

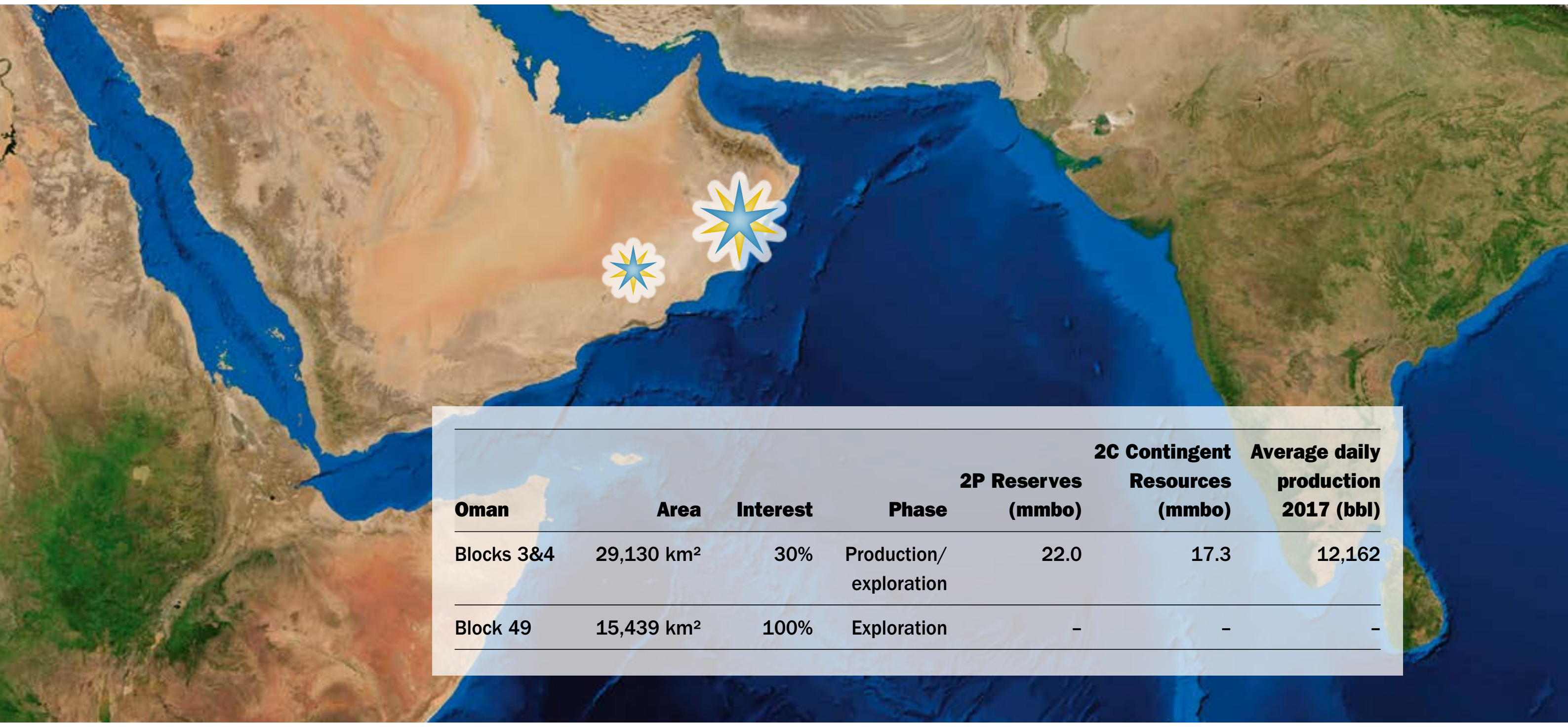
Stockholm in April 2018

Magnus Nordin
Managing Director

Tethys Oil

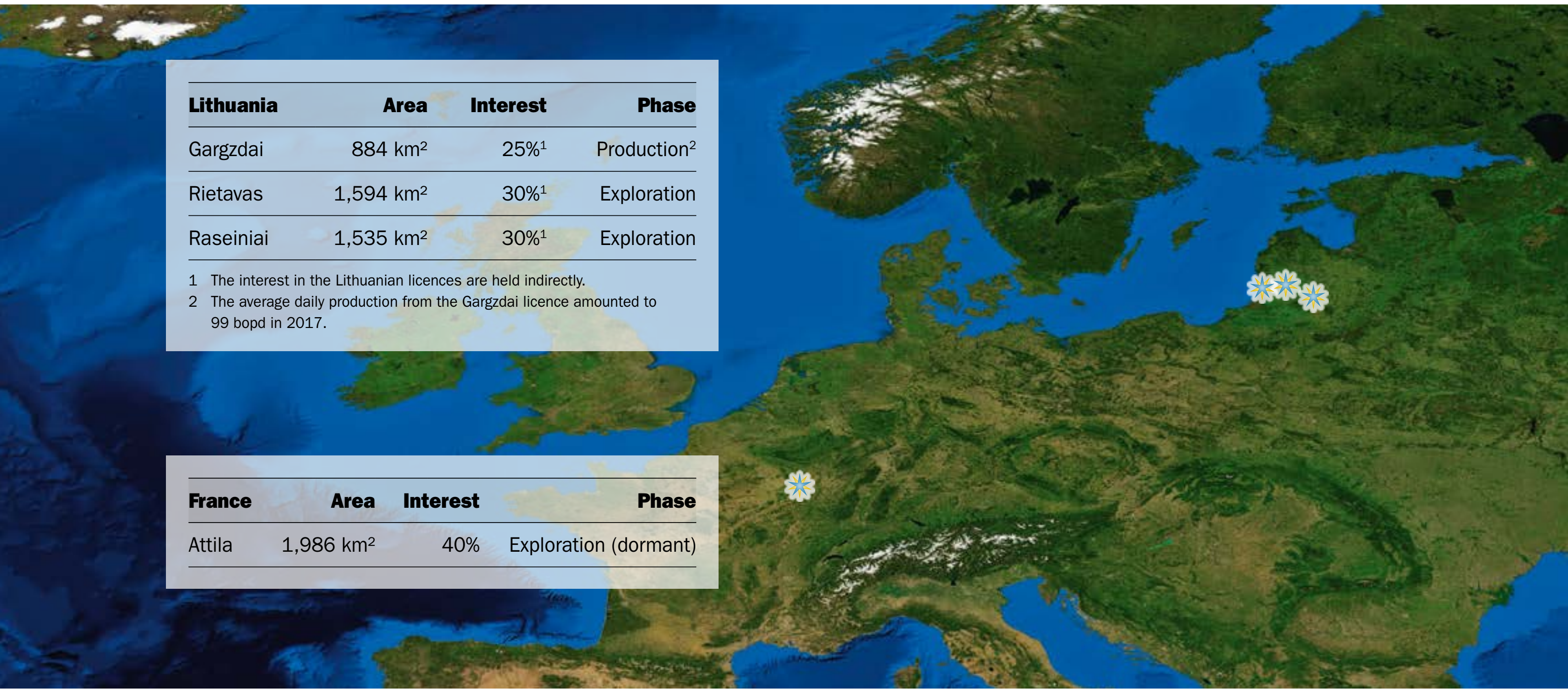
Tethys Oil is a Swedish oil company with focus on onshore areas with known oil discoveries. Tethys Oil's core area is Oman, where the Company holds interests in Blocks 3&4 and Block 49. The reserve and resource base on Blocks 3&4 amounts to 22.0 mmbo of 2P reserves and the 17.3 mmbo of 2C Contingent Resources. The average oil production in 2017 from Blocks 3&4 amounted to 12,162 bopd, (Tethys Oil's share of gross production, before government take). 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).

Core area Oman



Oman	Area	Interest	Phase	2P Reserves (mmbo)	2C Contingent Resources (mmbo)	Average daily production 2017 (bbl)
Blocks 3&4	29,130 km²	30%	Production/ exploration	22.0	17.3	12,162
Block 49	15,439 km²	100%	Exploration	–	–	–

Other areas



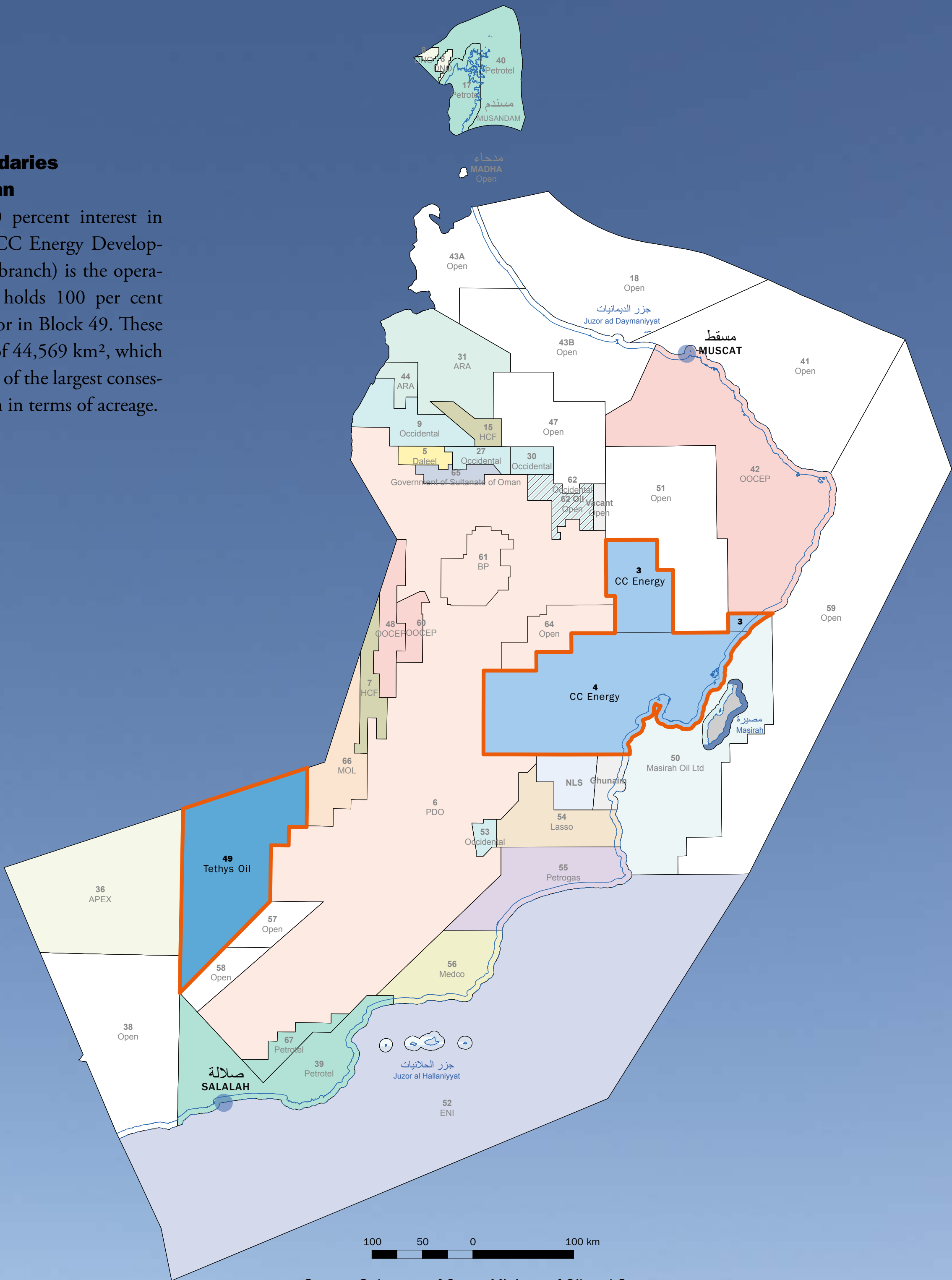
Lithuania	Area	Interest	Phase
Gargzdai	884 km²	25%[1]	Production[2]
Rietavas	1,594 km²	30%[1]	Exploration
Raseiniai	1,535 km²	30%[1]	Exploration

1 The interest in the Lithuanian licences are held indirectly.
2 The average daily production from the Gargzdai licence amounted to 99 bopd in 2017.

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

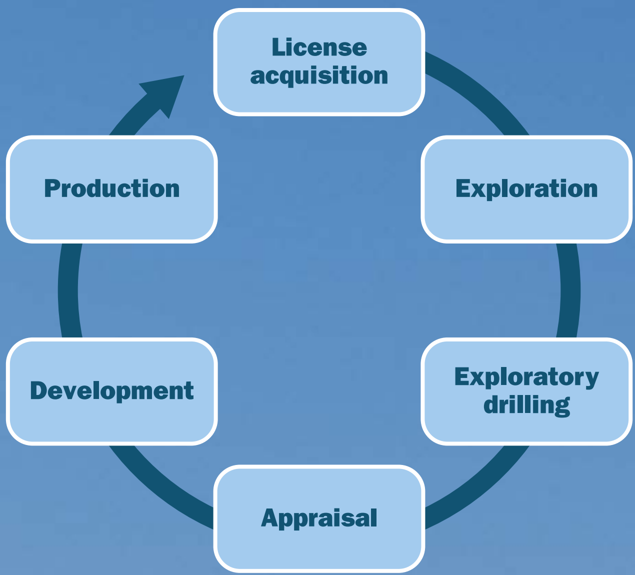
Consession boundaries
Sultanate of Oman

Tethys Oil holds 30 percent interest in Blocks 3&4, where CC Energy Development S.A.L. (Oman branch) is the operator. Tethys Oil also holds 100 per cent interest and is operator in Block 49. These blocks cover an area of 44,569 km², which makes Tethys Oil one of the largest consession holders in Oman in terms of acreage.



Source: Sultanate of Oman Ministry of Oil and Gas

Targeting increase in production and reserves



Tethys Oil aims to have a well-balanced and self-financed portfolio of oil assets, offering production, development and exploration potential. Tethys Oil's business model is to be active in the onshore exploration, appraisal, development and production stages of the upstream oil and gas business cycle. The focus is on geographies with proven petroleum systems, existing infrastructure, an established institutional framework and low political risk.

In all its activities Tethys Oil seeks a balanced approach to risk. The strategic decision to focus purely on onshore exploration and production of conventional oil is a function of this approach. Onshore oil exploration involves a lower financial exposure due to lower drilling and development cost. It also involves lower environmental and safety risks than offshore drilling, especially in harsh environments. The strategic decision to focus on geographies with known oil discoveries allows Tethys Oil to lower subsurface risk by seeking to explore in areas with previously overlooked discoveries and plays using modern techniques and technology.

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.

Expanding resource base

Tethys Oil's net working interest Reserves in Blocks 3&4 Oman as per 31 December 2017 amount to 15,559 thousand barrels of oil ("mbo") of proven Reserves (1P), 22,044 mbo of proven and probable Reserves (2P) and 32,414 mbo of proven, probable and possible Reserves (3P). Tethys Oil's net working interest resources oil base in Oman amounts to 10,129 mbo of 1C, 17,264 mbo of 2C and 27,328 mbo of 3C Contingent Resources.

Development of reserves, Blocks 3&4 (Audited)

mbo	**1P**	**2P**	**3P**
Total 31 December 2016	**14,222**	**21,408**	**29,729**
Production 2017	-4,439	-4,439	-4,439
Discoveries	3,482	4,879	7,475
Revisions	2,294	196	-350
Total 31 December 2017	**15,559**	**22,044**	**32,414**

In 2017 Tethys Oil replaced 5,776 mbo of 1P Reserves, representing a 1P Reserve replacement ratio (i.e. percentage of 2017 production replaced) of 130 percent; replaced 5,075 mbo of 2P Reserves, representing a 2P Reserve replacement ratio of 114 percent; replaced 7,124 mbo of 3P Reserves, representing a 3P Reserve replacement ratio of 160 percent.

In addition to Reserves, Tethys Oil also has Contingent Resources. The estimated Contingent Resources are contained in the recent discoveries made in 2017. Development of the Contingent Resources in the new discoveries will be contingent on the on-going appraisal programme and also a work programme and budget to access these resources.

2P Reserve replacement ratio

	2017	**2016**	**2015**	**2014**	**2013**
Reserve replacement ratio, %	**114**	**171**	**113**	**193**	**154**

A major focus for Tethys Oil in 2018 will be to complete the appraisal programmes on these discoveries and develop them into new oilfields and in the process mature the resources into reserves.

Contingent Resources, Blocks 3&4 (Audited)

mbo	**1C**	**2C**	**3C**
New discoveries made in 2017, total 31 December 2017	**10,129**	**17,264**	**27,328**

The Company's 2017 and 2016 year-end Reserves reports were prepared by ERC Equipoise Limited ("ERCE") and DeGolyer and MacNaughton Canada Limited ("DMCL") respectively, as independent qualified Reserves evaluators. ERCE were engaged to prepare the 2017 year-end Reserves report following the closure of DMCL's office in Calgary.

The audits of the Reserves in Oman has been conducted using 2007 Petroleum Resources Management System (PRMS), sponsored by the Society of Petroleum Engineers (SPE), World Petroleum Council (WPC), American Association of Petroleum Geologists (AAPG) and Society of Petroleum Evaluation Engineers (SPEE).

About Contingent Resources
Contingent Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Development of the Contingent Resources in the new discoveries on Blocks 3&4 will be contingent on the on-going appraisal programme and also a work programme and budget to access these resources.

Operations

Tethys Oil's host country Oman

Oman – part of the oil fairway

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's 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 over thousands of years. Modern archaeological discoveries suggest that humans settled in Oman during the Stone Age, i.e. more than 10,000 years ago.

Oman as an oil country

Most importantly for Tethys Oil, Oman is also a major oil nation, the largest in the Middle East that is not a member of OPEC. 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 22rd largest in the world (BP Statistical Review of World Energy, June 2017). Oman's crude oil and condensate production amounted in 2016 to over 1 mmbo per day. In 2017, it was reduced to approximately 970,000 bopd according to the production adjustment agreement between OPEC and certain non-OPEC members.

