Tethys Oil Annual Report 2019

Contents

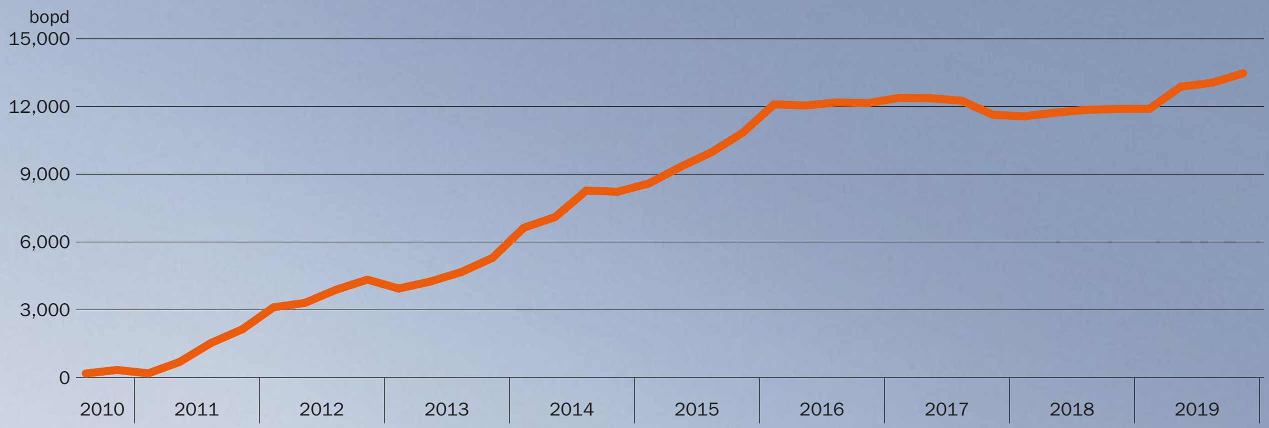
The Sustainability Report is a separate document, available on www.tethysoil.com.

Annual General Meeting

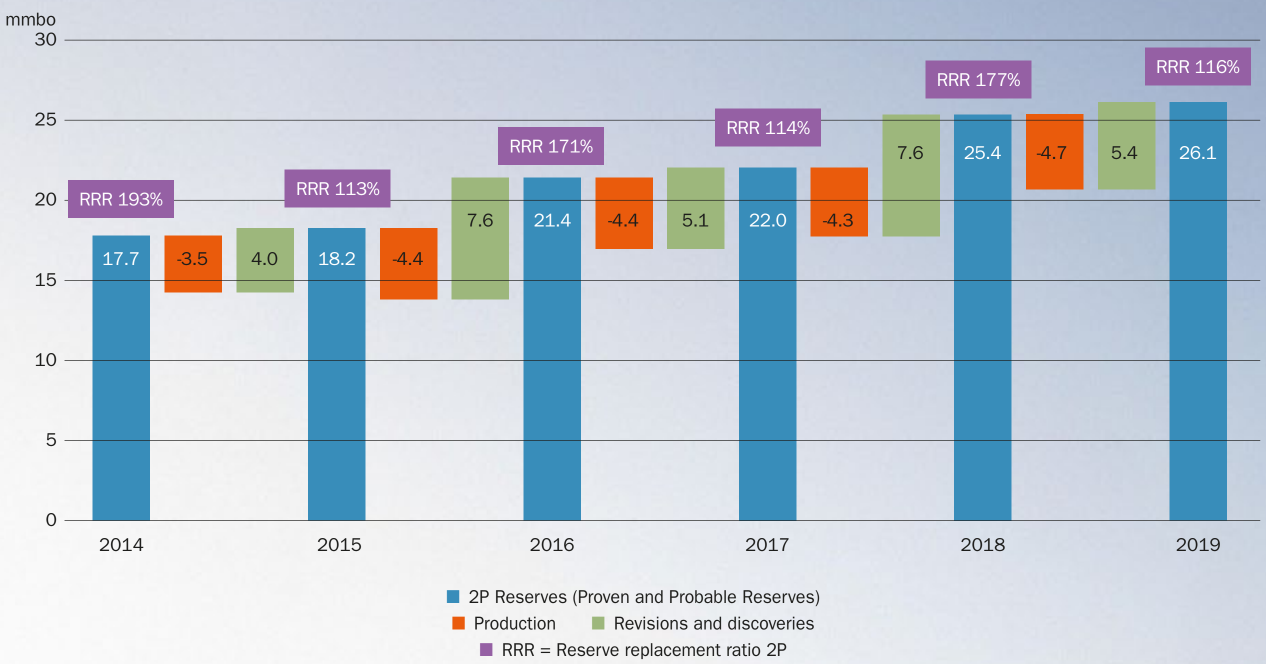
The Annual General Meeting will be held on 13 May 2020, 3:00 p.m. at Grand Hôtel, Södra Blasieholmshamnen 8, in Stockholm. Tethys Oil Is closely monitoring the development around the Corona virus, and precautionary measures related to the Annual General Meeting 2020 might be taken to ensure the health and safety of all shareholders, employees and other stakeholders. To attend the AGM, please visit Tethys Oil’s website, www.tethysoil.com, for more information.