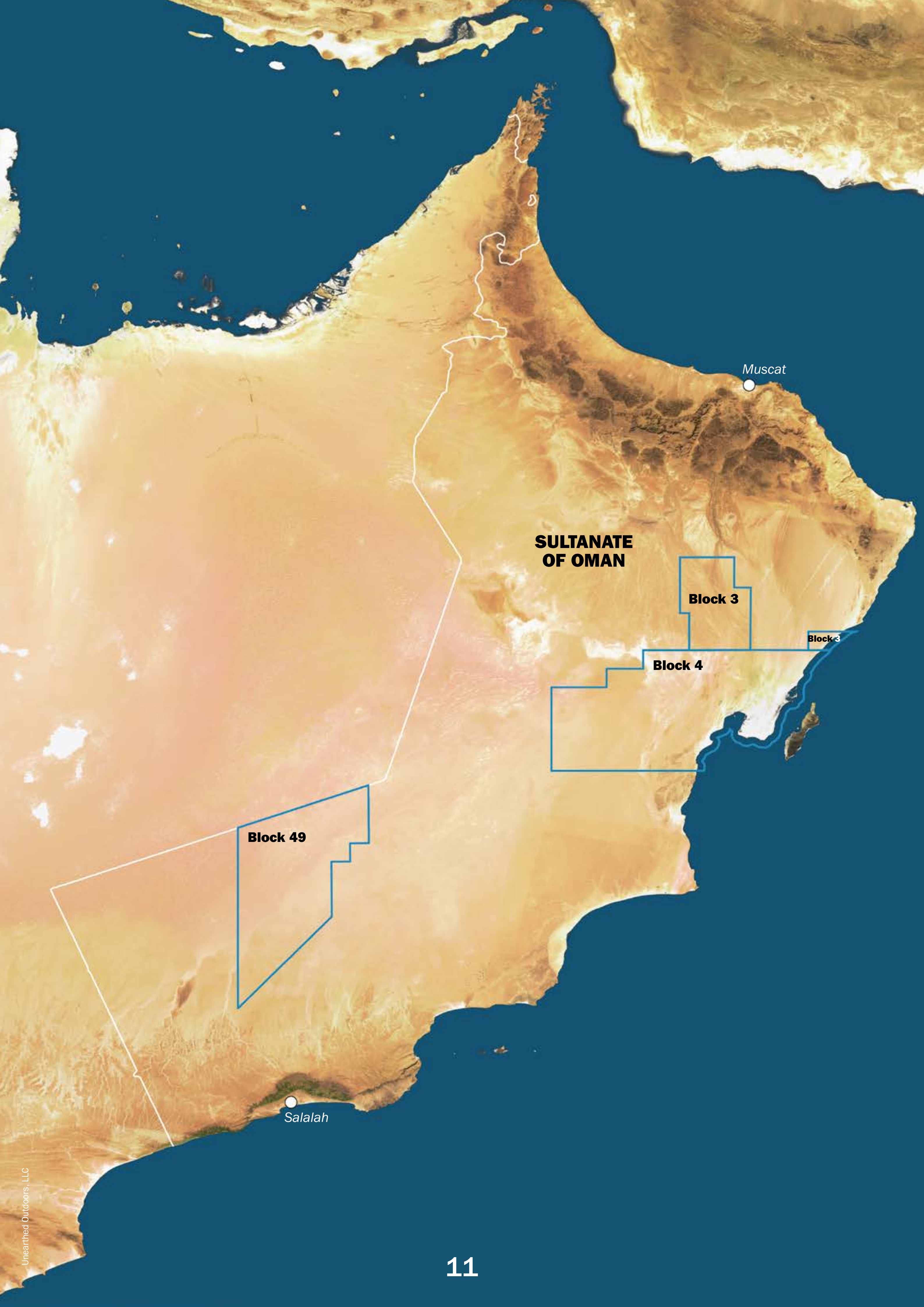
The largest producer in Oman is PDO, who holds Block 6. Block 6 covers an area of 90,874 km² in north, central and south Oman. In 2016, 681,000 barrels of oil and condensate per day were produced by PDO, corresponding to close to 70 percent of the total production in Oman. PDO is owned by the Omani government (60 percent), Shell (34 percent), Total (4 percent), and Partex (2 percent). Occidental Petroleum (Oxy), is the second-largest producer in Oman, and produced about 100,000 bopd in 2016. Oxy is producing from Blocks 9, 27 and 62 in northern Oman and the Mukhaizna field in Block 53 in the south.

Tethys Oil in Oman

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 km² 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. In December 2017, Tethys Oil's operations in Oman expanded when the exploration Block 49 was awarded to Tethys Oil as operator. Block 49 covers an area of 15,439 km² in the south west part of Oman, bordering Saudi Arabia. Tethys Oil holds 100 percent of Block 49. The combined area of Blocks 3&4 and Block 49 amounts to almost 45,000 km², one of the largest consession holders in Oman in terms of acreage.

The partner group on Blocks 3&4 produced 40,500 bopd in 2017, corresponding to about 4 percent of Oman's total production. The produced oil is lifted at the Mina Al Fahal Terminal in Muscat, at the Sea of Oman, and it therefore never passes through the Strait of Hormuz.

Photo by Richard Dorsman


Muscat
SULTANATE
OF OMAN
Block 3
Block 3
Block 4
Block 49
Salalah

The use of modern technology

In hindsight it might seem like the exploration, development and production initiation of crude oil on Blocks 3&4 have been a straightforward and understandable process. However, numerous large companies had explored for oil and gas for 40 years and drilled 27 exploration wells in these two blocks. Most of the wells encountered oil, but none were deemed commercially successful.

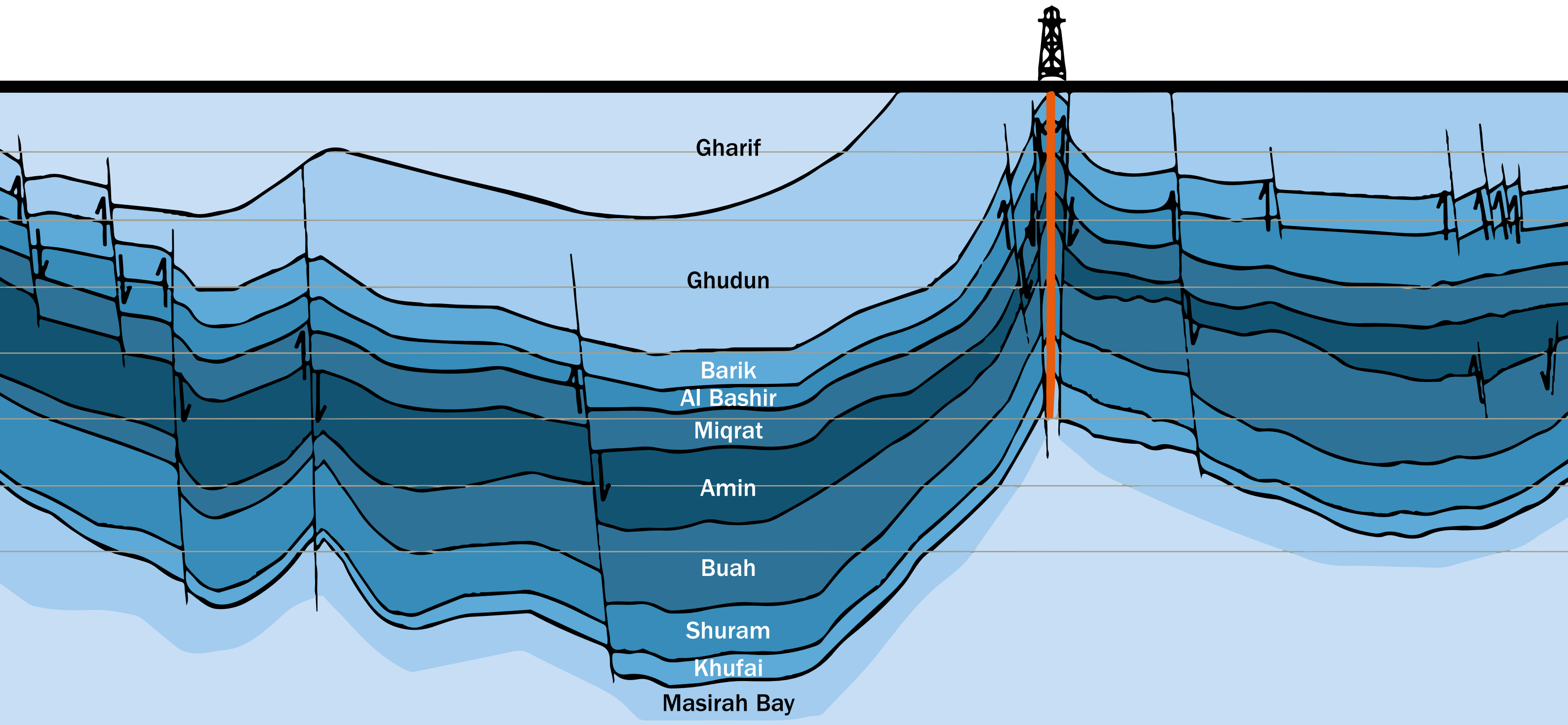
What was deemed not hydrocarbon prospective areas by previous operators have turned commercial with the help of the collective experience accumulated by the partner groups' specialists, new technology and perseverance.

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 non-commercial wells 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. Production has been launched in three areas on the blocks: Farha South, Saiwan East and Shahd production areas. 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 around 12,000 bopd in 2017. In 2017, four exploration wells were drilled which resulted in the three new discoveries Erfan, Ulfa and Samah.

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 km², only 6,000 km² of seismic data have been acquired so far. A new 3D seismic campaign was launched late in 2017. The survey is planned to cover a total area of about 1,200 km² in an area where more than ten leads has been identified based on the interpretation of old 2D seismic.



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 metre 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 Buah formations.

The Farha South production area (Blocks 3&4)

Farha South-3 was the first well to be drilled on the blocks with Tethys Oil as a partner in 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 750 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 metres and overlaying the Lower Al Bashir, also had excellent oil shows in the Farha South-3 well. The Barik layer flowed on test close to 400 bopd and was put on long term production test where it proved itself to be a reliable producer.

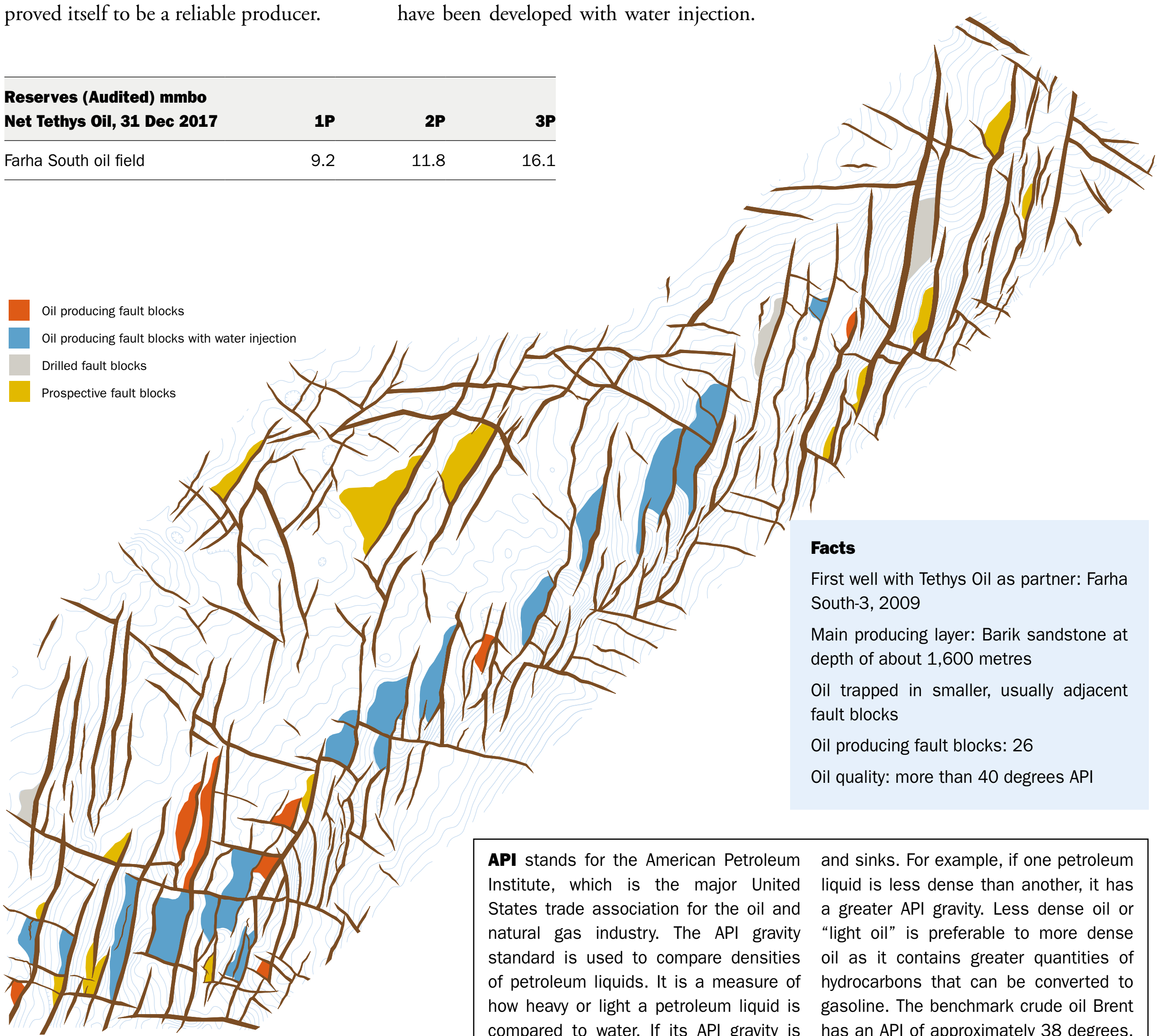
The oil of the Farha South is not trapped in one large continuous reservoir. It is instead trapped in a large number of smaller, usually adjacent fault blocks. These faults are relatively small and 3D seismic has been essential in the mapping of drillable fault blocks. The only way to confirm that a 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 injection necessary. Water is injected into the reservoir via injection wells in order to increase the pressure and thereby stimulate production. 26 fault blocks have by year end 2017 been drilled and found being oil bearing, with five fault blocks being added in 2017. 21 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 production area. The area is today the largest production area on the blocks holding 11.8 mmbo of proved and possible reserves (2P) net to Tethys Oil, corresponding to 53 percent of Tethys Oil's total 2P reserves on the blocks. The field has produced the majority of Tethys Oil's total oil production to date. In order to generate reserves and future production, the drilling and developing of new Farha South fault blocks will continue in 2018 as well as continued development of existing producing fault blocks.

Reserves (Audited) mmbo **Net Tethys Oil, 31 Dec 2017**	**1P**	**2P**	**3P**
Farha South oil field	9.2	11.8	16.1



Facts

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

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

Oil trapped in smaller, usually adjacent fault blocks

Oil producing fault blocks: 26

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 benchmark crude oil Brent has an API of approximately 38 degrees. Oman Blend has an API of approximately 32 degrees.

The Shahd production area (Blocks 3&4)

At the Shahd area, oil is extracted at greater depths than the Farha South field, mainly from the Lower Buah carbonate at 2,000 metres but also from the Khufai carbonate and the Lower al Bashir sandstone. 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 delivered substantial increase to Tethys Oil's total production and reserves.

The Shahd oil field is located approximately 20 km 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 an undrilled structure is oil bearing is by drilling. So far eight structures have been put into production with one being added in 2017.

Like the Fahra South field, water injection is needed on the Shahd oil field. A water injection programme was launched in 2015. Four structures have been developed with water injection. The geology is however more complex than in the Farha South area, and part of the Shahd area has responded less well to the injection. The implementation of the Shahd water injection programme continues and results are being carefully monitored.

The area holds 5.6 mmbo of proved and possible reserves (2P) net to Tethys Oil, corresponding to 26 percent of Tethys Oil's total 2P reserves on the blocks.

Facts

Discovery well: Shahd B-1, 2013

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

Production also from Lower al Bashir and Khufai

Oil producing structures: 8

Oil quality: approx. 38 degrees API

Reserves (Audited) mmbo Net Tethys Oil, 31 Dec 2017	1P	2P	3P
Shahd oil field	3.4	5.6	8.9

The Saiwan East production area (Blocks 3&4)

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 the Khufai carbonate at depths ranging from 1,700 to 2,400 metres. This reservoir was previously unknown as an oil producer in Oman. The Saiwan East oil field is located just east of the Shahd oil field. The oil from the Khufai layer holds a quality of approximately 32 degrees API.

The field is the smallest so far discovered on the blocks, holding 1.3 mmbo of proved and possible reserves (2P) net to Tethys Oil, corresponding to 6 percent of Tethys Oil's total 2P reserves on the blocks.

Large quantities of oil with different gravities and viscosities, including heavy oil, have also been found in different formations on the field. Any potential production from the heavy oil in Saiwan East will require enhanced oil recovery techniques.

Facts

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

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

Oil quality: on average approx. 32 degrees API

Reserves (Audited) mmbo, Net Tethys Oil, 31 Dec 2017	1P	2P	3P
Saiwan East oil field	0.6	1.3	1.8

Growth continues through exploration success

2017 turned into a successful year for Tethys Oil, with considerable success not least achieved within one of the most important activities of the oil industry – exploration and resulting discoveries. In 2017, the Blocks 3&4 partner group discovered significant amounts of oil in new structures near the existing producing areas on Blocks 3&4.

Four exploration wells were drilled in the 2017 drilling programme. First to be drilled was the Erfan-1 well, that was drilled some 6 km southwest of the Saiwan East area on Block 4. Erfan-1 was a success and flowed oil to surface from the Khufai formation. The discovery has been further appraised during the year by two successful appraisal wells.

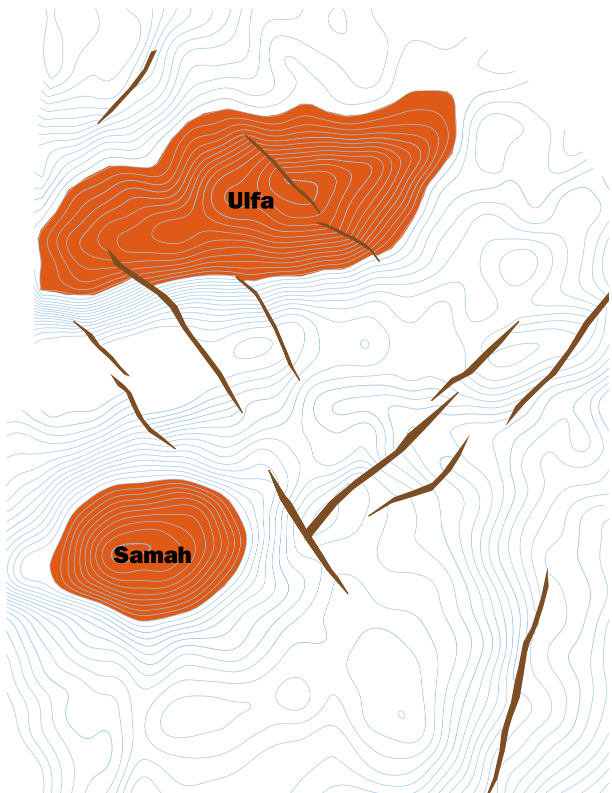
The exploration well Ulfa-1 was drilled on a structure located on trend with the Farha South field on Block 3. Ulfa-1 flowed oil to surface from the Khufai formation. The appraisal of the Ulfa discovery will start in 2018.

The Samah-1 was drilled on a structure located 5 km south of the Ulfa discovery on Block 3. The well was completed late in 2017 with good oil flows to surface.

The fourth exploration well, the V-1 well, was drilled northeast of the fault block F in Farha South area. The main target of the well was to test the Amin formation, a formation that does not produce elsewhere on Blocks 3&4, but it did not encounter any hydrocarbons.

The Erfan, Ulfa and Samah discoveries are all undergoing long term production tests and thus already contribute to Tethys Oil's production.

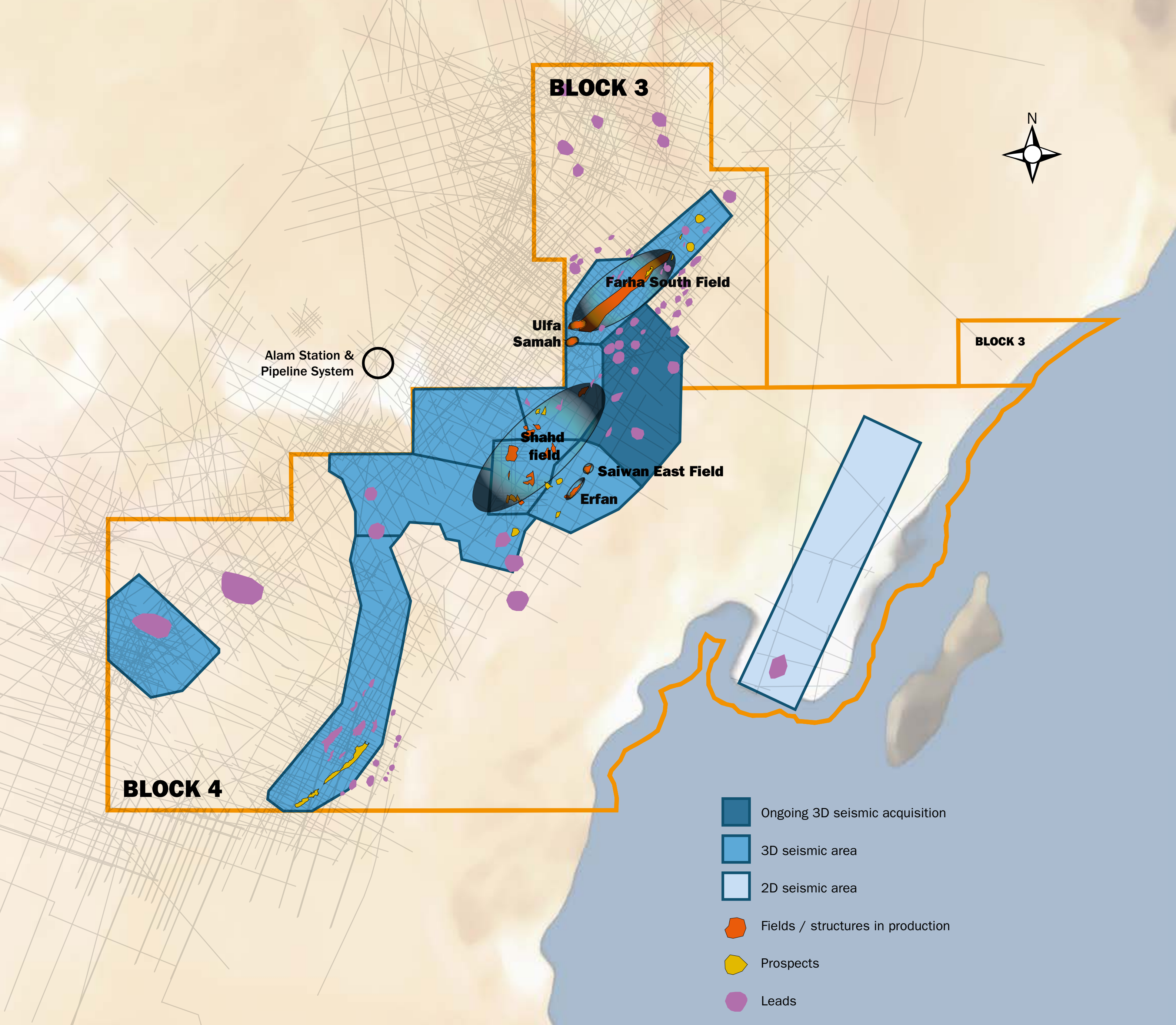
These three discoveries have added more than 17 mmbo of 2C contingent resources and the majority of some five mmbo of 2P reserves added in 2017. Development of the Contingent Resources in the new discoveries will be contingent on the ongoing appraisal programme and also a work programme and budget to access these resources. A major focus for Tethys Oil in 2018 will be to complete the appraisal programmes on these discoveries and develop them into new oilfields and in the process mature the resources into reserves.



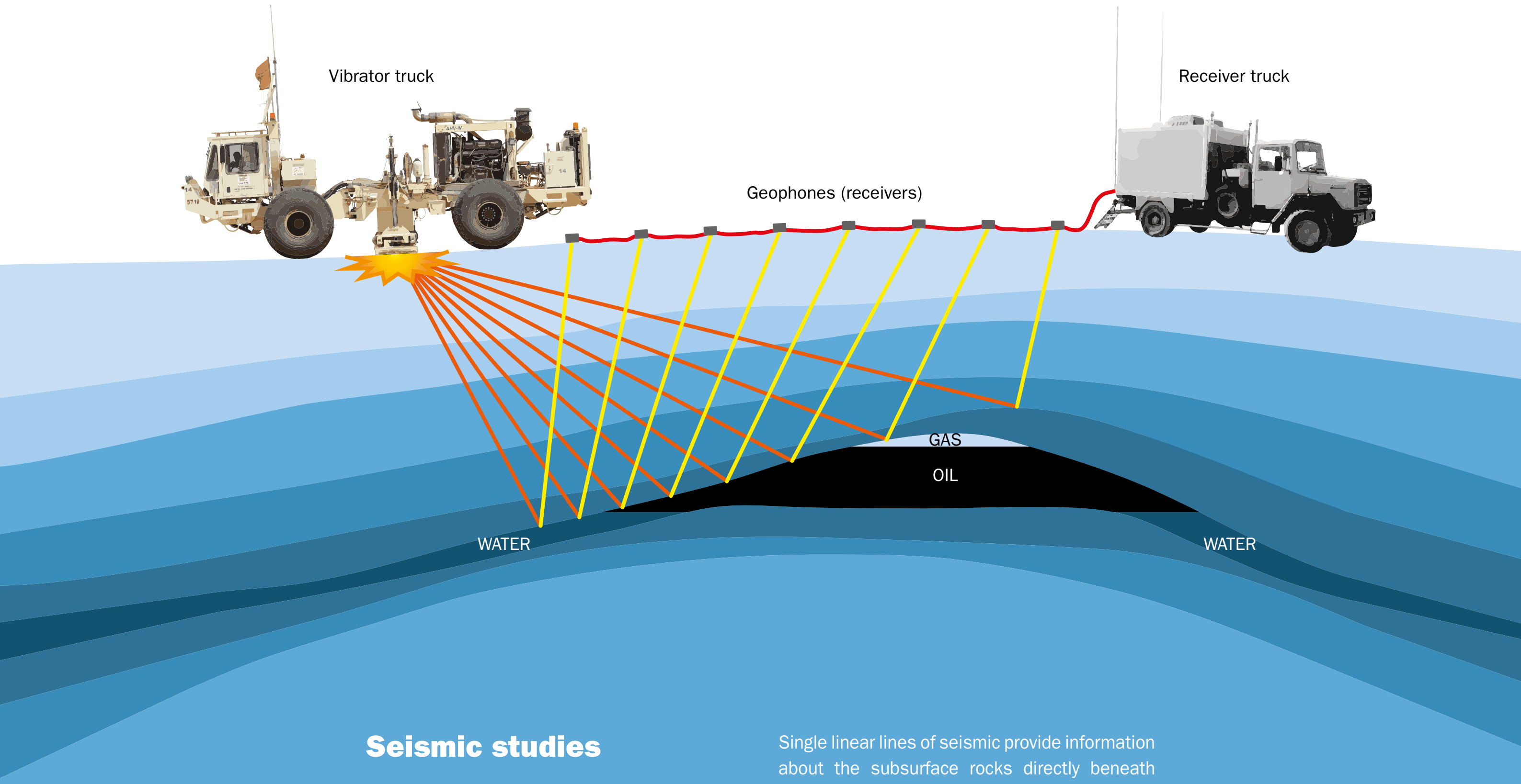
Reserves (Audited) mmbo Net Tethys, 31 Dec 2017	1P	2P	3P
New areas	2.3	3.4	5.7

Contingent Resources (Audited) mmbo Net Tethys, 31 Dec 2017	1C	2C	3C
New areas	10.1	17.3	27.3

Seismic mapping, prospects and leads, Blocks 3&4, Oman



A new 3D seismic campaign was launched late in 2017. The survey is planned to cover about 1,200 km² in an area where more than ten leads has been identified based on the interpretation of old 2D sesmic. The 3D seismic will be essential to mature as many leads as possible into drillable prospects.



Seismic studies

A key exploration activity is the use of 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 Blocks 3&4 is trapped in smaller fault blocks or structures, 3D seismic has been essential in the mapping of possible oil bearing structures.

Vibrator trucks at Blocks 3&4

HE Dr Mohammed bin Hamad Al Rumhi, Minister of Oil and Gas, and Magnus Nordin, Managing Director Tethys Oil, sign the EPSA for Block 49.

The Montasar Oasis

Block 49 – Tethys Oil's new licence in Oman

Tethys Oil was awarded a new exploration license by the Government of Sultanate of Oman in the fourth quarter 2017. Block 49, Montasar, is an onshore block that covers a prospective but still rather unexplored area in the Governorate of Dhofar in the South West of Oman bordering the Kingdom of Saudi Arabia. Tethys Oil holds 100 percent of the license interest and is the operator.

The Block 49 licence covers an area of 15,439 km². More than 11,000 km of 2D seismic data that has been acquired by previous operators has been made available to Tethys Oil. Nine wells have been drilled by previous operators within the block boundaries, several of which are reported to have encountered oil shows. Among the legacy wells is the first well ever drilled in Oman in 1955 (Dauka-1).

The EPSA for Block 49 covers an initial exploration period of three years with an optional extension period of another three years. In the event of Declaration of Commerciality the Term of the Agreement shall be extended for a period of 15 years which can be extended for another five years. In case of a commercial discovery, Oman government company has a back-in right of up to 30 percent against refunding of pro rata past expenditure. The initial work commitments during the first period include geological studies, seismic acquisition and processing and exploratory drilling.

After more than ten years in Oman, Tethys Oil has built a strong technical team. As operator of the block, Tethys Oil is confident the Company's Omani experience will be well suited to make Block 49 into a success. The work programme is ongoing with geological studies and studies of legacy seismic data.

Office and staff

Tethys Oil's staff consist of 22 highly motivated individuals from five 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 administration.

Muscat Office

A team of highly trained subsurface specialists are based at Tethys Oil's 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 Tethys Oil's CTO.

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 CFO, along with Tethys Oil's financial and communication teams.

Transportation and sales (Blocks 3&4)

All oil produced at 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 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.

Licences in Oman are held through Exploration and Production Sharing Agreements (EPSA). The EPSA allows the joint operations partners to recover their costs from a predetermined percentage 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 split, also according to a predetermined percentage, between the government and the partners. The exact percentages differ from licence to licence. Until oil has been found and could be produced on a licence, no cost could be recovered. If no commercial oil discovery at all is made on an exploration licence, the exploring oil company stand all the risk.

Tethys Oil sells all of its oil from Blocks 3&4 on a monthly basis to Mitsui Energy Trading Singapore, which is part of Mitsui & Co Ltd. Tethys Oil's average selling price is based on the monthly average price of the two month future contract of Oman blend as traded on the Dubai Mercantile Exchange, including trading and quality adjustments.

Operational areas outside Oman

Tethys Oil's portfolio also includes European licences, with indirect interests in three onshore licenses in Lithuania and one dormant onshore licence in France.

Lithuania, on the Baltic Sea in the north east part of Europe, is a small oil producer. Oil was discovered in Lithuania some 60 years ago. From a peak at about 10,000 bopd some 20 years ago, the production has now dropped to about 2,000 bopd. The production is located in the western part of the country. The Lithuania tax regime is very attractive, so even smaller amounts of oil can generate good value.

Tethys Oil's Lithuanian licences cover an area of some 4,000 km². The Gargzdai licence is in production with 99 bopd net to Tethys Oil in 2017. 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 Rietavas and the Raseiniai licences are exploration licences. Since the acquisition of the licence interests in 2012, several exploration wells have been drilled, which have confirmed the presence of oil in the area, and seismic studies been conducted.

The Attila licence is located some 250 km east of Paris. Tethys Oil is reviewing the prospectivety and potential for additional work at the licence.

Photo by Budorain

Tethys Oil Sustainability Report

The Tethys Oil Sustainability Report 2017 comprises Tethys Oil AB (corporate identity number 556615-8266) and its subsidiaries (together "the Group" or "Tethys Oil") and has been prepared in accordance with the regulations in chapter 6 and chapter 7 of the Annual Accounts Act.

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, appraisal, 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.

Tethys Oil seeks to be a sustainable and profitable business long-term. Sustainability means running a business that is not only profitable but in tune with the requirements and expectations of all stakeholders both inside and outside the Group.

Business model

Tethys Oil's business model is to be active in the onshore exploration, appraisal, development and production stages of the upstream oil and gas business cycle. The focus is on geographies with proven petroleum systems, existing infrastructure, an established institutional framework and low political risk.

In all its activities Tethys Oil seeks a balanced approach to risk. The strategic decision to focus purely on onshore exploration and production of conventional oil is a function of this approach. Onshore oil exploration involves a lower financial exposure due to lower drilling and development cost. It also involves lower environmental and safety risks than offshore drilling, especially in harsh environments. The strategic decision to focus on geographies with known oil discoveries allows Tethys Oil to lower subsurface risk by seeking to explore in areas with previously overlooked discoveries and plays using modern techniques and technology.

Policies and work within Sustainability

Tethys Oil has adopted a code of conduct and requires all staff, management and board of directors to act in accordance with that code.

Sustainability and Social Responsibility has been high on the agenda for Tethys Oils management during 2017. During the course of 2017, Tethys Oil has worked on renewing and updating its policies, procedures and operating framework to ensure that high operating standards are upheld and that the Group is in compliance with regulatory requirements and the demands of the investment community as well as other stakeholders. The result of this is a new and updated code of conduct as well as policies within the following areas:

- Health, Safety and Environment
- Anti-Fraud
- Anti-Corruption
- Diversity and Non-discrimination
- Whistleblowing

Tethys Oil staff will be continuously trained in the new policies through policy workshops to ensure understanding of Tethys Oil policy framework and allow the staff to contribute to the Group's continued development as a responsible actor.

Health, Safety and Environment

Tethys Oil's activities are subject to the Health, Safety and Environmental (HSE) risks inherent in the oil industry. The Group recognises that the prevention of accidents and ill health is critical to the efficient operation of its business and therefore have established a Health, Safety and Environment policy as well as procedures. The ultimate responsibility for HSE lies with the Managing Director. It is, however the responsibility of all Tethys Oil staff to ensure compliance with the Group's policies and procedures for safe operations.

Tethys Oil has a responsibility for all activities that are a consequence of the Group's operations.

At a minimum, it is Tethys Oil's duty to ensure compliance with all relevant laws and governmental instructions concerning HSE.

The genuine care for HSE is a core value for the whole Group and shall be transparent through all Tethys Oil's plans and actions. It is the Group's objective to provide a healthy and safe working environment for employees, contract personnel and members of the general public who might be affected by the activities of its operations. The Group will have a systematic approach to HSE-management to achieve continuous improvement toward the goal of no harm to people, no accidents, no spills and strive for minimum impact on the environment, thereby contributing to sustainable development.

Until the award of Block 49 in Oman in December 2017 all Tethys Oil's activities were non-operated and the operators of the assets ultimately responsible for implementing HSE policies and procedures. As a non-operating partner, it is Tethys Oil's management's responsibility to actively

Overview of Tethys Group Policy Framework

Code of Conduct			
HSE policy	Diversity policy	Whistleblower policy	IT policy
Anti-corruption policy	Anti-fraud policy	Info and insider policy	

encourage the operator to apply Tethys Oil's HSE policy where possible. This work is mainly carried out within the framework of the joint management committee.

As part of the work to become an operator Tethys Oil has developed an operations management system which includes policies and procedures within the area of Health, Safety and Environment. The new HSE policies and procedures has been implemented in accordance with International Association of Oil and Gas Producers (IOGP) standards.

Environment

Tethys Oil has a stated ambition to explore for and produce oil and gas with a minimum of environmental impact. In its engagement as 30 percent interest holder in Blocks 3&4, Tethys Oil has acted for improved environmental focus in operations and proactive work to minimise environmental impact, not least the risks for spills and damage.

In Block 49 all exploration activities on the license will be evaluated from an environmental impact perspective in order to ensure that operations are conducted in accordance with Tethys Oil's policies and procedures including completion of environmental impact assessments.

With regards to emissions the majority of Tethys Oil's emissions come from its 30 percent non-operated interest in Blocks 3&4. The main sources of emissions are the flaring of associated gas and the use of diesel to run generators for power. The emissions by category are outlined below. Emissions data is only available for 2017 following a thorough development of measurements resulting in more comprehensive data collection and as a result there is no comparable historical data.

Spills & Hydrocarbon releases Blocks 3&4

Two recordable spills were reported during 2017.

Actions

During 2017 significant actions were taken to improve environmental conditions on Blocks 3&4, in particular with regards to handling of hazardous chemicals, and prevention of spills.

All operations in the field are preceded by an environmental impact assessment (EIA) to be filed with the ministry of Oil and Gas.

During 2017 a project was initiated to investigate the handling of the associated gas produced as a by-product of the extracted oil. The aim of the project is to utilise the associated gas for power generation instead of flaring, and thus displacing the majority of the diesel-powered generators. This would significantly reduce diesel consumption and related emissions. A front-end engineering design (FEED) study has been commissioned for 2018 for what could potentially be a significant multi-year project.

Health & Safety

Tethys Oil is committed to ensuring that all operations that the Group conducts are

HSE Data Blocks 3&4 onshore Oman. Tethys Oil holds 30 percent interest. Operator is CC Energy Development S.A.L. (Oman branch).

Tethys Oil's share of atmospheric emissions from Blocks 3&4, Oman

Emissions via flaring and/or utilisation (tonnes equivalent)	
Sulphur Dioxide	108
Nitrogen Dioxide	23
Carbon Monoxide	166
Carbon Dioxide	73,155
Methane	981
Nitrous Oxide	2

Combined Stationary and mobile emissions from Diesel Fuel (tonnes equivalent)	
Carbon Dioxide	28,545
Methane	1
Nitrous Oxide	0

Water Usage Blocks 3&4

On Blocks 3&4 water is produced to be used for pressure support through reinjection into the oil reservoirs.

(cubic metres)	Total Produced Water	Produced water – reinjected	Produced water – Evaporated
Blocks 3&4	1,465,208	1,313,289	154,088

Blocks 3&4 Health and safety

	Unit of measure	2017 Actual	2016 Actual
Fatalities	Number	1	–
Lost Time Incidents	Number	5	3
Lost Time Incident Frequency	#/mm Hrs	0.94	0.58
Total Recordable Cases	Number	8	8
Total Recordable Case Frequency	#/mm Hrs	1.50	1.56
Road Traffic Accidents	Number	4	3
Road Traffic Accident Frequency	#/mm km	0.34	0.27

Lost Time Incident (LTI) – is the sum of fatalities and injuries where the impacted person is unable to return to work the day (or days) after the injury.