Another successful year for Tethys Oil

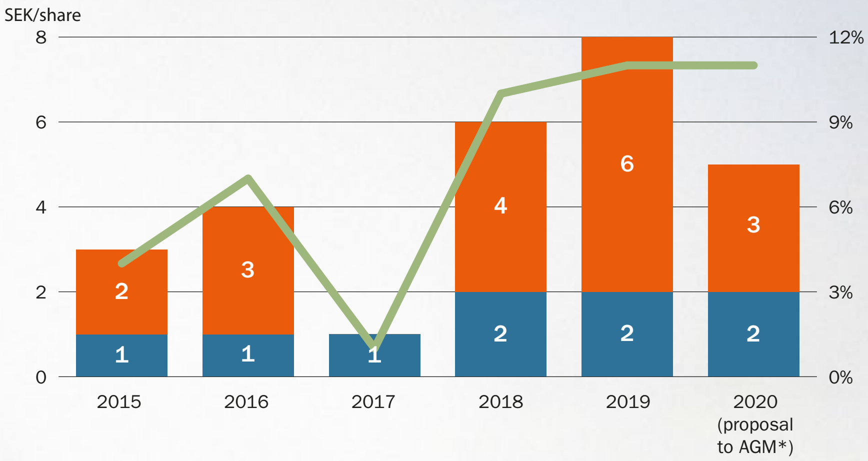
• Record Production from Blocks 3&4, Oman



• Record Reserves at year-end 2019



• Proposal: Continued high distribution to shareholders



Ordinary dividend

Extraordinary distribution

Dividend yield at announcement

* Graph showing the revised proposal from the Board of Directors on 6 April 2020.

Operational and financial summary

MUSD[1] (unless specifically stated)	2019	2018	2017	2016	2015
Average daily production Blocks 3&4, before government take, bbl	**12,832**	11,767	12,162	12,121	9,698
Average selling price per barrel, USD	**64.2**	70.5	51.8	40.5	58.1
Revenue and other income	**150.8**	157.3	119.3	87.1	107.0
EBITDA	**92.9**	106.6	78.2	44.0	58.6
Net cash	**75.1**	73.1	42.0	39.0	51.2
Investments in oil and gas properties	**65.2**	55.8	40.4	48.5	40.8
Dividend, SEK per share	**2.00**	2.00	1.00	1.00	1.00
Extraordinary distribution to shareholders, SEK per share	**6.00**	4.00	–	3.00	2.00
Market capitalization at the end of the period, MSEK	**3,063**	2,325	2,337	2,799	2,044
2P Reserves (million barrels of oil)	**26.1**	25.4	22.0	21.4	18.2
2C Contingent Resources (million barrels of oil)	**13.5**	12.5	17.3	–	–

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

The Blocks 3&4 success story

Tethys Oil acquired an interest in Blocks 3&4 in 2007 and, together with the other partners in the licence, initiated oil production on the blocks three years later. From August 2010 through to year-end 2019, Tethys Oil's net production from Blocks 3&4, before government take, has amounted to about 28 million barrels, while annually increasing reserves. The oil produced on Blocks 3&4 has created significant value for the shareholders of Tethys Oil, its partners in the licence, and not least, the people of Oman in the form of tax revenue and local employment.

Next step, first exploration well on Block 49

In late 2017, Tethys Oil expanded its operations in Oman when it was awarded the exploration licence for and operatorship of Block 49. In 2018, Tethys Oil conducted a seismic campaign, whereby 253 km² of 3D and 299 km of 2D seismic data was acquired in the north-eastern part of the licence area. In 2019, interpretation and mapping of the new seismic resulted in one drillable prospect being defined. The next step in the operations on the block is to drill an exploration well on the identified prospect.

New opportunities added with Block 56

In late October 2019, Tethys Oil announced the farm in on Block 56 onshore in the Sultanate of Oman. The farm-in to Block 56 is both a strategic and technical fit for Tethys Oil and is the result of an intensive review of available opportunities. Not only is the block only 200 km from the Blocks 3&4, but offers a similar geologic regime. It is a project where Tethys Oil believes that its technical expertise can make a real contribution towards future success.

Letter to the shareholders

Dear friends and investors,

What a difference a year makes. Not to say a week. When I started writing this letter the world was still a normal place. Now, a few weeks later, everything is anything but normal. At the time of writing it is even unclear if our AGM scheduled for 13 May 2020 will go ahead in a normal manner or will be conducted with restrictions. And if an abnormal world was not enough, oil prices have seen their largest drop in a generation, even outpacing the movement of 2014–2016. At the time of writing oil is trading anywhere between USD 15 to USD 35 per barrel amid slacking demand and a vociferous fight among oil producers for market share.

When things will return to normal is beyond our ability to predict, but of course the world will persevere and oil prices will rebound. High cost producers may be forced out of business but – as we saw in 2016 – prices below USD 30 per barrel are not sustainable as long as oil is the main source of the world's energy supply. Tethys Oil of course is, as you know, a conventional producer with moderate to low costs and with a very strong balance sheet and cash position. Tethys' board and management closely follow the situation and are prepared to take measures as and when needed. But I hope that if this letter is read in a few months' time, things will be back to normal and it will be business as usual. So, let us for the time being concentrate on last year, 2019, which was a very good year for Tethys Oil.

The operations on our exploration licence Block 49 continue in 2019 towards our first exploration well. Our project portfolio increased late in the year with a 20 percent farm in into exploration licence Block 56. But of course, our core asset, as yet representing all our production and cash generation, continues to be our 30 percent interest in Blocks 3&4 onshore the Sultanate of Oman. We saw record oil production of 12,832 bopd, which is nine percent higher than in 2018. We ended the year with record high reserves after reaching a 2P reserve replacement ratio of 116 percent – the eighth consecutive year of increasing our 2P reserves. Our strong cash generation continued in 2019 and we ended the year with net cash of MUSD 75.1. Reflecting the strong operational and financial position of Tethys Oil, the board of directors is again proposing to distribute cash to shareholders through dividends and an extraordinary distribution through a redemption programme. In addition, the Company has over the year repurchased Tethys shares. Tethys now holds repurchased shares close to 9 percent of total issued shares, which the Board will propose to the AGM to cancel and ask for a new mandate to repurchase up to another 10 percent of the issued shares.