Total Recordable Cases (TRC) – is the total number of incidents reported including Lost Time Incidents and more minor incidents which include restricted work capacity and medical treatment.

done in a safe manner with genuine regard for the wellbeing of the staff, contractors and third parties. To ensure compliance with Tethys Oil's HSE policy, Tethys Oil must foster a culture of transparent decision making, responsibility and thorough planning. The Tethys Oil HSE policy applies not only to Tethys Oil operations but Group representatives should work to ensure that the same standards are applied in projects and joint ventures where the Group has a non-operated interest.

Actions
The Tethys Oil board has raised its HSE concerns with the joint venture and is closely monitoring the further enhancement of HSE standards.

Social Responsibility & Our Relations to Society
Tethys Oil's activities shall strive to create shared prosperity between stakeholders. Tethys Oil seeks to respect and gain the respect of the people and governments of countries in which the Group operates. Good relations with host countries are prerequisites to Tethys Oil's business. Wherever the operations are conducted, the sovereignty of the state is respected and the rule of law, through Tethys Oil's example, should be observed and promoted.

Tethys Oil shall aim to optimise local content in all aspects of its business and to promote the creation of in-country value.

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 local governments 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. Local people and their traditions shall be respected. Tethys Oil strives to encourage local employment and, where appropriate, work with local communities to improve their health, skills and welfare. The Group shall further, where appropriate, engage in capacity building, through the transfer of skills and technologies. Tethys Oil shall refrain from any actions that could have implications for tribal, internal, or other armed conflicts or acts of violence.

CSR Activities
During the course of 2017 Tethys Oil has provided financial support to baby care center in Qal`at al `Awamir, Oman. The center allows female teachers to place their below school-age children in day-care helping them to work in order to support their families.

Tethys Oil has also sponsored nursing students at Sultan Qaboos University (SQU). In 2017 a Nursing Get-together was organised to facilitate collaboration among the nursing students at SQU and the various nursing institutions in Oman and exchange of experiences and expertise between academia and practical institutions related to Nursing.

For several years Tethys Oil has offered scholarships to master students in Geoscience at SQU. The scholarships give more students access to higher education, demonstrates Tethys Oil's long-term commitment to Oman and has improved the Group's ability to recruit local talent. During 2017 Tethys Oil offered two scholarships at SQU.

In 2018 Tethys Oil expects to continue its local CSR activities with focus on activities around Block 49.

Blocks 3&4
The joint venture partnership for Blocks 3&4 have an active In Country Value (ICV) and Corporate Social Responsibility (CSR) Program. During 2017 a total of USD 388,435 was spent on various ICV and CSR projects including a health awareness campaign in Mahout, building a Theatre for the A-Nujabaa School in Adam and sponsoring a Job Seekers Employability Development Program in Muscat.

Our People
Tethys Oil recognises that its performance as a Group is dependent upon the performance of its employees as individuals. The Group's employees are the principle asset of the Group and therefore aims to achieve high employee satisfaction and high standards of performance. Tethys Oil shall respect and promote employee's rights, including freedom of association and the right to collective bargaining. Tethys Oil shall further offer rewarding working conditions and realise each employee's individual potential through training and job promotion. The use of underaged bonded or forced labour, direct or indirect should never occur.

Tethys Oil has implemented a Diversity and non-discrimination policy to ensure that the diversity of the Tethys Oil staff is respected and that all forms of discrimination are prevented.

Tethys Oil's Position on Diversity and Discrimination
- Tethys Oil seeks to recruit and retain the best possible candidates for all positions on the basis of merit regardless of gender, sexual orientation, age, disability, nationality, race or religion.
- The cultural diversity of the Group's employees is an asset and shall be respected. Furthermore, Tethys Oil will not accept any form of harassment or discrimination of its employees for any reason.
- Tethys Oil's staff shall always act with the utmost integrity and respect when dealing with colleagues, partners and society.
- Tethys Oil's staff, partners and contractors should feel free to voice concern or report instances of discrimination without fear of recrimination or harassment.

The diversity and non-discrimination policy covers all aspects of the company's interaction with its employees including, but not limited to, recruitment, retention and remuneration.

Suspected cases of discrimination are to be reported to the nearest supervisor or using the Whistleblower procedure. In 2017 no cases of discrimination were reported.

In 2017 Tethys Oil had a total of 22 employees (average of 19 full time employees) of five nationalities, and a balanced gender representation of (41 percent female and 59 percent male).

Human Rights

Tethys Oil has committed firmly to the United Nations Global Compact (stated further in the Code of Conduct), as well as to 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 relations to business activities, in the Global Compact, the OECD Guidelines for Multinational Enterprises, and the UN Guiding Principles.

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.

In planning of operations, review of new ventures and investment projects, if there is a perceived risk of negative impact on human rights, a thorough review is conducted. During 2017 Tethys Oil did not find that any of its actions constituted a risk to human rights. No grievances constituting abuses of human rights by the company have been reported.

Anti-Corruption, Fraud and Whistleblower Protection

Anti-Corruption

Tethys Oil has zero tolerance for corruption. It is strictly prohibited for Tethys Oil staff or contractors to give, authorize, offer, promise, request, agree or receive gifts, hospitality and entertainment to improperly influence or reward acts or decisions, or as an actual or intended compensation for any improper benefit.

In order to prevent the misuse of public office or company position or power for private gain, or the misuse of private power in relation to business, Tethys Oil has adopted an anti-corruption policy and clear procedures for employees to report suspected cases of corruption. The policy and procedures have been drawn up in accordance with Transparency International's Business Principles for Countering Bribery.

Tethys Oil recognizes that accepting or offering gifts or hospitality of moderate value is customary and in accordance with local business practice in many of the countries that it operates. As a result of this Tethys has implemented a policy requiring all staff, or contractors who receive or offer gifts on behalf of Tethys Oil should seek approval from their supervising manager and that a record is kept of donor, recipient as well as value.

During 2017 no cases of suspected corruption have been reported.

Anti- Fraud and Protection of Group Assets

During the course of the year Tethys Oil has also implemented an anti-fraud policy, aimed at safeguarding the Group and its staff from fraud and dishonest behavior. For the purposes of the policy Tethys Oil has defined fraud as:

"The theft or misuse of Tethys Oil's funds or other resources, by an employee or a third party which may or may not involve the misstatement of financial records to conceal theft or misuse."

The implementation of the policy is aimed at improving all Tethys Oil staff's knowledge and understanding of what constitutes fraud, how to prevent, detect and report suspected fraud and where the responsibilities for investigation lies. The policy also aims to assist in creating an atmosphere of openness and trust where staff feel comfortable and able to raise concerns and sensibly and responsibly.

Whistleblower

Employees are encouraged to report suspected or known cases, which they believe may be illegal or a violation of this Code of Conduct or any Group policies and as a result Tethys Oil has implemented a Whistleblower Policy. The aim of the policy is provide an avenue for Staff to raise concerns about improper, unethical or illegal conduct and to obtain reassurance that they will be protected from reprisals or victimisation for whistleblowing in good faith.

This is a literal translation of the Swedish original report

Auditor's report on the statutory sustainability report

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 statutory sustainability report for the year 2017 on pages 22-25 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 RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is substantially different and 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 opinion.

Opinion

A statutory sustainability report has been prepared.

Stockholm, 4 April 2018
PricewaterhouseCoopers AB

Johan Malmqvist
Authorized Public Accountant
Lead Partner

Ulrika Ramsvik
Authorized Public Accountant

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 2017 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 2017. 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 examined by the Company's auditors, please see page 31.

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 2017 the share capital amounted to MSEK 5.9, represented by 35,543,750 shares, each with a par value of SEK 0.17. All shares represent one vote each. At 31 December 2017, the number of shareholders was 5,043 (5,529). Of the total number of shares, foreign shareholders accounted for approximately 67 percent. Lansdowne Partners LLP is the only shareholder with a holding in excess of 10 percent of shares and votes, with a holding of 3,593,699 shares representing 10.1 percent of shares and votes. Tethys Oil's holding of its own shares amounted to 1,644,163 (4.63%). For further information on share, share capital development and shareholders, see pages 35–37 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 17 May 2017. 179 shareholders were represented at the AGM, representing 41 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 2016 and discharge of liability for the board of directors and the Managing Director
- Re-election of Per Brilioth, Dennis Harlin, Magnus Nordin, Katherine Støvring (since resigned) and Geoffrey Turbott and election of Robert Anderson, Alexandra Herger and Per Seime as directors. Dennis Harlin was elected chairman of the board
- The chairman will be paid a fee of SEK 595,000 and each AGM elected member not employed by the company will be paid SEK 265,000. The chairman of the audit committee will be paid SEK 90,000 and the chairman of the remuneration committee and the possible technical committee will be paid SEK 65,000 respectively and each of the committees' members will be paid SEK 35,000 per committee assignment. The total fees for committee work, including committee chairmen fees shall not exceed SEK 535,000. 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 85.50 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.

Nomination process

In accordance with the nomination committee process approved by the AGM 2017, the nomination committee for the AGM 2018 consists of members appointed by three of the largest shareholders of the Company based on shareholdings as per 30 September 2017 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 3 November 2017, i.e. within the time frame of six months before the AGM as prescribed by the Code.

The nomination committee for the AGM 2018 has held five meetings during its mandate and informal contacts have taken place between such meetings. The nomination committee report, including the final proposals to the AGM 2018, 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 2019

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 has also taken part of the board evaluation. Further, the nomination committee has considered the Company's Board diversity policy in its proposal for board members. The Board diversity policy is available on the Company's website.

The nomination committee for the AGM 2018 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 2017 has consisted of eight directors and no deputies. Dennis Harlin has been chairman of the board. Seven board members are independent from the Company, the Company's management and the Company's larger shareholders, and eight board members are independent from larger shareholders.

For further information on the board members, please see pages 32–33.

Board of directors elected at the AGM 2017

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
Robert Anderson	2017	Member	1953	United Kingdom	Yes	Yes
Per Brilioth	2013	Member	1969	Sweden	Yes	Yes
Alexandra Herger	2017	Member	1957	United States	Yes	Yes
Magnus Nordin	2001	Member	1956	Sweden	No	Yes
Per Seime	2017	Member	1946	Norway	Yes	Yes
Katherine Støvring[1]	2012	Member	1965	United States	Yes	Yes
Geoffrey Turbott	2015	Member	1963	New Zeeland	Yes	Yes

1 Stepped down from the board in March 2018

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 following AGM	
May	Constituent meeting
August	Second quarter report
September–November	Strategy
November	Third quarter report
December	Budget approval
February	Fourth quarter and year-end report
April	Annual report and AGM
May	First quarter report

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 2017

During 2017 the board held 14 meetings of which seven were ordinary and seven extraordinary, in person, via telephone and per capsulam. Attendance at the meetings are shown in the table. Secretary at the meetings was Chief Financial Officer ("CFO") Jesper Alm. Prior to each meeting board members were provided with an agenda and written information on the matters to be covered. Each meeting has included the possibility to discuss without management representatives being present.

Board of directors and committee attendance

Board member	Member Audit committee[1]	Member Remuneration committee[1]	Member Technical committee[1]	Board meetings	Audit committee meetings	Remuneration committee meetings	Technical committee meetings
Dennis Harlin (Chairman)	–	Yes	–	14/14	3/3	4/5	–
Robert Anderson[2]	–	–	Yes (Chairman)	9/9	–	–	4/4
Per Brilioth	–	–	–	12/14	3/3	3/3	–
Alexandra Herger[2]	–	–	Yes	7/9	–	–	4/4
Magnus Nordin	–	–	–	14/14	–	–	–
Richard Rettig[3]				4/5	3/3	3/3	–
Katherine Støvring[4]	Yes	Yes	–	10/14	5/6	3/5	–
Per Seime[2]	Yes	Yes (Chairman)	–	7/9	3/3	2/2	–
Geoffrey Turbott	Yes (Chairman)	–	Yes	14/14	6/6	–	4/4

1 Members as from the AGM 2017
2 Elected to the board at the AGM 2017
3 Stepped down from the board at the AGM 2017
4 Stepped down from the board in March 2018

Board committees

In order to increase the efficiency of its work and enable a more detailed analysis of certain matters, the board has formed committees: Audit, Remuneration and Technical. Committee members are appointed within the board for a period of maximum until the next AGM. The committee's duties and authorities are regulated in the annually approved rules of procedure for each committee. The committees perform monitoring and evaluations resulting in recommendations to the board of directors, where all decision making takes place.

Audit committee

The board has established an audit committee for the period up to and including the AGM 2018, consisting of Geoffrey Turbott as chairman and Katherine Støvring (since resigned) and Per Seime as members of the committee. The audit committee convened six times in 2017. 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.

Members of the committee during 2017 prior to AGM 2017 consisted of Geoffrey Turbott (chairman) with Dennis Harlin, Per Brilioth, Richard Rettig and Katherine Støvring as members.

Remuneration committee

The board has established a remuneration committee for the period up to and including the AGM 2018, consisting of Per Seime as chairman and Katherine Støvring (since resigned) and Dennis Harlin as members. The remuneration committee convened five times in 2017. 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 2018. The remuneration committee reports to the board, normally in conjunction with the following board meeting.

Members of the committee during 2017 prior to AGM 2017 consisted of Per Brilioth (chairman) with Dennis Harlin, Richard Rettig, Katherine Støvring and Geoffrey Turbott as members.

Technical committee

The board has established a technical committee for the period up to and including the AGM 2018, consisting of Robert

Anderson as chairman and Alexandra Herger and Geoffrey Turbott as members. The technical committee convened four times in 2017. The work has mainly focused on following up on work programs and budgets, evaluation of and recommendation on appointment of independent qualified reserve auditor, oversight of the reserves audit process, review of operations management systems and technical review of new ventures projects. The technical committee reports to the board, normally in conjunction with the following board meeting.

The technical committee was established in conjunction with the AGM 2017.

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 2017.

Tethys Oil's auditor: Pricewaterhouse-Coopers 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 2017, remuneration to Pricewaterhouse-Coopers AB amounted to MUSD 0.2 (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 and resources, although such assets are not included in the Company's balance sheet. The independent qualified reserves auditor for the 2017 report was ERC Equipoise Limited ("ERCE"). Independent qualified reserves auditor for the 2016 report was DeGoyler and MacNaughton Canada Limited ("DMCL"). The selection of ERCE followed the closure of DMCL's Calgary office, which office carried out the audit in relation to the 2016 report. For further information, see Reserves on page 9.

Managing Director and executive management

The executive management in Tethys Oil throughout 2017 has consisted of the Managing Director (Magnus Nordin), CFO (Jesper Alm) and the Chief Technical Officer ("CTO") (Fredrik Robelius).

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 is responsible for the day to day business of the Company and 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.

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 arrangements

The board is entitled to deviate from the proposed guidelines if special reasons exist.

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 the share based incentive programs. Variable salary to senior executives will be based upon their individual contribution to the Company's performance. The yearly variable cash salary shall be within the range of one to four 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 three to six months between the Company and other members of executive management. The Managing Director is entitled to twelve month's payments if the Company terminates the contract and other members of executive management are entitled to six to twelve month's payments.

Remuneration to executive management 2017

(amounts in SEK thousands)

	Basic salary	Pension arrangements	Variable salary	Share based long-term incentive	Other benefits	Total 2017	Total 2016
Managing Director	2,186	549	680	1,277	12	4,704	4,164
Other executive management	3,548	317	967	1,161	162	6,155	5,844
Total	**5,734**	**866**	**1,648**	**2,438**	**174**	**10,860**	**10,008**

The increase in remuneration to executive management primarily relate to increased base salaries. For further information, please see note 12.

Remuneration to the board 2017

Remuneration to be paid to the board of directors for the period between the AGMs of 2017 and 2018 amounts to a total of TSEK 2,615, allocated among the board members in the way shown in the below table. The annual general meeting 2017 resolved that remuneration of the chairman of the board of directors shall be TSEK 595 per annum and of the other members TSEK 265 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 the audit committee is TSEK 90 and for each of the remuneration and technical 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.

Remuneration to board and committee members for the period between the AGMs of 2017 and 2018

(amounts in SEK thousands)

Member	Board of directors	Audit committee	Remuneration committee	Technical committee	Separate remuneration	Total
Dennis Harlin	595	–	35	–	–	630
Robert Anderson	265	–	–	65	–	330
Per Brilioth	265	–	–	–	–	265
Alexandra Herger	265	–	–	35	–	300
Magnus Nordin	–	–	–	–	–	–
Per Seime	265	35	65	–	–	365
Katherine Støvring	265	35	35	–	–	335
Geoffrey Turbott	265	90	–	35	–	390
Total	**2,185**	**160**	**135**	**135**	**–**	**2,615**

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. 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 or early stage operated exploration 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, 4 April 2018

Tethys Oil AB (publ)
The board of directors

This is a literal translation of the Swedish original report

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 2017 on pages 26–31 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, 4 April 2018
PricewaterhouseCoopers AB

Johan Malmqvist
Authorized Public Accountant
Lead Partner

Ulrika Ramsvik
Authorized Public Accountant

Board of directors

Member	**Dennis Harlin**	**Rob Anderson**	**Per Brilioth**	**Alexandra Herger**
Function	Chairman of the board and member Remuneration committee	Board member and chairman of the Technical committee	Board member	Board member and member Technical committee
Elected	2015	2017	2013	2017
Year of birth	1941	1953	1969	1957
Education	Military Academy higher technical course	MA Engineering, Christ's College, Cambridge University. Chartered Engineer & Fellow of the Institution of Mechanical Engineers	Bachelor of Science in Business Administration, University of Stockholm, Master of Finance, London Business School	BA Geology, Ohio Wesleyen University and Masters studies Geology, University of Houston
Experience	Brigadier general (ret.). Vice president SAAB/Gripen International 1996–2009. Defence attaché in Switzerland and Italy and seconded to Ministry for Foreign Affairs	Engineer with deep experience in oil installations and major oil and gas field developments	Executive positions in companies investing in emerging markets and the oil and gas sector. Currently CEO of Vostok New Ventures Ltd.	VP Global Exploration at Marathon Oil, executive positions at Shell and Enterprise Oil
Other board duties	Member of the board of directors Harlin Consulting AB	–	Chairman of the board: Pet Sounds AB, Gavald Holdings AB, Pet Sounds Digitalt AB, Pomegranate Investment AB and Thunderroad AB. Board member: Vostok New Ventures Ltd., Kontakt East Holding AB, LeoVegas AB, Avito AB, NMS Invest AB and Vostok Emerging Finance Ltd. Deputy board member: Digital Agency Ryssland AB.	Board member: Panoro Energy ASA and Tortoise Capital Advisors. Member: Women's Leadership Committee, Oil Council and Leadership Texas, Foundation for women's resources
Shares in Tethys Oil (per 31 December 2017)[1]	142,071	–	10,000	–
Board and committee remuneration (SEK thousands)[2]	630	330	265	300
Independent in relation to the Company	Yes	Yes	Yes	Yes
Independent in relation to the Company's larger shareholders	Yes	Yes	Yes	Yes