For the year 2019, an active work programme was implemented on Blocks 3&4, with production enhancement, optimisation of production facilities, maturation of contingent resources, and continued exploration activities. Blocks 3&4 has now been in production for ten years and in 2019 reached the point where all historic capital investment was recouped. From the first geological study through early speculative seismic and the first tentative exploration well, the early production system, the building of pipelines and facilities until the establishment of a permanent commercial production stream – all the costs for those investments have now been recovered. This is further evidence of the project's quality and profitability and of the competence of the Operator CC Energy Development. As well as evidence of the good and very constructive relationship we have in the Blocks 3&4 joint venture between the Operator ourselves and Mitsui E&P Middle East.

Tethys' financial numbers for 2019 saw the higher production offset mainly by a decrease in oil prices by nine percent. Despite that, for 2019 we report revenues and other income of MUSD 150.8 almost in line with 2018. Our EBITDA for the year amounted to MUSD 92.9, the second highest we have ever had.

The seismic programme on Blocks 3&4 continued in 2019, and the seismic acquired during the year is being interpreted and new seismic is being acquired so that by the end of 2020 we expect that the overwhelming majority of the most prospective areas of Blocks 3&4 will be covered by high resolution 3D seismic. We expect an intense exploration year in 2020, with a full rig year dedicated to drill exploration and appraisal wells. With a resource base of 2C contingent resources of 13.5

million barrels, we are in a good position to continue to replace and increase our 2P-reserves in 2020.

Considerable efforts to further optimise infrastructure and production capabilities will continue in 2020. The implementation of a pilot gas utilization project at the Shahd production facility is particularly notable. This project is a first step in planning and evaluating a comprehensive gas utilization project that aims to lower flaring and cut diesel consumption used in power generation. It will be important in optimising fluid production, cutting operating costs, and perhaps most importantly, in reducing the 'carbon footprint' of Blocks 3&4. This project is detailed further in our sustainability report.

The activities on our exploration licence Block 49 continued progressing in 2019, and we have so far defined one drillable prospect known as Thameen ("Precious"). We are currently working to secure a drilling rig, and will then be ready to drill our first exciting exploration well on the block. In 2020, we plan to drill the well to a depth of close to 4,000 meters to evaluate three potential reservoir targets.

With no debt and a substantial amount of cash, we are and have been in a strong position to expand our project portfolio. And so we did in October 2019, when we farmed into Block 56 with a 20 percent interest. The Block is an appraisal opportunity with excellent exploration potential in an area where Tethys Oil's knowledge and experience will eminently complement the work of the current partnership. Block 56 is an exploration licence that has progressed further than Block 49 – the partners have already drilled three exploration wells. An appraisal programme to flow test three wells is ongoing.

And so we have reached the outlook for 2020, and here it gets more difficult. Tethys Oil is in a strong position both organisationally and financially, but the world is a much more difficult place to predict. Over the last month most of us have had our daily life impacted in ways we have never experienced before, or even had imagined we would ever experience. For Tethys, both our Muscat and Stockholm offices have been arranged to enable operations to continue while all co-workers can work remotely. Contingency plans have been put in place to allow for deferment of capex and work programmes in areas where the planned work is not crucial for safety or production.

We expect to continue the high production levels, and produce in the range of 12,600 to 13,400 bopd from Blocks 3&4. We also expect increased exploration activities on the Blocks. Together with the upcoming exploration well on Block 49 and the well tests on Block 56.

It is certainly not business as usual but we strive to maintain operations as close to our original plans as possible. We carefully follow developments and have a high readiness to do whatever will be required of us as a company. And we are hopeful that we will soon be back to a normal world again!

So, stay with us – we are here to stay!