1 Privately, via company and insurance policy
2 Resolved upon at the AGM 2017

Member	Magnus Nordin	Per Seime	Katerine Støvring	Geoffrey Turbott
Function	Board member and Managing Director	Board member, chairman of the Remuneration committee and member Audit committee	Board member and member Audit committee	Board member, chairman of the Audit committee and member Technical committee
Elected	2001	2017	2012	2015
Year of birth	1956	1946	1965	1963
Education	Bachelor of Arts, University of Lund and Master of Arts, University of California Los Angeles	Master of Law, University of Oslo. Master of Comparative Law, University of Chicago Law School (Oil & Gas)	Master of Law, University of Oslo and M.Sc. in Business Management, London Business School	Former member of New Zealand's institute of chartered accountants
Experience	Several executive positions in different oil companies	Experienced oil and gas lawyer with substantial client base on the Norwegian Continental Shelf. 17 years as partner and head of the oil and gas group in the law firm Simonsen Vogt Wiig, Oslo. International experience as Counsel/ General Counsel for Mobil Oil in Norway, USA and Indonesia. Board chairman for Premier Oil Norge (2004–2013) and Nexen Exploration Norge (2005–2014). General Counsel in Kongsberg Gruppen for nine years.	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	Minotaurus AB, Minotaurus Fastigheter AB and Minotaurus Energi AS	–	–	Board member: Tetbury Forestry Ltd and Progress Land Ltd
Shares in Tethys Oil (per 31 December 2017)[1]	1,464,127	5,000	–	–
Warrants in Tethys Oil (as per 31 December 2017)	2015/18: 78,000 2016/19: 70,000 2017/20: 75,000	–	–	–
Board and committee remuneration (SEK thousands)[2]	–	365	335	390
Independent in relation to the Company	No	Yes	Yes	Yes
Independent in relation to the Company's larger shareholders	Yes	Yes	Yes	Yes

1 Privately, via company and insurance policy
2 Resolved upon at the AGM 2017

Executive management

Magnus Nordin	Jesper Alm	Fredrik Robelius
Board member and Managing Director	Chief Financial Officer and secretary to the board	Chief Technical Officer
Employed since 2004	Employed since 2014	Employed since 2011
Born 1956	Born 1975	Born 1973
Education: Bachelor of Arts, University of Lund and Master of Arts, University of California Los Angeles	Education: M.Sc. Business Administration, University of Lund	Education: PhD Engineering Physics, Uppsala University; Postgraduate Diploma Petroleum Engineering, Heriot-Watt University
Experience: several executive positions in different oil companies	Experience: various positions in Corporate Finance at Pareto Securities	Experience: energy engineering positions in Fortum, petroleum engineering related positions in Tanganyika Oil and Sinopec
Shares in Tethys Oil[1]: 1,464,127	Shares in Tethys Oil[1]: 5,750	Shares in Tethys Oil[1]: 7,000
Warrants[2] 2015/18: 78,000 Warrants[2] 2016/19: 70,000 Warrants[2] 2017/20: 75,000	Warrants[2] 2015/18: 39,000 Warrants[2] 2016/19: 47,000 Warrants[2] 2017/20: 48,000	Warrants[2] 2015/18: 43,000 Warrants[2] 2016/19: 45,000 Warrants[2] 2017/20: 48,000

1 Per 31 December 2017, privately, via company and via insurance policy.
2 Warrants in Tethys Oil, as per 31 December 2017.

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, Tethys Oil 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 2017 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 2017 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 2017, Tethys Oil held 1,644,163 (4.6 percent) of its own shares which were purchased during 2014 to 2017 at an average price of SEK 58.12. 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 amounts to 33,899,587.

Tethys Oil has a warrant programme as part of the remuneration package to employees. Warrants have been issued following the AGMs in 2015, 2016 and 2017. The terms for each warrant series have been recalculated as a consequence of recalculation events. 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
2017/2020	350,000	324,000	85.50	1.00

As the strike price of tranche 2016/2019 is below the share price as per year-end 2017, the warrants of this tranche are included in the fully diluted number of shares, whereas the warrants of the other tranches are not included in the fully diluted number of shares.

Share capital development

Since the company's inception in September 2001 and up to 31 December 2017 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	Spilt 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	956,960	5,741,760	478,480	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	3,300,000	27,280,086	550,000	4,546,618
2009	Exercise of warrants	0.17	769,005	28,049,091	128,167	4,674,849
2010	Share issue	0.17	500,000	28,549,091	83,334	4,758,183
2010	Exercise of warrants	0.17	3,955,398	32,504,489	659,232	5,417,415
2011	Non-cash issue	0.17	39,261	32,543,750	6,543	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 2017, the board of directors proposes to the AGM 2018 a total distribution of SEK 6.00 per share (AGM 2017 SEK 1.00), equal to MSEK 203 (MSEK 34). The distribution, subject to approval by the AGM, is proposed to be made by a cash dividend (SEK 2.00 per share) and by a mandatory share redemption program (SEK 4.00 per share).

Share ownership structure

The 15 largest shareholders in Tethys Oil as per 28 February 2018.

Name	Number of shares	Share of capital and votes
Lansdowne Partners LLP	3,593,699	10.1%
Franklin Templeton	1,804,781	5.1%
Grandeur Peak Global Advisors, LLC	1,501,231	4.2%
Magnus Nordin	1,464,127	4.1%
SEB Fonder	1,160,236	3.3%
Liontrust	1,032,530	2.9%
Avanza Pension	738,426	2.1%
Carl Erik Norman	585,000	1.6%
Russell Investments	584,020	1.6%
John Hancock	447,764	1.3%
Ruffer LLP	440,000	1.2%
Treasurer of the State of North Carolina Equity Investment Fund	422,910	1.2%
Peder Månsson	382,974	1.1%
Norges Bank	349,036	1.0%
Benedicte Berner-Eyde	284,000	0.8%
Total, largest shareholders	**14,790,734**	**41.6%**
Summary, others appr. 5,000 shareholders	19,108,853	53.8%
Outstanding shares	33,899,587	95.4%
Tethys Oil AB	1,644,163	4.6%
Total number of shares (incl. Tethys Oils own holdings)	**35,543,750**	**100.0%**

Source: Modular Finance, 28 Feb 2018

Distribution of shareholdings

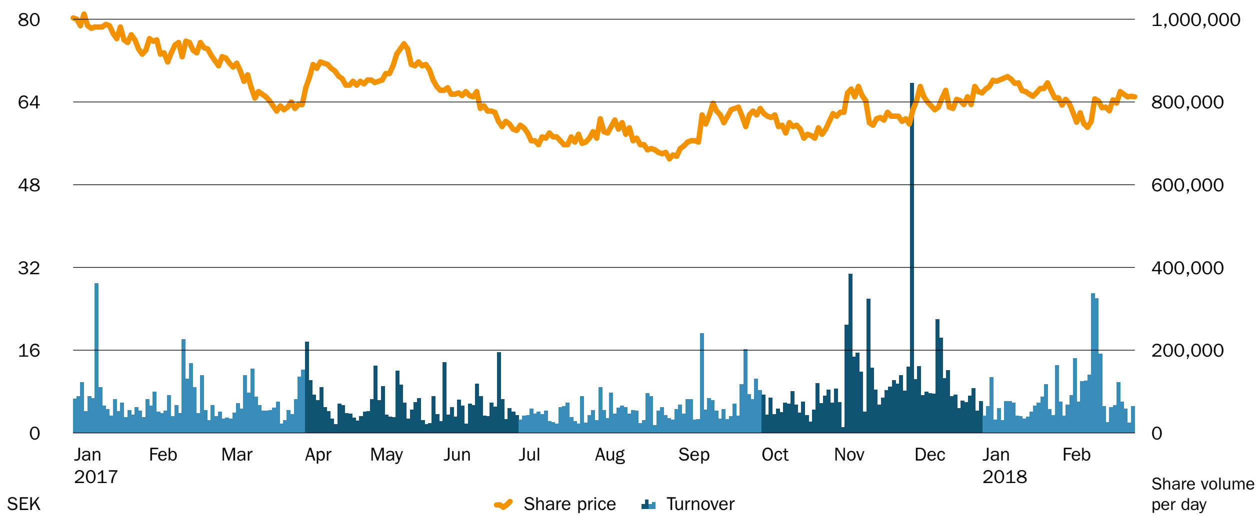
Distribution of shareholdings per 28 February 2018.

Holding	Number of shares	Percentage of shares	Number of shareholders	Percentage of shareholders
1 – 500	435,761	1.23%	3,496	70.06%
501 – 1,000	495,773	1.39%	593	11.88%
1,001 – 5,000	1,351,049	3.80%	562	11.26%
5,001 – 10,000	824,252	2.32%	110	2.20%
10,001 – 15,000	411,017	1.16%	31	0.62%
15,001 – 20,000	482,193	1.36%	27	0.54%
20,001 –	31,543,705	88.75%	171	3.43%
Total	**35,543,750**	**100.00%**	**4,990**	**100.00%**

Share statistics 2017

The final transaction price in 2017 was SEK 65.75 corresponding to a total market capitalization of MSEK 2,229. During the year the price of Tethys Oil's share decreased by 16.5 percent. The highest transaction price in 2017 was SEK 81.75 on 2 January and the lowest was SEK 52.25 on 31 August. The turnover velocity was 61 percent on Nasdaq Stockholm.

Share price development and turnover 2017



Payments to authorities

This report has been prepared in accordance with the law SFS 2015:812 (Lag 2015:812 om rapportering av betalningar till myndigheter) regarding payments to authorities. The reported amounts refer to direct payments in excess of the threshold amount of SEK 860,000 and production sharing for the fiscal year 2017 for the group in which Tethys Oil AB (publ) ("Tethys Oil") is the parent company.

Per project

Project	Production sharing		Contract bonus	License costs	Total
	Barrels ('000)	USD ('000)	USD ('000)	USD ('000)	USD ('000)
Oman					
Blocks 3&4	2,131	111,040	–	–	111,040
Block 49	–	–	100	250	350
Total Oman	**2,131**	**111,040**	**100**	**250**	**111,390**
Total	**2,131**	**111,040**	**100**	**250**	**111,390**

Per Authority

	Production sharing		Contract bonus	License costs	Total
	Barrels ('000)	USD ('000)	USD ('000)	USD ('000)	USD ('000)
Sultanate of Oman – Ministry of Oil & Gas	2,131	111,040	–	100	111,140
Sultanate of Oman – Ministry of Finance	–	–	100	150	250
Total Oman	**2,131**	**111,040**	**100**	**250**	**111,390**
Total	**2,131**	**111,040**	**100**	**250**	**111,390**

Production sharing

The category includes non-cash taxes and compensation to receiving state/authority in barrels of oil from Tethys Oil's working interest share of production. The presented amounts are based on net entitlement and have been valued using the reported average price for the period.

Contract bonus

This pertains to the acquisition of an exploration license for Oman Block 49 where payment was made to Oman's Ministry of Finance.

License costs

This pertains to costs for maintaining the exploration license for Oman Block 49 where payment was made to Oman's Ministry of Oil and Gas and Oman's Ministry of Finance.

Key financial data

Group	2017	2016	2015	2014	2013
Operational items					
Production before government take, bbl	4,475,314	4,478,121	3,578,488	2,807,653	1,709,706
Production per day, bbl	12,261	12,235	9,804	7,692	4,684
Net sales after government take, bbl	2,316,404	2,357,701	1,805,056	1,464,228	850,926
Achieved oil price, USD/bbl	51.8	40.5	58.1	103.9	106.6
Items regarding the income statement and balance sheet					
Revenue, MUSD	119.3	87.1	107.0	149.3	92.2
EBITDA, MUSD	78.2	44.0	58.6	108.0	74.8
EBITDA-margin, %	66%	51%	55%	72%	81%
Operating result, MUSD	38.4	-0.5	23.0	57.1	45.1
Operating margin, %	32%	-1%	21%	38%	49%
Net result, MUSD	33.1	2.7	23.4	49.4	38.1
Net margin, %	28%	3%	22%	33%	41%
Cash and cash equivalents, MUSD	42.0	39.0	51.2	47.8	44.8
Shareholders' equity, MUSD	228.5	196.9	217.2	214.3	168.4
Balance sheet total, MUSD	244.7	239.0	253.6	233.5	238.7
Capital structure					
Equity ratio, %	93%	82%	86%	92%	71%
Leverage ratio, %	neg.	neg.	neg.	neg.	12%
Investments, MUSD	40.4	48.5	40.8	39.3	44.1
Net cash, MUSD	42.0	39.0	51.2	47.8	-14.9
Profitability					
Return on shareholders' equity, %	15.56%	1.29%	10.85%	25.82%	25.56%
Return on capital employed, %	18.97%	4.20%	13.59%	30.87%	29.82%
Other					
Average number of full time employees	19	19	17	18	17
Distribution per share, SEK	1.00	4.00	3.00	n.a.	n.a.
Cash flow from operations per share, USD	1.46	1.53	1.69	2.89	1.45
Number of shares at year end, thousands	35,544	35,544	35,544	35,544	35,544
Of which repurchased shares at period end	1,644,163	1,329,224	1,083,669	298,160	n.a.
Number of shares at year end (excluding repurchased shares), thousands	33,900	34,215	34,460	35,246	35,544
Shareholders' equity per share, USD	6.43	5.54	6.11	6.03	4.74
Weighted number of shares (before dilution) for the year, thousands	34,170	34,324	34,964	35,524	35,544
Weighted number of shares (after dilution) for the year, thousands	34,385	34,372	34,964	35,524	35,544
Earnings per share before dilution, USD	0.97	0.08	0.67	1.39	1.07
Earnings per share after dilution, USD	0.96	0.08	0.67	1.39	1.07

Definitions of key ratios

Relevant reconciliations of alternative performance measures

MUSD	2017	2016	2015	2014	2013
Operating result	38.4	-0.5	23.0	57.1	45.1
Depreciation, depletion and amortization	39.5	44.4	34.7	31.1	21.1
Exploration costs	0.3	0.1	1.0	19.8	8.6
EBITDA	78.2	44.0	58.6	108.0	74.8
Cash and bank	42.0	39.0	51.2	47.8	44.8
Interest bearing debt	–	–	–	–	-59.7
Net cash	42.0	39.0	51.2	47.8	-14.9
Cash flow from operations	50.1	52.7	59.1	102.7	51.5
Investment in oil and gas properties	-40.4	-48.5	-40.8	-39.3	-44.1
Cash flow from operations after investments	9.7	4.2	18.3	63.4	7.4

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.

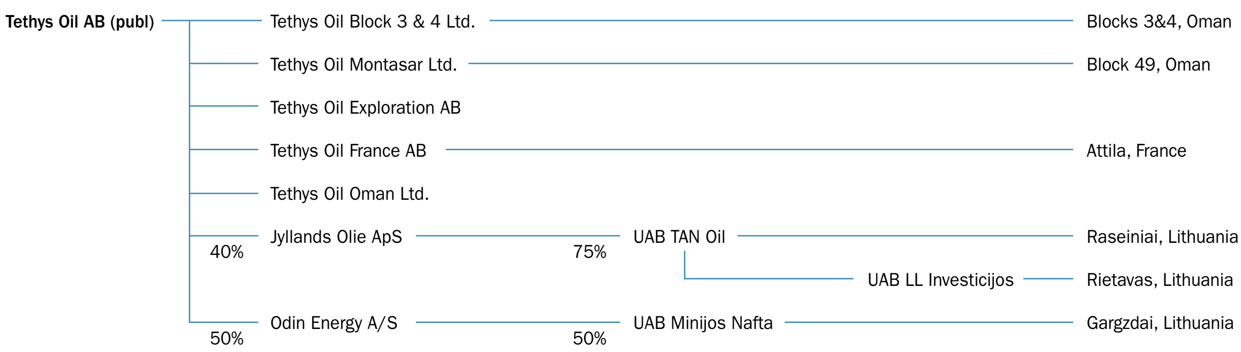
Earnings per share
Net result divided by the number of outstanding shares.

n.a.
Not applicable.

n.m.
Not meaningful.

Administration report

(This is an English translation of the Swedish original)



Ownership in subsidiary companies is 100% unless otherwise stated.

The consolidated financial statements of the Tethys Oil Group (hereafter referred to as "Tethys Oil" 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 2017. 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.

OPERATIONS

Tethys Oil is a Swedish oil company with focus on onshore areas with known oil discoveries. Tethys Oil's core area is Oman, where the Group holds interests in Blocks 3&4 and Block 49. The reserve and resource base on Blocks 3&4 amounts to 22.0 mmbo of 2P reserves and the 17,3 mmbo of 2C Contingent Resources. The average oil production from Blocks 3&4 amounted in 2017 to 12,162 barrels per day. 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.

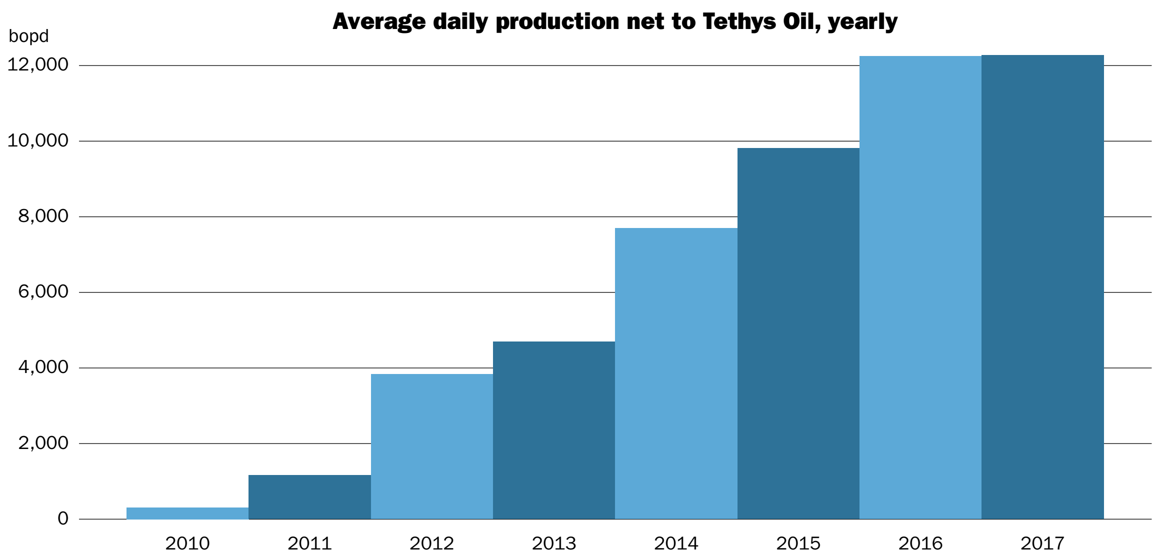
Production

Tethys Oil's core area is onshore Oman, where Tethys Oil holds a 30 percent non-operated interest in exploration and production licence Blocks 3&4 and a 100 percent operated interest in exploration licence Block 49. Tethys Oil also has non-operated interests in three licenses onshore Lithuania and in one license onshore France. The primary production comes from Blocks 3&4. The production in 2017 on Blocks 3&4 was in line with the production in 2016 and amounted to 4.4 mmbo (4.4 mmbo in 2016). The production in the fourth quarter 2017 was slightly lower than the average for the year, and was impacted by a number of factors, some related to mechanical upgrades and repair of downhole pumps and repairs and upgrades of surface components. A shortage of workover capacity led to some wells being shut in longer than planned. Both reserves and production have also been affected by a lower than expected production from part of the Shahd area which has responded less well than anticipated to water injection. The implementation of the Shahd water injection programme will continue and results are being carefully monitored. Production from the appraisal programmes and long term production tests of the new discoveries made in 2017 (Erfan, Ulfa and Samah) are contributing and are expected to contribute to 2018 production. Oman has, following an agreement with OPEC (Declaration of Cooperation OPEC and non-OPEC) in December 2016, imposed a production recommendation relating to Blocks 3&4. The Declaration of Cooperation OPEC and non-OPEC has been extended to cover all of 2018, with a review planned in June 2018. The production recommendation may affect Tethys Oil's oil production and sales. 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 2017, net to Tethys Oil, amounts to MUSD 44.2.