Stockholm, 9 April 2020

Magnus Nordin
Managing Director

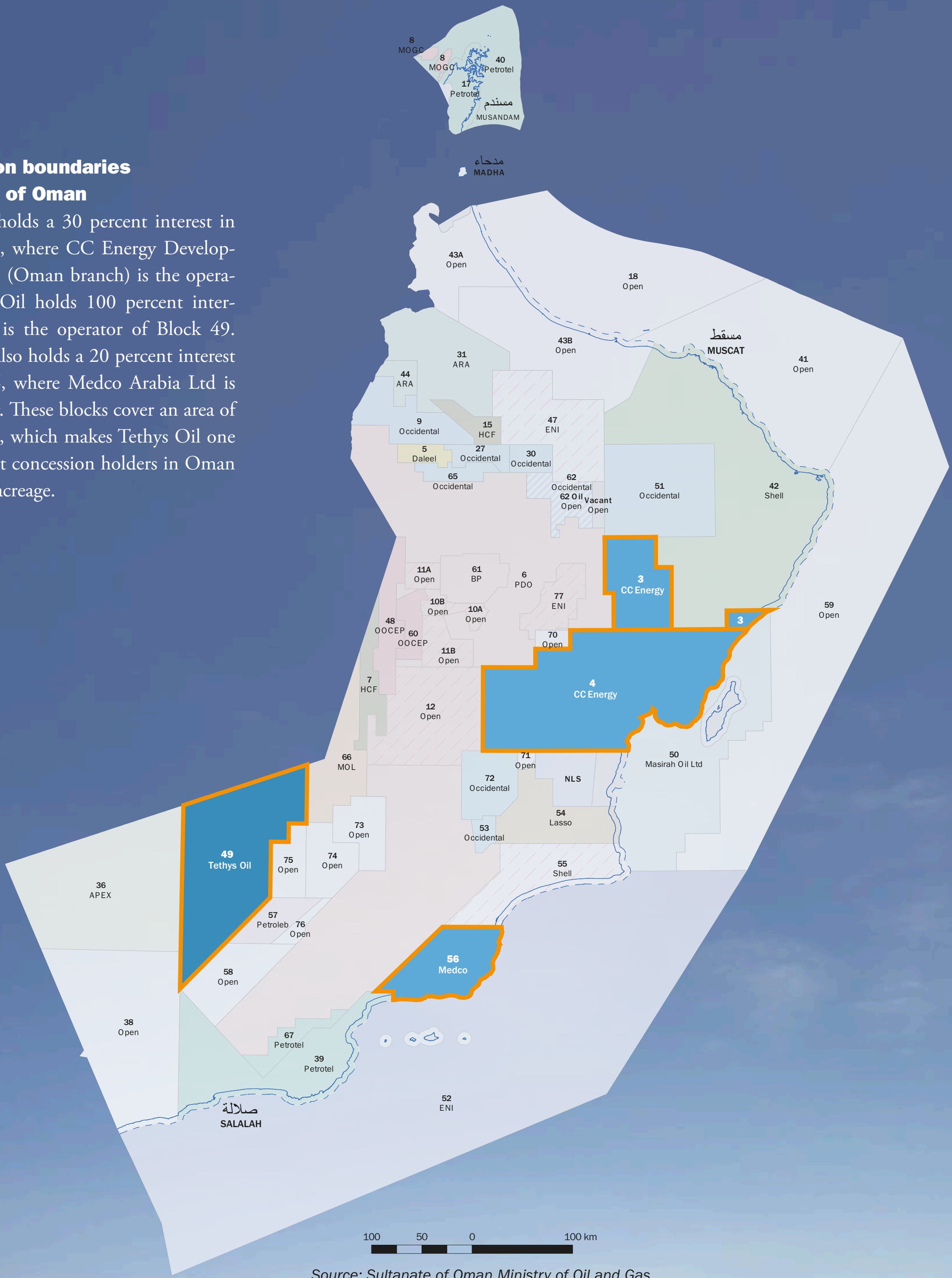
Tethys Oil

Tethys Oil is a Swedish oil company with focus on onshore areas with known oil discoveries. The company's core area is the Sultanate of Oman, where it holds interests in Blocks 3&4, Block 49 and Block 56. Tethys Oil has net working interest 2P Reserves of 26.1 mmbo and net working interest 2C Contingent Resources of 13.5 mmbo and had an average oil production of 12,832 barrels per day from Blocks 3&4 during 2019 (Tethys Oil's share of gross production, before government take). The head office is located in Stockholm and the Company's shares are listed on Nasdaq Stockholm (TETY).

Oman	Area (km²)	Interest	Phase	2P Reserves (mmbo)	2C Contingent Resources (mmbo)	Average daily production 2019 (bbl)
Blocks 3&4	29,130	30%	Production/ exploration	26.1	13.5	12,832
Block 49	15,439	100%	Exploration	–	–	–
Block 56	5,808	20%	Exploration	–	–	–

Consession boundaries
Sultanate of Oman

Tethys Oil holds a 30 percent interest in Blocks 3&4, where CC Energy Development S.A.L. (Oman branch) is the operator. Tethys Oil holds 100 percent interest in, and is the operator of Block 49. Tethys Oil also holds a 20 percent interest in Block 56, where Medco Arabia Ltd is the operator. These blocks cover an area of 50,377 km², which makes Tethys Oil one of the largest concession holders in Oman in terms of acreage.



Source: Sultanate of Oman Ministry of Oil and Gas

Mission, Vision and Values

Mission
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. A central belief in 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 as per Tethys Oil's Code of Conduct.

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

Vision
Tethys Oil's vision is that growth continues through the Group's exploration success. Tethys Oil seeks to build, maintain and expand a well-balanced and self-financed portfolio of oil assets, offering a measured exposure to onshore production, development, appraisal and exploration potential. The focus today and tomorrow is on geographies with proven petroleum systems, existing infrastructure, established institutional frameworks and low political risk. In all its activities, Tethys Oil seeks a balanced approach to risk.

Tethys Oil will continue to create increased shareholder value with a balanced approach to growth and shareholder distributions, with a long-term capital structure target of a zero net cash position.

Values
Tethys Oil's corporate culture emanates from the Company's Scandinavian roots. It is the responsibility of the Tethys Oil's management to foster a corporate culture that promotes the values and principles outlined in Tethys Oil's Code of Conduct. Tethys Oil aims to act in all respects in a responsible, fair, accountable and ethical manner towards all aspects of the environment and to all individuals and entities that the Group encounters in its course of doing business. Tethys Oil aims to apply the same standards to all its activities wherever they are carried out.

It is of vital importance to Tethys Oil that the Group maintains and further builds on its reputation as a responsible and forward-looking corporate citizen in all countries where Tethys Oil has a presence and in relation to all stakeholders, may they be shareholders, employees, contractors, partners or someone else.

Reserve and resource base continue to expand – eighth consecutive year with growing reserves

Tethys Oil's net working interest Reserves in Blocks 3&4 Oman as per 31 December 2019 amount to 26,112 thousand barrels of oil ("mbo") of Proven and Probable Reserves (2P). The 2P reserve replacement ratio amounts to 116 percent. In addition, Tethys Oil's net working interest resources oil base in Oman amounts to 13,458 mbo of 2C Contingent Resources. The Company's year-end Reserves reports were audited by ERC Equipoise Limited ("ERCE") as an independent qualified Reserves evaluator.

Development of Reserves, Blocks 3&4 (Audited)

mbo	**1P**	**2P**	**3P**
Total 31 December 2018	16,735	25,357	35,884
Production 2019	-4,684	-4,684	-4,684
Additions and revisions	5,285	5,439	5,719
Total 31 December 2019	**17,336**	**26,112**	**36,919**
Reserve replacement ratio, %	113%	116%	122%

Additions and revisions include maturation of Contingent Resources to Reserves from the ongoing appraisal program of Ulfa, Samha and Erfan fields as well as upside revisions of the Reserves on the Farha South and Shahd fields and a small amount of Reserves attributable to the Masarrah-1 exploration well drilled in 2019.