Production from the Gargzdai licence in western Lithuania has gradually decreased during the period. 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	2017	2016	2015	2014	2013
Tethys Oil's share of annual production, bbl					
Oman, Blocks 3&4					
Production	4,439,118	4,436,438	3,539,631	2,765,654	1,663,069
Average daily production, bopd	12,162	12,121	9,698	7,577	4,556
Lithuania, Gargzdai					
Production	36,196	41,684	38,857	42,000	46,637
Average daily production, bopd	99	114	106	115	128
Total production	**4,475,314**	**4,478,121**	**3,578,488**	**2,807,653**	**1,709,706**
Total average daily production, bopd	**12,261**	**12,235**	**9,804**	**7,692**	**4,684**



Reserves and Contingent Resources

Oman

Tethys Oil's net working interest Reserves on Blocks 3&4 in Oman as per 31 December 2017 amount to 15,559 thousand barrels of oil ("mbo") of proven Reserves (1P), 22,044 mbo of proven and probable Reserves (2P) and 32,414 mbo of proven, probable and possible Reserves (3P).

Tethys Oil's net working interest resources of oil in Oman amounts to 10,129 mbo of 1C, 17,264 mbo of 2C and 27,328 mbo of 3C Contingent Resources.

Development of reserves, Blocks 3&4 (audited)

mbo	1P	2P	3P
Total 31 December 2016	14,222	21,408	29,729
Production 2017	-4,439	-4,439	-4,439
Discoveries	3,482	4,879	7,475
Revisions	2,294	196	-350
Total 31 December 2017	**15,559**	**22,044**	**32,414**

In 2017 Tethys Oil replaced 5,776 mbo of 1P Reserves, representing a 1P Reserve replacement ratio (i.e. percentage of 2017 production replaced) of 130 percent; replaced 5,075 mbo of 2P Reserves, representing a 2P Reserve replacement ratio of 114 percent; replaced 7,124 mbo of 3P Reserves, representing a 3P Reserve replacement ratio of 160 percent.

Reserves Blocks 3&4, 31 December 2017 (audited)

mbo	1P	2P	3P
Farha South Field	9,206	11,756	16,061
Shahd Field	3,441	5,634	8,856
Saiwan East Field	631	1,250	1,805
New areas	2,281	3,405	5,692
Total 31 December 2017	**15,559**	**22,044**	**32,414**

In addition to Reserves, Tethys Oil also announces Contingent Resources. The estimated Contingent Resources are contained in the recent discoveries – Ulfa, Erfan and Samah. Development of the Contingent Resources in the new discoveries will be contingent on the ongoing appraisal programme and also a work programme and budget to access these resources.

Contingent Resources Blocks 3&4 (audited)

mbo	1C	2C	3C
Total 31 December 2017	**10,129**	**17,264**	**27,328**

Tethys Oil's 2017 and 2016 year-end Reserves reports were prepared by ERC Equipoise Limited ("ERCE") and DeGolyer and MacNaughton Canada Limited ("DMCL"), respectively, as independent qualified reserves evaluators. ERCE were engaged to prepare the 2017 year-end Reserves report following the closure of DMCL's office in Calgary.

The audits of the Reserves in Oman has been conducted using the 2007 Petroleum Resources Management System (PRMS), sponsored by the Society of Petroleum Engineers (SPE), World Petroleum Council (WPC), American Association of Petroleum Geologists (AAPG) and Society of Petroleum Evaluation Engineers (SPEE).

Revenue

Revenue	2017	2016	2015	2014	2013
Barrels sold, bbl	**2,316,404**	2,357,701	1,805,056	1,464,228	850,926
Underlift (overlift) movement, bbl	**(8,062)**	(50,754)	35,552	(26,088)	13,870
Oil price, USD/bbl	**51.8**	40.5	58.1	103.9	106.6
Net sales, MUSD	**119.9**	95.4	104.9	152.1	90.7
Underlift (overlift), MUSD	**(0.6)**	(2.4)	2.2	(2.8)	1.5
Overlift adjustment reporting error, MUSD	**–**	(5.9)	–	–	–
Revenue, MUSD	**119.3**	**87.1**	**107.0**	**149.3**	**92.2**

Revenue for 2017 is up 37 percent compared to revenue 2016 and the main reason is the increase in oil prices which are up 28 percent between the years and the impact in 2016 from the Export Reporting Error (see note 4 on page 62). There has been an increase in the overlift position during 2017.

During 2017, Tethys Oil sold 2,316,404 barrels of oil from Blocks 3&4, representing a 2 percent decrease in comparison with 2016 when 2,357,701 barrels of oil were sold. This resulted in net sales during 2017 of MUSD 119.9 compared to MUSD 95.4 during 2016. In addition to Net sales, there has been an adjustment for overlift amounting to MUSD 0.6 which together with Net sales adds up to Revenue of MUSD 119.3. In 2016 the overlift adjustment amounted to MUSD 8.3 of which MUSD 5.9 was related to the Export Reporting Error.

The average selling price amounted to USD 51.8 per barrel during 2017, 28 percent higher compared to 2016. The average price for Dated Brent oil during 2017 amounted to USD 54.1 per barrel.

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 to increase the overlift between year-end 2017 and 2016. The total overlift position as per 31 December 2017 is 36,092 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.

Result

Tethys Oil reports a net result after tax for 2017 of MUSD 33.1, representing earnings per share of USD 0.96. The result for 2017 is up compared to 2016. Net result is mainly up due to higher oil prices and the lower 2016 result due to the Export Reporting Error (see note 4 on page 62).

Operating expenses

Operating expenses, Blocks 3&4	2017	2016	2015	2014	2013
Production costs, MUSD	**32.6**	33.5	38.4	32.7	20.5
Well workovers, MUSD	**2.3**	3.1	4.5	4.4	3.0
Total operating expenses, MUSD	**34.9**	**36.5**	**42.9**	**37.2**	**23.5**
Operating expenses per barrel, USD	**7.9**	8.2	12.1	13.4	14.1

Operating expenses during 2017 amounted to MUSD 34.9 compared to MUSD 36.6 during 2016. 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 2013 have been in the range USD 8 to 14 per barrel. The reduction in operating expenses per barrel since 2013 has been expected and is the result of general cost reductions and higher production. During 2017 operating expenses per barrel has been reduced compared with 2016.

Depletion, depreciation and amortisation

DD&A, Blocks 3&4	2017	2016	2015	2014	2013
DD&A, MUSD	**39.5**	44.4	34.6	31.0	21.0
DD&A per barrel, USD	**8.9**	10.0	9.8	11.2	12.6

Depletion, depreciation and amortisation ("DD&A") for 2017 amounted to MUSD 39.5, which is lower than 2016 and attributable to a decreased DD&A rate per barrel. The DD&A charge relates to Blocks 3&4.

Net back

Net back, Blocks 3&4, USD/bbl	2017	2016	2015	2014	2013
Oil price achieved (sales barrels)	**51.8**	40.5	58.1	103.9	106.6
Revenue (after government take)	**27.0**	21.0	30.2	54.0	55.4
Operating expenses	**7.9**	8.2	12.1	13.4	14.1
Net back	**19.1**	**12.8**	**18.1**	**40.6**	**41.3**

The increase in net back per barrel during 2017 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 2017 amounted to MUSD -0.3 compared to MUSD -0.7 during 2016. There has been a long term trend of declining production from Gargzdai, which is in line with expectations.

Administrative expenses

Administrative expenses amounted to MUSD 5.9 for 2017 compared to MUSD 5.8 during 2016. Administrative expenses are mainly salaries, rents, listing costs and external services. Administrative expenses have been stable between years 2017 and 2016.

Tax

In Oman, Tethys Oil's oil and gas operations are governed by EPSA:s 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 2017 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 -3.9 and most of the effect relates to the weaker 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 0.2 and other financial expenditures amounted to MUSD 1.2. The currency exchange effect and fees on long term debt is part of net financial result amounting to MUSD -5.3 for the full year 2017 compared to MUSD 3.2 during 2016.

Investments and work programme

Summary of oil and gas interests (MUSD):

Country	Book value 31 Dec 2017	Book value 31 Dec 2016	Investments Jan–Dec 2017
Oman Blocks 3&4	189.1	190.8	39.9
Oman Block 49	0.4	–	0.4
Lithuania	–	–	–
France	–	–	–
New ventures	0.2	0.3	0.1
Total	**189.7**	**191.1**	**40.4**

During 2017, total investments amounted to MUSD 40.4 of which almost all relate to Blocks 3&4. Investments during the year have been lower than investments in 2016.

Blocks 3&4

Investments Blocks 3&4, MUSD	2017	2016	2015	2014	2013
Drilling	**26.6**	30.3	20.5	19.8	22.0
G&G	**4.2**	4.5	8.9	6.6	9.1
Facilities	**9.1**	13.4	11.3	11.9	8.9
Total investments Blocks 3&4	**39.9**	**48.2**	**40.7**	**38.3**	**40.0**

A total of three rigs and a work over unit were in operation on the blocks at the end of the year. Ongoing maintenance and updating work was conducted on all fields in 2017, including upgrading flowlines and improving water handling.

Block 3: Farha South Field

A total of 14 appraisal/production wells were drilled on the Farha South field in 2017 with the target to reach an optimal development of the field. All wells encountered oil and have been connected to the production system. Five of the 14 wells were drilled in previously undrilled fault blocks AS, AZ, C, O and Y. All wells in the new fault blocks were drilled vertically down to the Barik sandstone.

In addition, 10 water injection wells and one water source well were drilled on the field.

Block 4: Shahd and Saiwan East oil fields

Eight production wells were drilled in previously drilled structures on the Shahd field in 2017 and one well was drilled on the Saiwan East field. One appraisal well, the Shahd Q-1 well, was drilled in a in a previously undrilled structure on the Shahd field. The well encountered oil and was completed as a producer from the Khufai layer. All wells encountered oil.

In addition, two water injection wells were drilled on the Shad field.

Exploration on Blocks 3&4

The exploration well Erfan-1 was completed during the first quarter 2017. Erfan-1 was drilled on a previously undrilled structure located approximately 6 km south west of the Saiwan East field on Block 4. The Khufai formation was the main target. Erfan-1 reached a total depth of 2,548 metres in the first quarter 2017 and the well flowed oil to surface from the Khufai formation. The Erfan discovery was also appraised in 2017 with two successful appraisal wells.

The exploration well Ulfa-1 was drilled in the first quarter 2017 and successfully completed and tested in the second quarter 2017. Ulfa-1 was drilled on a previously undrilled structure located on trend with the Farha South field within the Farha South 3D-area, approximately 20 km north of the Shahd K area. The well was drilled as a deviated well targeting the Barik, Lower Buah and Khufai formations. Ulfa-1 reached a total vertical depth of 4,040 metres and the well flowed oil to surface from the Khufai formation. The appraisal of the Ulfa discovery will start in 2018.

The exploration well Samah-1 was spudded in late August 2017 on Block 3. Samah-1 was drilled vertically to a total depth (TVD) of 4,142 m on a structure located 5 km south of the Ulfa discovery.

The well was completed in November and oil shows were recorded in three formations Middle Buah, Lower Buah and Khufai. The well was tested in late December 2017 with good oil flows to surface.

During the fourth quarter 2017 the exploration well V-1 was drilled on a structure 2 km northeast of the fault block F in Farha South field. The main target of the well was to test the Amin formation as a producer in Block 3. The well was drilled to a total depth (TVD) of 2,530 m but did not encounter any hydrocarbons in the Amin formation and a post drill analysis is on-going. The evaluation will guide the continuing effort of the Amin play work.

The three successful exploration wells have been hooked up to the Blocks 3&4 production system for long term testing.

Seismic acquisition

A new 3D seismic campaign was launched late in the fourth quarter east of the Ulfa discovery. Some 320 km² of seismic were acquired in 2017. The survey continues in 2018 with the target to cover a total area of about 1,200 km². Tethys Oil has so far identified more than ten leads based on the interpretation of old 2D seismic.

Block 49

In December 2017, Tethys Oil was awarded a new exploration license in Oman. Block 49 is an onshore block that covers a prospective but still rather unexplored area in the south western Oman, bordering Saudi Arabia. Tethys Oil is the operator of Block 49 and holds a 100 percent license interest.

The Block 49 licence covers an area of 15,439 km². More than 11,000 km of 2D seismic acquired by previous operators has been made available to Tethys Oil. Nine wells have been drilled within the block boundaries, several of which are reported to have encountered oil shows. Among the legacy wells is the first well ever drilled in Oman in 1955 (Dauka-1).

The EPSA for Block 49 covers an initial exploration period of three years with an optional extension period of another three years. In case of a commercial oil or gas discovery, the EPSA will be transformed into a 15 year production license which can be extended for another five years. In case of a commercial discovery Oman Government Company, has a back-in right for a 30 percent interest against refunding of past expenditure. The initial work commitments during the first period include geological studies, seismic acquisition and processing and exploratory drilling.

Geological studies and studies of legacy seismic data is ongoing.

New ventures

A number of new ventures projects have been reviewed and several continue to be evaluated.

Associated companies

Lithuania

As per 31 December 2017, the value of the shareholding in the two associated Danish companies holding the interests in Lithuanian licenses, amounted to MUSD 0.0 compared to MUSD 0.3 at the end of 2016. The reduction in book value is explained by a loss from associated companies of MUSD -0.3 (-0.7). The book value related to Minijos Nafta (Gargzdai) is zero and as there are no formal or informal obligations related to Minijos Nafta, Tethys Oil does not recognize any negative net result from Minijos Nafta.

Production on the Gargzdai licence has decreased following natural decline of the wells. Old 2D seismic covering the Rietavas licence has been reprocessed and interpreted to further evaluate two leads.

Liquidity and financing

Cash and bank and Net cash as per 31 December 2017 amounted to MUSD 42.0 compared to MUSD 39.0 as per 31 December 2016.

In May 2017 a dividend of SEK 1.00 per share was paid to shareholders, which in total amounted to MUSD 3.9. Furthermore MUSD 2.3 was used to repurchase 314,939 shares during the twelve months ending 31 December 2017.

During the twelve months ended 31 December 2017, the cash flow from operations amounted to MUSD 50.1 and investments in oil and gas amounted to MUSD 40.4. For the twelve months 2017 the cash flow from operations after investments in oil and gas amounted to MUSD 9.7.

Tethys Oil's operations on Blocks 3&4 and Block 49, 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 2017 amounting to MSEK 85.0 compared to MSEK 23.4 for 2016. Administrative expenses amounted to MSEK 31.2 for 2017 compared to MSEK 31.3 for 2016. Net financial result amounted to MSEK 108.1 during 2017 compared to MSEK 46.6 for 2016. Currency exchange losses related to loans to subsidiaries that were offset by dividends from group companies is the main reason for the positive net financial result during the year.

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. On Block 49, Tethys Oil's initial work commitments during the first period of three years include geological studies, seismic acquisition and processing and exploratory drilling. 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, if any, 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 AGM of shareholders on 17 May 2017 Per Brilioth, Magnus Nordin, Dennis Harlin, Katherine Støvring (since resigned) and Geoffrey Turbott were re-elected members of the board. Alexandra Herger, Rob Anderson and Per Seime were newly elected members of the board. 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 14 meetings during 2017. The eight members of the board have consisted of seven non-executive directors. These seven non-executive directors are also members of the audit committee and the remuneration committee. Geoffrey Turbott is chairman of the audit committee, Per Seime is chairman of the remuneration committee and Rob Anderson is chairman of the technical committee. For guidelines for remuneration to management, see note 12.

Organisation

At the end of the year, Tethys Oil had an average number of full time employees of 19 (19). Of these, 7 (7) 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.

Sustainability report

In accordance with the Swedish Annual Accounts Act (ÅRL chapter 6 11§) Tethys Oil has opted to issue the sustainability report as a document separate from the financial statements. The sustainability report can be found on pages 22 to 25 of this annual report.

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 Montasar Limited, Tethys Oil France AB and Tethys Oil Exploration AB. The Tethys Oil Group was established 1 October 2003. The Group has branch offices in Muscat, Oman and Dubai, the United Arab Emirates.

Share data

As per 31 December 2017, 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 2016. Tethys Oil has a warrant based incentive programme for employees, for further information please see Note 21 on page 68. As the subscription price is below the share price for one tranche of the incentive program as per the 31 December 2017, the warrants of this tranche are included in the diluted number of shares which amount to 35,895,500 per 31 December 2017. If the subscription prices have been below the share price during the reporting period, the dilution effects have been included in the weighted average number of shares in circulation after dilution.

As per 31 December 2017, Tethys Oil held 1,644,163 of its own shares which have been purchased since commencement of the programme during the fourth quarter 2014. The purpose of the repurchasing program is to optimize the capital structure and to enable any repurchased shares to be used as payment in connection with, or financing of, acquisitions of companies or businesses. 314,939 shares were purchased during 2017. 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 2017 before dilution is 34,170,474 and after dilution 34,385,463.

After 31 December 2017 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

See note 25.

Risk and uncertainties

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

Appropriation of profit

The board of directors proposes a dividend of SEK 2.00 per share (AGM 2017: SEK 1.00) equal to MSEK 67.8 (MSEK 34.2) or MUSD 8.0 (MUSD 3.6). The board of directors proposes that the dividend is to be paid in two equal instalments of SEK 1.00 per share each, payable in May and November 2018. Proposed record dates are May 14, 2018 and November 14, 2018. The board of directors proposes an extraordinary distribution of SEK 4.00 per share by way of a mandatory share redemption programme following the AGM 2018 equal to MSEK 135.6 or MUSD 16.1.

It is also proposed that the balance of retained earnings after the dividend be retained in the business as described below.

MSEK	
Retained earnings	218.1
Profit for the year	85.0
	303.1

The Board of Directors proposes that these earnings be appropriated as follows:	
To the shareholders, a distribution of SEK 2.00 per share	67.8
To the shareholders, an extraordinary distribution of SEK 4.00 per share	135.6
To be retained in the business	99.7
	303.1

Cash dividend

The board of directors' proposal consists of a cash dividend of SEK 2.00 per share amounting to SEK 67,799,174 and an extraordinary distribution of SEK 4.00 per share amounting to SEK 135,598,348. The dividend and extraordinary distribution is subject to approval at the AGM 2018. The preliminary record day for the dividend is 14 May 2018 and 14 November 2018.

As per 31 December 2017, the Group's and the parent company's equity ratio amounted to 93.4 percent and 96.7 percent, respectively. After the dividend, the Group's and the parent company's equity ratio will amount to 92.6 percent and 93.2 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, 9 May 2018.

Consolidated statement of comprehensive income

1 January – 31 December, MUSD	**Note**	**2017**	**2016**
Revenue	3, 4	119.3	87.1
Operating expenses	9	-34.9	-36.6
Gross profit		**84.4**	**50.5**
Depletion, depreciation and amortisation	3, 8,	-39.5	-44.4
Exploration costs	8	-0.3	-0.1
Share of net profit/loss from associates	6	-0.3	-0.7
Administrative expenses	10-12, 21	-5.9	-5.8
Operating result		**38.4**	**-0.5**
Financial income and similar items	13	3.0	9.4
Financial expenses and similar items	14	-8.3	-6.2
Net financial result		**-5.3**	**3.2**
Result before tax		**33.1**	**2.7**
Income tax	15	–	–
Result for the period		**33.1**	**2.7**
Other comprehensive result			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences		4.5	-7.0
Other comprehensive result for the period		**4.5**	**-7.0**
Total comprehensive result for the period		**37.6**	**-4.4**
Attributable to:			
Shareholders in the parent company		37.6	-4.4
Non controlling interest		–	–
Number of shares outstanding	17	35,543,750	35,543,750
Number of shares outstanding (after dilution)	17	35,895,500	36,232,460
Weighted average number of shares (before dilution)	17	34,170,474	34,324,020
Weighted average number of shares (after dilution)	17	34,385,463	34,372,065
Earnings per share (before dilution), USD	17	0.97	0.08
Earnings per share (after dilution), USD	17	0.96	0.08

Consolidated balance sheet

As at 31 December, MUSD	Note	2017	2016
ASSETS			
Non current assets			
Oil and gas properties	8	189.7	191.1
Office equipment		0.0	0.1
Investment in associates	6	0.0	0.3
		189.7	**191.5**
Current assets			
Other receivables	16	12.7	7.4
Prepaid expenses		0.3	1.1
Cash and cash equivalents		42.0	39.0
		55.0	**47.5**
TOTAL ASSETS		**244.7**	**239.0**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	17		
Share capital		0.8	0.8
Additional paid in capital		71.0	71.0
Reserves		3.4	-1.1
Retained earnings		153.3	126.2
Total shareholders' equity		**228.5**	**196.9**
Non current liabilities			
Non current provisions	7	9.1	8.8
		9.1	**8.8**
Current liabilities			
Current provisions	7	1.0	1.9
Accounts payable and other current liabilities	19	6.1	31.4
Loan facility	18	–	–
		7.1	**33.3**
Total liabilities		**16.2**	**42.1**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**244.7**	**239.0**

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 2016	**0.8**	**71.0**	**5.9**	**139.5**	**217.2**
Comprehensive income					
Result for the year 2016	–	–	–	2.7	**2.7**
Currency exchange differences for the year 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**	**196.9**
Opening balance 1 January 2017	**0.8**	**71.0**	**-1.1**	**126.2**	**196.9**
Comprehensive income					
Result for the year 2017	–	–	–	33.1	**33.1**
Currency exchange differences for the year 2017	–	–	4.5	–	**4.5**
Total comprehensive income	–	–	**4.5**	**33.1**	**37.6**
Transactions with owners					
Purchase of own shares	–	–	–	-2.3	**-2.3**
Dividends paid	–	–	–	-3.9	**-3.9**
Incentive programme	–	–	–	0.3	**0.3**
Total transactions with owners	**–**	**–**	**–**	**-5.9**	**-5.9**
Closing balance 31 December 2017	**0.8**	**71.0**	**3.4**	**153.3**	**228.5**

Consolidated cash flow statement

1 January – 31 December, MUSD	Note	2017	2016
Cash flow from operations			
Operating result		38.4	-0.5
Interest received	13	–	–
Interest paid	14	-0.2	-0.7
Income tax		–	–
Adjustment for exploration costs	8	0.3	0.1
Adjustment for depletion, depreciation and other non-cash related items	8	38.2	45.8
Total cash flow from operations before change in working capital		**76.7**	**44.7**
Change in receivables		-5.4	-1.8
Change in liabilities		-21.2	9.8
Cash flow from operations		**50.1**	**52.7**
Investment activity			
Investment in oil and gas properties	8	-40.4	-48.5
Cash from associated companies, net	6	–	0.1
Cash flow from investment activity		**-40.4**	**-48.4**
Financing activity			
Purchase of own shares	17	-2.3	-1.7
Share redemption		–	-11.6
Dividend		-3.9	-4.1
Cash flow from financing activity		**-6.2**	**-17.4**
Period cash flow		**3.5**	**-13.1**
Cash and cash equivalents at the beginning of the period		39.0	51.2
Exchange gains/losses on cash and cash equivalents		-0.5	0.9
Cash and cash equivalents at the end of the period		42.0	39.0

Parent Company income statement

1 January – 31 December, MSEK	**Note**	**2017**	**2016**
Other income	5	10.9	10.6
Share of net profit/loss from associates	6	-2.8	-5.6
Administrative expenses	10–12, 21	-31.2	-31.3
Operating result		**-23.1**	**-26.3**
Financial income and similar items	13	164.6	85.1
Financial expenses and similar items	14	-53.6	-31.5
Write down of shares in subsidiaries	20	-2.9	-7.0
Net financial result		**108.1**	**46.6**
Appropriations	24	–	3.1
Result before tax		**85.0**	**23.4**
Income tax	15	–	–
Result for the year[1]		**85.0**	**23.4**

1 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

As at 31 December, MSEK	**Note**	**2017**	**2016**
ASSETS			
Non-current assets			
Other fixed assets		0.1	0.2
Shares in subsidiaries	20	0.9	1.0
Long term receivables from group companies		355.6	275.3
Investment in associates	6	0.0	2.7
		356.6	**279.2**
Current assets			
Other receivables	16	5.5	2.8
Prepaid expenses		0.7	0.7
Cash and cash equivalents		58.2	104.6
		64.4	**108.1**
TOTAL ASSETS		**421.0**	**387.3**
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		-262.9	-235.2
Result for the year		85.0	23.4
Total shareholders' equity		**380.1**	**346.2**
Current liabilities			
Accounts payable and other current liabilities	19	5.7	3.8
Other current liabilities to group companies		35.2	37.3
Total liabilities		**40.9**	**41.1**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**421.0**	**387.3**

Parent Company statement of changes in equity

	Restricted equity		Unrestricted equity			
MSEK	Share capital	Statutory reserve	Share premium reserve	Retained earnings	Net result	Total equity
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 2016	–	–	–	–	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**
Opening balance 1 January 2017	**5.9**	**71.1**	**481.0**	**-235.2**	**23.4**	**346.2**
Transfer of prior year net result	–	–	–	23.4	-23.4	**–**
Comprehensive income						
Result for the year 2017	–	–	–	–	85.0	**85.0**
Period result	**–**	**–**	**–**	**–**	**85.0**	**85.0**
Total comprehensive income	**–**	**–**	**–**	**–**	**85.0**	**85.0**
Transactions with owners						
Purchase of own shares			–	-19.3	–	**-19.3**
Dividends paid				-34.2	–	**-34.2**
Incentive programme	–	–	–	2.4	–	**2.4**
Total transactions with owners			**–**	**-51.1**	**–**	**-51.1**
Closing balance 31 December 2017	**5.9**	**71.1**	**481.0**	**-262.9**	**85.0**	**380.1**

Parent Company cash flow statement

1 January – 31 December, MSEK	**Note**	**2017**	**2016**
Cash flow from operations			
Operating result		-23.1	-26.3
Interest received	13	0.0	0.0
Interest paid	14	0.0	0.0
Adjustment for non cash related items		-3.1	9.5
Total cash flow from operations before change in working capital		**-26.2**	**-16.8**
Change in receivables		-2.7	-1.2
Change in liabilities		-0.2	-33.9
Cash flow from operations		**-29.1**	**-51.9**
Investment activity			
Dividend from associated companies	6	–	6.4
Investment in long term receivables		43.4	-71.9
Cash flow from investment activity		**43.4**	**-65.6**
Financing activity			
Purchase of own shares	17	-19.3	-14.6
Dividends paid		-34.2	-34.4
Share redemption		–	-102.6
Cash flow from financing activity		**-53.5**	**-151.7**
Cash flow for the year		**-39.2**	**-269.2**
Cash and cash equivalents at the beginning of the year		104.6	365.8
Exchange gains on cash and cash equivalents		-7.2	8.0
Cash and cash equivalents at the end of the year		58.2	104.6

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 4 April 2018.

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 2016 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 2017

IASB has issued several amendments to financial standards effective as from 1 January 2017 of which no one has had any material impact on the consolidated financial statements of the Group.

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 2017, 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 has assessed the impact of IFRS 15 and has concluded that the standard will not cause any change in timing, nor have any material effects on the Group financial reporting apart from changes in presentation where the liftings position will be separately disclosed. The effect of the standard on the Group reporting is illustrated in the comparative table below.

Reporting of revenue under old accounting principles as presented in disclosures

MUSD	2017	2016	2015	2014	2013
Net sales,	119.9	95.4	104.8	152.1	90.7
Underlift (overlift)	-0.6	-2.4	2.2	-2.8	1.5
Overlift adjustment Export Reporting Error	–	-5.9	–	–	–
Revenue	**119.3**	**87.1**	**107.0**	**149.3**	**92.2**

Reporting of revenue and other gains and losses under new accounting principles as presented in disclosures

MUSD	2017	2016	2015	2014	2013
Revenue	119.9	95.4	104.8	152.1	90.7
Underlift (overlift)	-0.6	-2.4	2.2	-2.8	1.5
Overlift adjustment Export Reporting Error	–	-5.9	–	–	–
Net income from oil production	**119.3**	**87.1**	**107.0**	**149.3**	**92.2**

MUSD	2017	2016	2015	2014	2013
EBITDA, old accounting principles	78.2	44.0	58.6	108.0	74.8
EBITDA, new accounting principles	78.2	44.0	58.6	108.0	74.8
Earnings per share, old accounting principles, USD per share	0.96	0.08	0.67	1.39	1.07
Earnings per share, new accounting principles, USD per share	0.96	0.08	0.67	1.39	1.07
Shareholders' equity, old accounting principles	228.5	196.9	217.2	214.3	168.4
Shareholders' equity, new accounting principles	228.5	196.9	217.2	214.3	168.4

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. The standard is effective for accounting periods beginning on or after 1 January 2018. The Group has elected not to adopt the standard early. The Group has assessed the impact of IFRS 9 and has concluded that the standard will not have any material effects on the Group financial reporting.

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.

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 2017		31 December 2016	
Currency	**2017 Average**	**2017 Period end**	**2016 Average**	**2016 Period end**
SEK/USD	8.67	8.44	8.63	9.42
SEK/EUR	9.73	10.00	9.52	9.80

Segment reporting

Operating segments are based on geographic perspective and reported in a manner consistent with the internal reporting provided to the Executive Management.

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 testing. 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 when necessary 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.

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 it becomes a party to the instrument's contractual terms. Tethys Oil 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, 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.

Should any Group company purchase parent company shares (repurchase of own shares) the proceeds including any directly attributable transaction costs (net after tax) will reduce equity attributable to the shareholders of the parent company until the shares are annulled or realized. If the shares are realized, proceeds net after directly attributable transaction costs and tax effects are shown in equity attributable to the shareholders of the parent company.

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 Tethys Oil 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 Tethys Oil 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 Tethys Oil'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 2017.

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)	33.1	33.1
Shift in oil price (USD/barrel)	+5	-5
Total effect on net result (MUSD)	**11.4**	**-11.4**

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 2017, 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:

	2017	2016
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)	33.1	33.1
Shift in SEK/USD	+10%	-10%
Total effect on net result (MUSD)	**3.3**	**-3.3**

Liquidity risks and capital risk
By operating in several countries, Tethys Oil is exposed to currency fluctuations. 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, 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 Tethys Oil'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 2017**		**31 December 2016**	
MUSD	**<1 year**	**1–3 year**	**<1 year**	**1–3 year**
Accounts payables and other liabilities	6.1	–	31.4	–
Total	**6.1**	**–**	**31.4**	**–**

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 2017 the Group's receivables on oil sales amounted to MUSD 12.1 (MUSD 7.1), 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.

IAS 39 valuation categories and related balance sheet items

	31 December 2017		
MUSD	**Financial assets and liabilities at fair value through profit or loss**	**Financial assets at amortised cost**	**Financial liabilities at amortised cost**
Other receivables	–	12.7	–
Cash and bank	–	42.0	–
Accounts payable and other current liabilities	–	–	6.1

	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 payable and other current liabilities	–	–	31.4

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.

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

Tethys Oil continuously assesses its producing oil and gas properties for any need for impairment testing. 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 when necessary 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.

Tax

Tethys Oil 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. The operating result for each segment is presented below. Revenue and income relate to external (non-intra group) transactions.

	Group income statement Jan–Dec 2017				
MUSD	**Oman**	**Lithuania**	**Sweden**	**Other**	**Total**
Revenue	119.3	–	–	–	**119.3**
Operating expenses	-34.9	–	–	–	**-34.9**
Depreciation, depletion and amortisation	-39.5	–	–	–	**-39.5**
Exploration costs	–	–	–	-0.3	**-0.3**
Other income	–	–	–	–	**–**
Net profit/loss from associates	–	-0.3	–	–	**-0.3**
Administrative expenses	-2.0	–	-3.5	-0.4	**-5.9**
Operating result	**42.9**	**-0.3**	**-3.5**	**-0.7**	**38.4**
Total financial items					**-5.3**
Result before tax					**33.1**
Income tax					**–**
Result for the period					**33.1**

	Group income statement Jan–Dec 2016				
MUSD	**Oman**	**Lithuania**	**Sweden**	**Other**	**Total**
Revenue	87.1	–	–	–	**87.1**
Operating expenses	-36.6	–	–	–	**-36.6**
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	**4.4**	**-0.7**	**-3.6**	**-0.5**	**-0.5**
Total financial items					**3.2**
Result before tax					**2.7**
Income tax					**–**
Result for the period					**2.7**

Oman is Tethys Oil's only oil producing area from which revenue is recorded as per 31 December 2017 (and comparative periods). 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 1 regarding Credit risk exposure on accounts receivables.

Note 4, Revenue

MUSD	**2017**	**2016**
Net sales,	119.9	95.4
Underlift (overlift)	-0.6	-2.4
Overlift adjustment Export Reporting Error	–	-5.9
Revenue	**119.3**	**87.1**

2016 includes an overlift adjustment of MUSD 5.9 following the estimated effects of an 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 has reduced Tethys Oil's 2016 revenue and result with that amount.

Tethys Oil sells all of its oil to Mitsui Energy Trading Singapore, which is part of Mitsui & Co Ltd. All oil sales come from Blocks 3&4 Oman and are made on a monthly basis. Tethys Oil's average selling price is based on the monthly average price of the two month future contract of Oman blend as traded on the Dubai Mercantile Exchange, including trading and quality adjustments.

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 2017 amounted to MSEK 10.9 compared to MSEK 10.6 in 2016. In case of Tethys Oil being the operator in joint operations, these administrative expenditures are, through the above, also funded by the partners if such partners exist. The chargeout to joint operations 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 to the extent related to interest not held by Tethys Oil. Tethys Oil is as per 31 December 2017 operator in Block 49, Oman and hold 100% of the license interest.

Note 6, Associated companies

Tethys Oil holds an indirect interest of three Lithuanian companies holding three licences; Gargzdai, Rietavas and Raseiniai 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 2017.

	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 2017	31 Dec 2016
1 January	**0.3**	**1.7**
Tethys Oil's share of net profit from associated companies	-0.3	-0.7
Dividend from associated companies	–	-0.7
Exchange differences	–	–
Balance end of period	**–**	**0.3**

Note 7, Provisions

Tethys Oil estimates that Tethys Oil's share of site restoration regarding Blocks 3&4 amounts to MUSD 6.1 (4.8). As a consequence of this provision, oil and gas properties have increased with an equal amount. The change in provision follows an annual review of the site restoration calculation where the number of wells drilled is one of the main components that affect the provision's net present value.

Tethys Oil has a non-current provision of MUSD 3.0 (4.0) from 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 1.0 (1.9) MUSD related to the Export Reporting Error.

MUSD	Abandonment provision	Other provisions	Total
1 January 2017	4.8	5.9	10.7
Additions	–	–	–
Changes in estimates	1.0	-1.9	-0.9
Unwinding of discount	0.3	–	0.3
31 December 2017	**6.1**	**4.0**	**10.1**
Current	–	1.0	1.0
Non-current	6.1	3.0	9.1
Total	**6.1**	**4.0**	**10.1**

MUSD	Abandonment provision	Other provisions	Total
1 January 2016	4.0	–	4.0
Additions	–	5.9	5.9
Changes in estimates	0.5	–	0.5
Unwinding of discount	0.3	–	0.3
31 December 2016	**4.8**	**5.9**	**10.7**
Current	–	1.9	1.9
Non-current	4.8	4.0	8.8
Total	**4.8**	**5.9**	**10.7**

Note 8, Oil and gas properties

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 Block 49 the initial work commitments during the first period include geological studies, seismic acquisition and processing and exploratory drilling. 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.

Country	Licence	Phase	Expiration date	Tethys Oil	Partners (operator in bold)
Oman	Blocks 3&4	Production	July 2040	30%	**CCED,** Mitsui, Tethys Oil
Oman	Blocks 49	Exploration[1]	Nov 2020[1]	100%	**Tethys Oil**
France	Attila	Exploration	Feb 2019	40%	**Galli Coz,** Tethys Oil
Lithuania	Gargzdai[2]	Production	No expiration date	25%	Odin, GeoNafta, Tethys Oil
Lithuania	Rietavas[2]	Exploration	No expiration date	30%	Odin, Tethys Oil, private investors
Lithuania	Raseiniai[2]	Exploration	Sep 2022	30%	Odin, Tethys Oil, private investors

1 The exploration and production sharing agreement (EPSA) for Block 49 covers an initial exploration period of three years with an optional extension period of another three years. In case of a commercial oil or gas discovery, the EPSA will be transformed in to a 15 year production license which can be extended for another five years. In case of a commercial discovery Oman Government Company, has a right to acquire up to a 30% interest in Block 49 against refunding of past expenditure. The initial work commitments during the first period include geological studies, seismic acquisition and processing and exploratory drilling.