Based on ERCE's oil price assumptions, Tethys Oil's net entitlement Reserves (Reserves after government take) amount to 7,862 mbo of 1P, 10,869 mbo of 2P and 12,160 mbo of 3P (revised following cost pool adjustments).

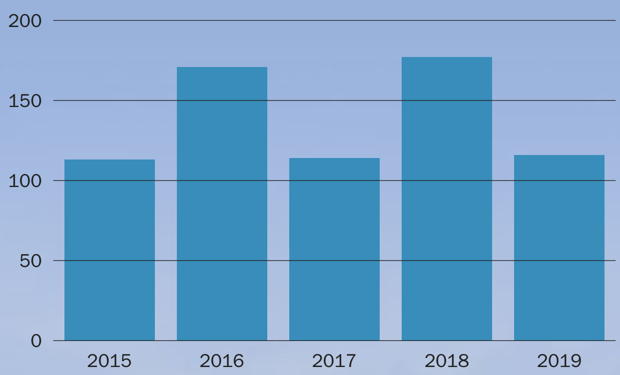
In addition to Reserves, Tethys Oil also announces net working interest Contingent Resources. The bulk of the estimated Contingent Resources are contained in the Ulfa, Samha and Erfan fields. Development of the Contingent Resources in the discoveries is continued contingent upon the on-going appraisal programme, a committed work programme as well as budget to access these resources.

Contingent resources, Blocks 3&4 (Audited)

mbo	**1C**	**2C**	**3C**
Total 31 December 2019	**5,094**	**13,458**	**26,468**

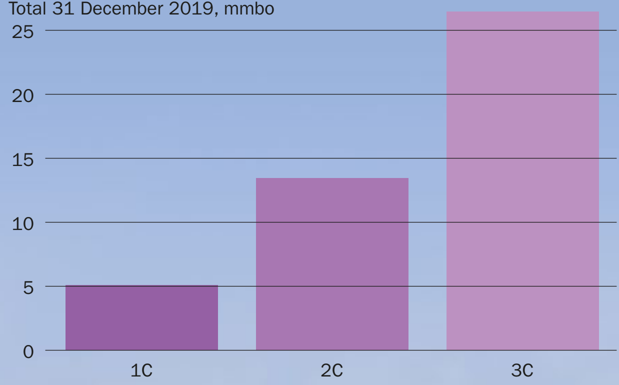
The audit of the Reserves in Oman has been conducted using 2018 Petroleum Resources Management System (PRMS2018), sponsored by the Society of Petroleum Engineers (SPE), World Petroleum Council (WPC), American Association of Petroleum Geologists (AAPG) and Society of Petroleum Evaluation Engineers (SPEE).

Reserve replacement ratio, %



Contingent resources

Total 31 December 2019, mmbo



Operations

Tethys Oil's core area Oman

Oman – part of an oil rich region

The Sultanate of Oman, strategically located in the south-eastern part of the Arabian Peninsula, overlooks the Arabian Sea, the Sea of Oman and the Arabian Gulf. It also overlooks the strategic Strait of Hormuz at the point of entry to the Arabian Gulf. Oman's neighbours include 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 five billion barrels of estimated proven oil reserves, ranking Oman as the seventh largest proved oil reserve holder in the Middle East and the 22nd largest in the world (BP Statistical Review of World Energy, June 2019). Oman's crude oil and condensate production amounted in 2018 to almost 1 mmbo per day.

The largest producer in Oman is Petroleum Development Oman ("PDO"), who holds Block 6. Block 6 covers an area of 75,119 km² in north, central and south Oman. PDO's produces about 600,000 barrels of oil per day, corresponding to 60 percent of the total production in Oman. PDO is owned by the Omani government (60 percent), Shell (34 percent), Total (four percent), and Partex (two percent). Occidental Petroleum (Oxy), is the second-largest producer in Oman, with a production of some 200,000 bopd. 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

With the desire and ambition to become a dedicated and successful player in the Omani oil and gas industry, Tethys Oil acquired an 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. Its 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.

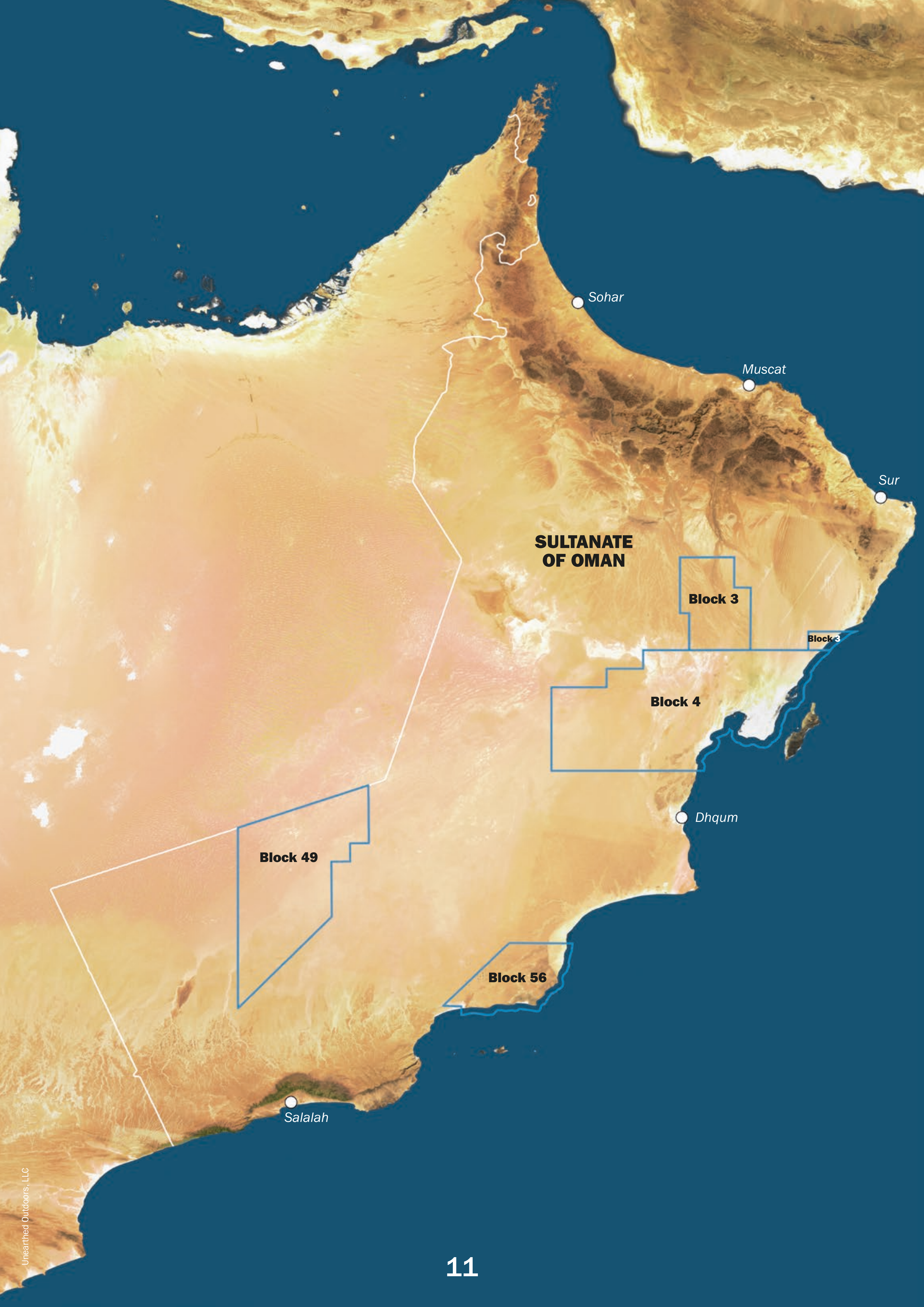
In 2017, Tethys Oil's operations expanded when the exploration Block 49 was awarded to Tethys Oil as operator. Block 49 covers an area of 15,439 km² in the south-western part of Oman, bordering Saudi Arabia. Tethys Oil holds 100 percent of Block 49.

In October 2019, Tethys Oil's operations in Oman expanded even further with the 20 percent farm-in to the exploration licence Block 56. Block 56 covers an area of 5,808 km² in the south-eastern part of Oman some 200 km south of Blocks 3&4.

The combined area of Blocks 3&4, Block 49 and Block 56 amounts to over 50,000 km², which makes Tethys Oil one of the largest concession holders in Oman in terms of acreage.

The partner group on Blocks 3&4 produced 42,800 bopd in 2019, corresponding to about four percent of Oman's total production. The produced oil is lifted at the Mina Al Fahal Terminal in Muscat, on the Sea of Oman, and it therefore never needs to pass through the Strait of Hormuz.

Photo by Tristan Schmurr


Sohar
Muscat
Sur
SULTANATE
OF OMAN
Block 3
Block 3
Block 4
Dhqum
Block 49
Block 56
Salalah
Unearthed Outdoors, LLC

The successful exploration and development of Blocks 3&4

Ten years after the production was launched through an early production system, the Blocks continue to deliver. 2019 marks a new production record for the Blocks when 12,832 barrels of oil per day were produced. In the ten years since first oil on Blocks 3&4, Tethys Oil's share of production has amounted to over 28 million barrels before government take – and still the licence is valid for a further 20 years of exploration and production.

First oil at Farha South

The drilling of the Farha South-3 well on Block 3 in early 2009 was the starting point for the successful exploration and development of Blocks 3&4. Through this well, the Farha South oil field was discovered, which has been the star performer on the blocks ever since.

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. The main producing layer at the Farha South field is the Barik sandstone, at an average depth of 1,600 metres, but oil is also produced from the underlaying Lower Al Bashir layer. The low content of gas combined with the absence of a water drive in the Barik reservoir makes water injection necessary. Water is injected into the reservoir via injection wells in order to maintain the pressure and thereby stimulate production. About 30 fault blocks have been drilled and put in production, and the majority has been developed with water injection. The oil from the Barik reservoir is of high quality, more than 40 degrees API, and contains limited sulphur.

Saiwan East – the second early discovery

Shortly after the Farha South oil field was discovered, the SE-2 well resulted in the discovery of the Saiwan East oil field, the second commercial discovery on the blocks. At the Saiwan East oil field, 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 oil from the Khufai layer holds a quality of approximately 32 degrees API.

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.

The Shahd field

The Shahd field was discovered in 2013 in a previously unexplored area on the blocks. In the Shahd oil field, oil is extracted from the Lower Buah and the Khufai carbonates at a depth of 2,000–2,400 metres.

The oil from the Shahd field holds a quality of 35–38 degrees API. Like the Farha South field, this area is also highly faulted and is not one large continuous reservoir. The oil is instead trapped in separate structures. Eight structures have been put into production. Water injection is also required on the Shahd oil field in order to reach good recovery rates.

Ulfa, Samha and Erfan fields

After some years with focus on development activities aiming at increasing production, a number of exploration wells were drilled in 2017, which resulted in the discovery of the Ulfa, Samha and Erfan oil fields.

The Erfan oil field is a single structure producing from the Khufai carbonate formation, at depths ranging from 1,700 to 2,400 metres, in the same producing formation as in neighbouring Saiwan East field.