2 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	31 Dec 2017	31 Dec 2016
Producing cost pools	189.1	190.8
Non-producing cost pools	0.6	0.3
Total oil and gas properties	**189.7**	**191.1**

MUSD Country	Asset type	Book value 31 Dec 2017	Other non-cash adjustments 1 Jan–31 Dec 2017	DD&A 1 Jan–31 Dec 2017	Exploration costs 1 Jan–31 Dec 2017	Investments 1 Jan–31 Dec 2017	Book value 1 Jan 2017
Oman Blocks 3&4	Producing	189.1	-2.0	-39.5	–	39.9	190.8
Oman Block 49	Non-producing	0.4	–	–	–	0.4	–
France Attila	Non-producing	–	–	–	–	–	–
New ventures	Non-producing	0.2	–	–	-0.3	0.2	0.3
Total		**189.7**	**-2.0**	**-39.5**	**-0.3**	**40.4**	**191.1**

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 49	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 **Depletion**	Oman Blocks 3&4	Total
1 January 2017	-138.9	-138.9
Depletion charge for the year	-39.5	-39.5
Impairment	–	–
Disinvestments	–	–
31 December 2017	**-178.4**	**-178.4**

MUSD **Depletion**	Oman Blocks 3&4	Total
1 January 2016	-94.5	-94.5
Depletion charge for the year	-44.4	-44.4
Impairment	–	–
Disinvestments	–	–
31 December 2016	**-138.9**	**-138.9**

Impairment testing

In Tethys Oil's assessment of the need for 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 2017 was used. There has been no impairment of assets during 2017 or 2016.

Exploration costs during 2017 amounted to MUSD 0.3 and were mainly related to new venture projects which were rejected or no longer pursued. Exploration costs during 2016 amounted to MUSD 0.1.

MUSD **Investments Block 3&4** **Categories**	2017	2016
Drilling	26.6	30.3
G&G	4.2	4.5
Facilities	9.1	13.4
Total	**39.9**	**48.2**

MUSD **Oil & gas properties Block 3&4** **Categories**	31 Dec 2017	31 Dec 2016
Drilling	98.9	96.2
G&G	24.4	25.2
Facilities	65.8	69.4
Total	**189.1**	**190.8**

Note 9, Operating expenditures

	Group MUSD		**Parent** MSEK	
Operating expenditures	**2017**	**2016**	**2017**	**2016**
Production costs	-32.6	-33.5	–	–
Well workovers	-2.3	-3.1	–	–
Total	**-34.9**	**-36.6**	**–**	**–**

Note 10, Remuneration to Company auditor

	Group MUSD		**Parent** MSEK	
Remuneration to company auditor include:	**2017**	**2016**	**2017**	**2016**
PwC:				
Audit fee	-0.2	-0.1	-1.0	-1.0
Audit-related fees	-0.0	-0.0	-0.0	-0.2
Tax consultation	–	–	–	–
Other	–	–	–	–
Total	**-0.2**	**-0.1**	**-1.0**	**-1.2**

Of the Group total during 2017, MUSD 0.1 (0.1) has been in relation to PwC Sweden.

Note 11, Administrative expenses

	Group MUSD		Parent MSEK	
Administrative expenses	**2017**	**2016**	**2017**	**2016**
Personnel costs	-3.6	-3.5	-16.5	-16.5
Rent	-0.4	-0.3	-1.9	-1.8
Other office costs	-0.1	-0.1	-0.3	-0.5
Listing costs	-0.1	-0.1	-0.7	-0.8
Costs of external relations	-0.2	-0.1	-1.4	-1.1
Other costs	-1.5	-1.7	-10.4	-10.5
Total	**-5.9**	**-5.8**	**-31.2**	**-31.3**

Note 12, Employees

Average number of full time employees per country	2017		2016	
	Total	**Total men**	**Total**	**Total men**
Parent company				
Sweden	7	4	7	5
Total parent company	**7**	**4**	**7**	**5**
Subsidiary companies in Sweden	**–**	**–**	**–**	**–**
Subsidiary companies foreign				
Oman	11	8	10	7
United Arab Emirates	1	0	2	1
Total subsidiary companies foreign	**12**	**8**	**12**	**8**
Total group	**19**	**12**	**19**	**13**

MUSD	2017		2016	
Salaries, other remuneration and social costs	**Salaries, other remune-ration**	**Social costs**	**Salaries, other remune-ration**	**Social costs**
Parent company				
Sweden	-1.4	-0.5	-1.4	-0.4
Total parent company	**-1.4**	**-0.5**	**-1.4**	**-0.4**
Subsidiary companies in Sweden				
Subsidiary companies foreign				
Oman	-1.5	–	-1.3	–
United Arab Emirates	-0.2	–	-0.3	–
Total subsidiary companies foreign	**-1.7**	**–**	**-1.6**	**–**
Total group	**-3.1**	**-0.5**	**-3.1**	**-0.4**

MUSD	2017		2016	
Salaries and other remuneration distributed between the board and other employees	**Board and Managing Director**	**Other employees**	**Board and Managing Director**	**Other employees**
Parent company				
Sweden	-0.5	-0.9	-0.5	-0.9
Total parent company	**-0.5**	**-0.9**	**-0.5**	**-0.9**
Subsidiary companies in Sweden	**–**	**–**	**–**	**–**
Subsidiary companies foreign				
Oman	–	-1.5	–	-1.3
United Arab Emirates	–	-0.2	–	-0.3
Total subsidiary companies foreign	**–**	**-1.7**	**–**	**-1.6**
Total group	**-0.5**	**-2.6**	**-0.5**	**-2.6**

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

A termination period of twelve months applies between the Company and Managing Director and three to six months between the Company and other members of executive management. The Managing Director is entitled to twelve month's payments if the Company terminates the contract and other members of executive management are entitled to six to twelve month's payments.

Executive management consists of three members of which the Managing Director is one.

In 2017 two women have been members of the board of directors, compared to one in 2016. No women have been members of the executive management.

Salaries and other remuneration to executive management during 2017, MSEK	**Basic salary**	**Pension arrange-ments**	**Variable Salary**	**Share based long term incentive[1]**	**Other benefits**	**Total 2017**
Managing Director	-2.186	-0.549	-0.680	-1.277	-0.012	-4.704
Other executive manage-ment	-3.548	-0.317	-0.967	-1.161	-0.162	-6.155
Total	**-5.734**	**-0.866**	**-1.648**	**-2.438**	**-0.174**	**-10.860**

Salaries and other remuneration to executive management during 2016, MSEK	**Basic salary**	**Pension arrange-ments**	**Variable Salary**	**Share based long term incentive[1]**	**Other benefits**	**Total 2016**
Managing Director	-2.082	-0.443	-0.340	-1.288	-0.012	-4.164
Other executive manage-ment	-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**

1 Received warrants from the incentive programme in 2017 has been for the Managing Director 75,000 (70,000) and Other executive management 96,000 (87,000) totaling 171,000 (157,000). See note 21 for further details.

MSEK **Remuneration to board members (in their capacity as board members)**	**Total 2017**	**Total 2016**	**Atten-dance 2017**
Dennis Harlin	-0.595	-0.560	14/14
Rob Anderson	-0.265		9/9
Per Brilioth	-0.265	-0.250	12/14
Alexandra Herger	-0.265		7/9
Magnus Nordin	–	–	14/14
Per Seime	-0.265		7/9
Katherine Støvring	-0.265	-0.250	10/14
Geoffrey Turbott	-0.265	-0.250	14/14
Richard Rettig	–	-0.250	4/5
Total	**-2.185**	**-1.560**	

At the AGM of shareholders on 17 May 2017 Per Brilioth, Magnus Nordin, Dennis Harlin, Katherine Støvring (since resigned) and Geoffrey Turbott were re-elected members of the board. Alexandra Herger, Rob Anderson and Per Seime were newly elected members of the board. 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 arrangements

The board is entitled to deviate from the proposed guidelines if special reasons exist.

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 the share based incentive programs. Variable salary to senior executives will be based upon their individual contribution to the Company's performance. The yearly variable cash salary shall be within the range of one to four 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 three to six months between the Company and other members of executive management. The Managing Director is entitled to twelve month's payments if the Company terminates the contract and other members of executive management are entitled to six to twelve month's payments.

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.

Note 13, Financial income and similar items

	Group MUSD		**Parent** MSEK	
	2017	**2016**	**2017**	**2016**
Interest income	–	–	15.0	9.0
Gain on currency exchange rates	3.0	9.1	23.1	73.7
Other financial income	–	0.3	–	2.4
Dividend from group companies	–	–	126.5	–
Total	**3.0**	**9.4**	**164.6**	**85.1**

Note 14, Financial expenses and similar items

	Group MUSD		**Parent** MSEK	
	2017	**2016**	**2017**	**2016**
Interest expenses	-0.2	-0.6	–	–
Currency exchange losses	-6.9	-3.8	-53.6	-31.2
Other financial expenses	-1.2	-1.8	–	-0.3
Total	**-8.3**	**-6.2**	**-53.6**	**-31.5**

Note 15, Tax

The group's income tax charge amount to MUSD 0.0 (MUSD 0.0). Tethys Oil 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 242.8 (MSEK 200.7). 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)	**2017**	**2016**
Result before tax	85.0	23.4
Tax at applicable tax rate 22%	-18.7	-5.1
Non-deductible expenses	-1.4	-3.1
Non-taxable income	27.8	0.5
Utilized (+) / Built up (-) tax loss carry forwards previously not recorded as deferred tax assets	-7.7	7.7
Tax expense	**0.0**	**0.0**

In Oman, Tethys Oil's oil and gas operations are governed by an Exploration and Production Sharing Agreement for each license ("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. These taxes are netted against revenue in the income statement.

Note 16, Other receivables

	Group MUSD		**Parent** MSEK	
Other receivables	**2017**	**2016**	**2017**	**2016**
VAT	0.6	0.1	5.4	2.7
Receivables Oil sales	12.1	7.1	–	–
Other	–	0.3	0.1	0.2
Total	**12.7**	**7.4**	**5.5**	**2.8**

Note 17, Shareholders' equity

As per 31 December 2017, 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 2016. 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 for one tranche of the incentive program as per the 31 December 2017, the warrants of this tranche are included in the diluted number of shares which amount to 35,895,500 per 31 December 2017. If the subscription prices have been below the share price during the reporting period, the dilution effects have been included in the weighted average number of shares in circulation after dilution.

As per 31 December 2017, Tethys Oil held 1,644,163 of its own shares which have been purchased since commencement of the programme during the fourth quarter 2014. The purpose of the repurchasing program is to optimize the capital structure and to enable any repurchased shares to be used as payment in connection with, or financing of, acquisitions of companies or businesses. 314,939 shares were purchased during 2017. 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 2017 before dilution is 34,170,474 and after dilution 34,385,463.

After 31 December 2017 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 1,644,163 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.

Appropriation of profit

The board of directors proposes a dividend of SEK 2.00 per share (AGM 2017: SEK 1.00). The board of directors proposes that the dividend is to be paid in two equal instalments of SEK 1.00 per share each, payable in May and November 2018. Proposed record dates are May 14, 2018 and November 14, 2018

The board of directors proposes an extraordinary distribution of SEK 4.00 per share by way of a mandatory share redemption programme following the AGM 2018. Further details to follow in the proposal to the AGM. 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, Loan facility

Tethys Oil has a four-year, up to MUSD 17, 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 2017 there was no outstanding balance on the lending facility. The Facility matures at the end of February 2018 and will not be extended or renewed.

Note 19, Accounts payable and other current liabilities

	Group MUSD		**Parent** MSEK	
Accounts payable and other current liabilities	**2017**	**2016**	**2017**	**2016**
Accounts payable	0.1	0.2	0.5	1.5
Overlift position	2.0	1.4	–	–
Operator balance, Blocks 3&4 Oman	3.2	29.5	–	–
Other current liabilities	0.8	0.3	5.2	2.3
Total	**6.1**	**31.4**	**5.7**	**3.8**

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 Oman Ltd	95212	Gibraltar	100	100%	GBP 1
Tethys Oil Block 3&4 Ltd	101981	Gibraltar	1000	100%	USD 1
Tethys Oil Montasar Ltd	115710	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 2017**	**31 December 2016**
1 January	1.0	7.3
Acquisitions/Relinquishments	-0.1	-6.4
Shareholder's contribution	2.9	0.4
Write down of shares in subsidiaries	-2.9	-0.4
31 December 2017	**0.9**	**1.0**

The write down of shares in group companies during 2017 is mainly related to currency exchange losses in various group entities.

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 Stockholm during approximately a two week period prior to the date of allocation.

Warrants were issued 2017 and 2016 following a decision by the respective AGM. The number of issued warrants during 2017 was 350,000 (350,000) and the number of warrants allocated during 2017 was 324,000 (335,000). 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 2017	Issued 2017	Expired 2017	Exercised 2017	31 Dec 2017
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	350,000	0	0	0	350,000
2017 incentive programme	30 May – 2 Oct 2020	85.5	0	350,000	0	0	350,000
Total			**706,000**	**350,000**	**0**	**0**	**1,056,000**

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**

	Group MUSD		Parent MSEK	
Warrant incentive programme	**2017**	**2016**	**2017**	**2016**
Incentive programme cost	-0.5	-0.7	-3.6	-4.6
Total	**-0.5**	**-0.7**	**-3.6**	**-4.6**

As the subscription price is below the share price for one tranche of the incentive program as per the 31 December 2017, the warrants of this tranche are included in the diluted number of shares which amount to 35,895,500 per 31 December 2017. If the subscription prices have been below the share price during the reporting period, the dilution effects have been included in the weighted average number of shares in circulation after dilution. The cost is calculated in accordance with the Black & Scholes formula where the main inputs are the factors in the above table, expected volatility, share price at valuation and an equity discount rate. 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 2017, pledged assets amounted to MUSD 214.9 (173.2). 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 2017, nor for the comparative period.

Note 24, Appropriations

Parent MSEK	**2017**	**2016**
Paid group contributions	–	–
Received group contributions	–	3.1
Total	**–**	**3.1**

Note, 25 Related party transactions

In the Tethys Oil Group, Tethys Oil AB (publ) with organisational number 556615-8266 is the parent company. Material subsidiaries include Tethys Oil Oman Limited, Tethys Oil Block 3&4 Limited, Tethys Oil Montasar Limited, Tethys Oil France AB and Tethys Oil Exploration AB.

During the year, the Company entered into the following significant transactions with related parties:

Transactions with group companies, MSEK	**2017**	**2016**
Interest income	15.0	9.0
Other income	10.9	10.6
Dividends received	126.5	–
Group contributions	–	3.1
Shareholder contributions	-2.9	-0.4
Total	**149.5**	**22.3**

Balance with related parties, MSEK	**2017**	**2016**
Receivable from group companies	355.6	275.3
Total	**355.6**	**275.3**

Balance with related parties, MSEK	**2017**	**2016**
Payable to group companies	35.2	37.3
Total	**35.2**	**37.3**

The receivables or payables from related parties arise from the net of purchased services and upstreamed or downstreamed funds between parent and subsidiaries. The interest rates on receivables is in the range of LIBOR +4–6% per annum. Receivables are long term in duration and unsecured in nature. Payables are short term in duration, unsecured in nature and bear no interest.

Note, 26 Subsequent events

Tethys Oil's share of the production, before government take, from Blocks 3&4 onshore Oman amounted in January and February 2018 to 359,209 and 321,733 barrels of oil respectively, corresponding to 11,587 and 11,490 barrels of oil per day respectively.

The board member Katherine H. Støvring resigned from the board of directors in March 2018.

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 th 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, 4 April 2018

Dennis Harlin
Chairman of the board

Rob Anderson
Director

Per Brilioth
Director

Alexandra Herger
Director

Magnus Nordin
Managing Director

Per Seime
Director

Geoffrey Turbott
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 2017. The annual accounts and consolidated accounts of the company are included on pages 41–69 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 2017 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 2017 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.

Our opinions in this report on the the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company’s audit committee in accordance with the Audit Regulation (537/2014) Article 11.

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.

This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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 2017 and 76% of the group’s assets as per 31 December 2017. 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 are performed outside the group’s headquarter which means that we as a group audit team performed our audit work at the group’s headquarters but we also obtained reporting from specified procedures performed by our component team in Oman.

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, 2017 and after the year-end audit of the financial year 2017.

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.

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

Recoverability of the carrying value of oil and gas properties

The carrying value of oil and gas properties amounted to $189.7 million as per 31 December 2017 and is represented by the producing assets in Blocks 3 and 4 in Oman.

During the year management follows a process to identify potential indicators of impairment and to the extent that indicators are identified impairment tests are prepared.

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).

The assessment to identify potential impairment indicators and to perform impairment tests requires management to exercise significant judgement 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 probability of success of future drilling, the size of proved, probable reserves as well as contingent resources, short and long term oil prices, future costs as well as the discount rate and inflation rate.

Following the analysis of potential impairment indicators for Blocks 3 and 4 in Oman it was concluded that there were no impairment indicators identified and no impairment was recorded.

Refer to pages 44 in the Administration report, page 58 in the Accounting Policies and notes 2 and 8 in the financial statements for more information.

How our audit addressed the Key audit matter

We have examined management's assessment for determining the impairment indicators and concluded that there are no impairment indicators identified.

The assumptions that underpin management's assessment are inherently judgmental. Our audit work therefore assessed the reasonableness of management's key judgements. Specifically our work included, but was not limited to, the following procedures:

- comparison of management's 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;
- agreement of hydrocarbon production profiles to the combination of proved and probable reserves from reserve reports ERC and contingent resources estimates prepared by in-house reservoir engineer;
- verification of estimated future costs by agreement to budgets and where applicable, third party data;
- assessing the reasonableness of inflation and discount rates applied;
- testing of the mathematical accuracy of the model

We obtained the estimation of proven and probable reserves certified by the group's external reserves auditor and management's in-house estimation of contingent resources. Our work included but was not limited to:

- determining that the group's process for collecting relevant reports were sufficiently robust;
- assessing competence and objectivity of ERC Equipoise, to satisfy ourselves they were qualified to carry out the volumes estimation;
- assessing the process for making in-house estimates of contingent resources;
- validation that the updated reserves and resources 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 1–21, 32–40 and 74–75. 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 2017 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 fulfil 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.

PricewaterhouseCoopers AB, 405 32 Göteborg, was appointed as auditors for Tethys Oil AB by the Annual general meeting the 17 May 2017 and has been the company's auditors since 2001. The company has been listed at NasdaqOMX since the 2 May 2013.

Stockholm, 4 April 2018

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 Oman, in which license the Company holds a 30 percent interest.
Block 49	Block 49 onshore the Sultanate of Oman, in which license the Company holds a 100 percent interest.
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.
Company	Tethys Oil AB (publ) or group in which Tethys Oil AB is the parent company, as the case may be.
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.
Tethys Oil	Tethys Oil AB (publ) or group in which Tethys Oil AB (publ) is the parent company, as the case may be.
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 2018 (January – March 2018) on 8 May 2018
Six month report 2018 (January – June 2018) on 14 August 2018
Nine month report 2018 (January – September 2018) on 6 November 2018
Year-end report 2018 (January – December 2018) on 12 February 2019

TETHYS OIL

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