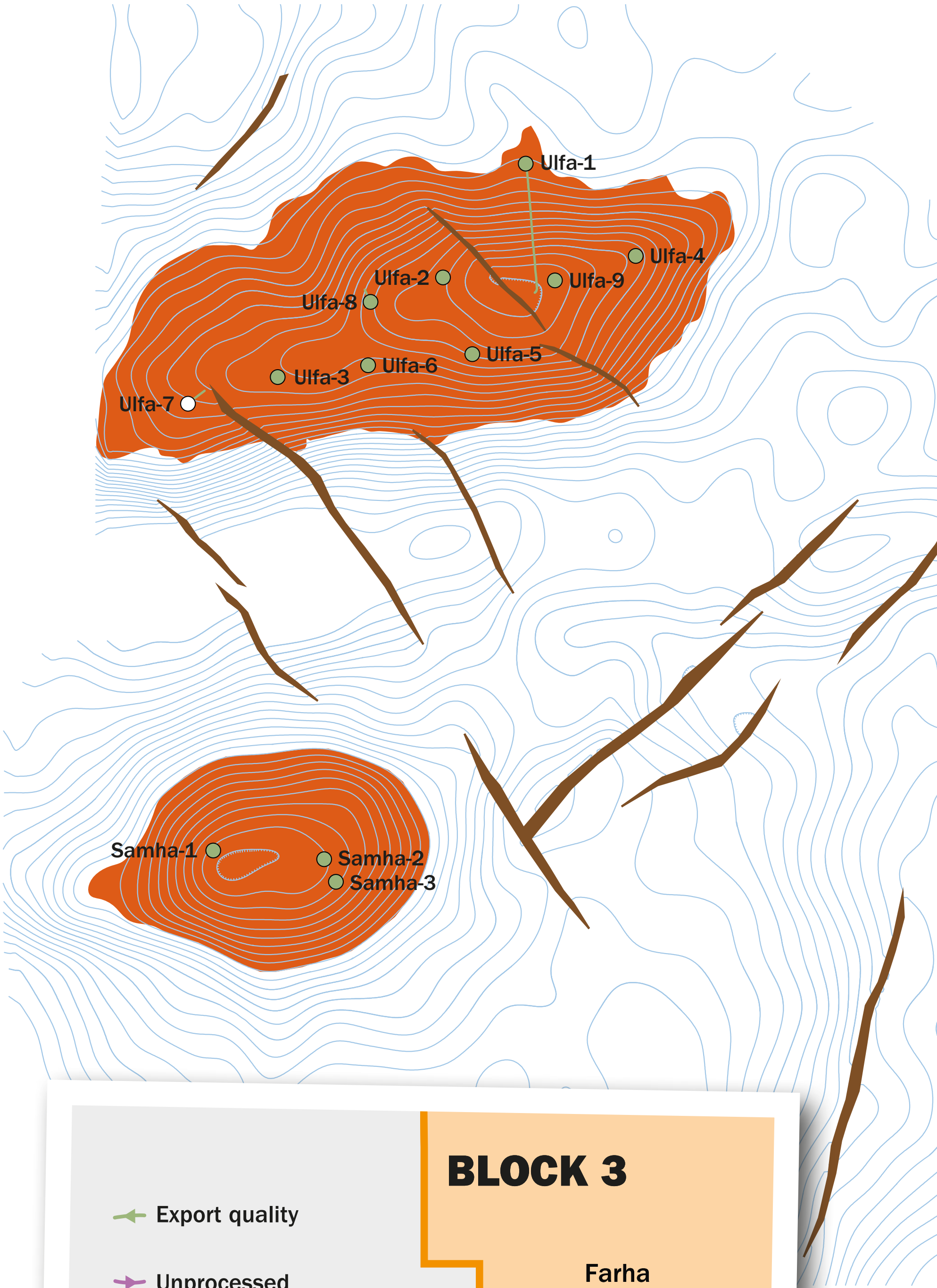
The Ulfa oil field is also a single structure. It is located on trend with the Farha South field. The majority of the production in the field comes from the Khufai carbonate formation, but also the Buah is on production. The Samha oil field is located adjacent to the Ulfa field and produces from both the Khufai and Buah formations. The oil from both Ulfa and Samha is of high quality, about 45 degrees API, and contains a high proportion of associated gas.

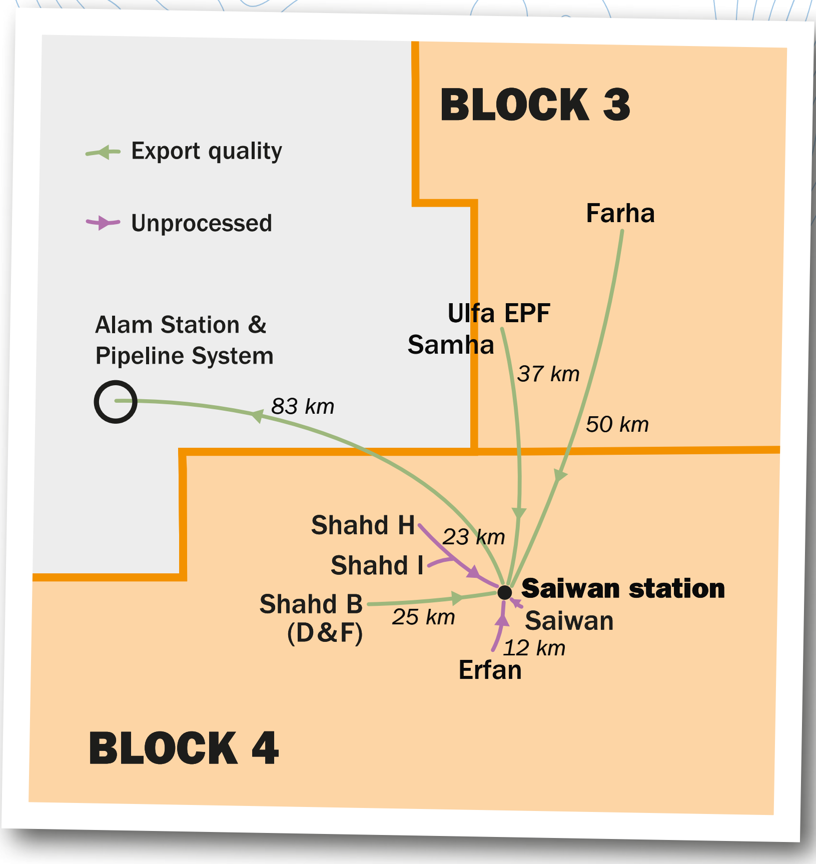
Infrastructure development

Full production facilities have been constructed both on the Farha South field and on Saiwan East field. At these facilities, reservoir fluids are processed in separators and heater treaters to remove water, gas and impurities in order to make the oil ready for export. The facilities also include large storage tanks, pumps and other necessary infrastructure, including field camps for the oil field workers.

In addition, Early Production Facilities (EPF) have been constructed on Shahd and on Ulfa fields. An EPF is a smaller production facility, which, to some extent relies on the infrastructure at the Saiwan East field to process the oil to be ready for export. The Ulfa EPF was finalised and commissioned late in 2018, providing the increase in production in 2019.

All production is transported through pipelines to the main exporting point at the Saiwan East facility. From Saiwan East, the oil is pumped through an 83 km long 16-inch pipeline to Alam Station just west of Blocks 3&4, for further transportation through the national pipeline system to the export port in Muscat, the Mina Al Fahal Terminal.





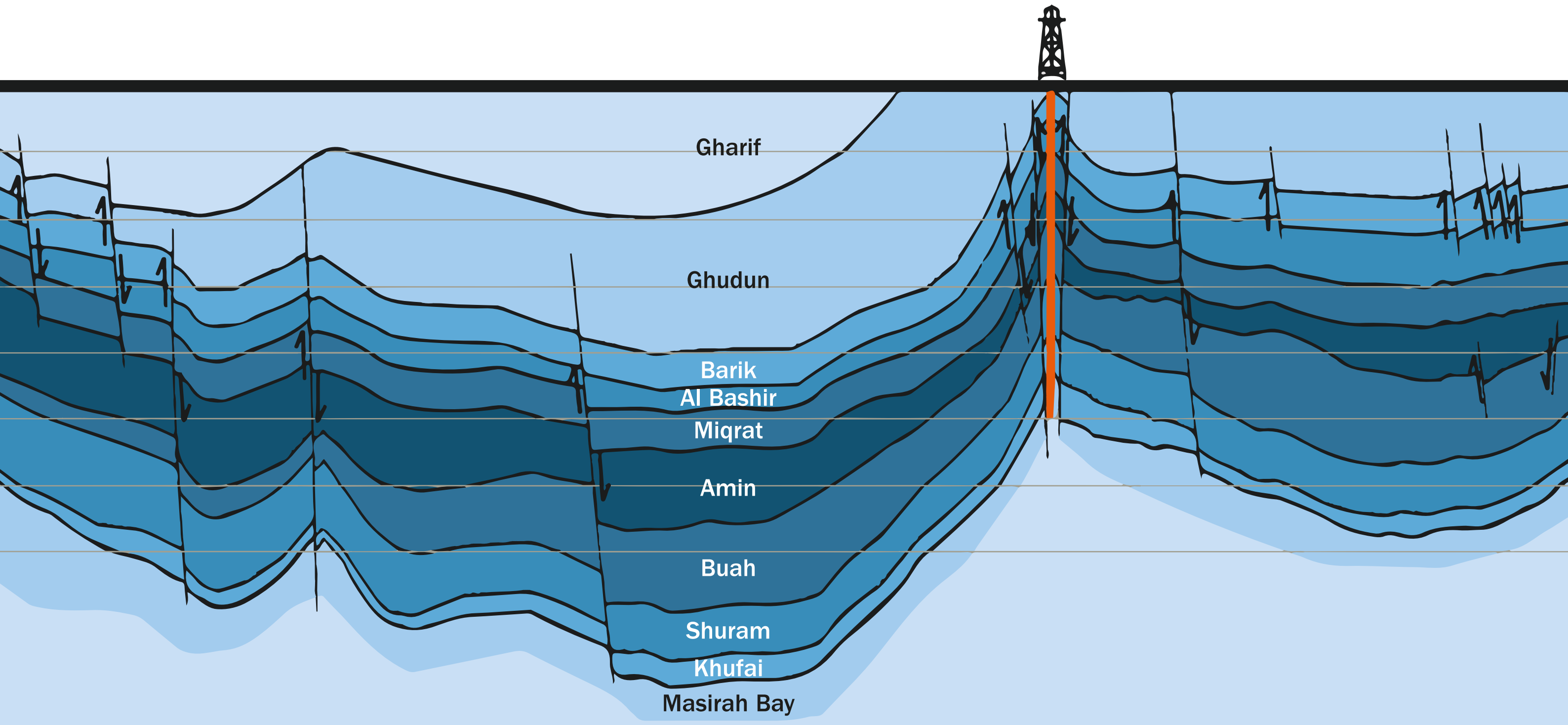
Future exploration on Blocks 3&4

In hindsight it might seem like the exploration, development and production initiation of crude oil on Blocks 3&4 has been a straightforward and understandable process. However, numerous companies explored for oil and gas for 40 years and drilled some 30 exploration wells in these two blocks. Most of the wells encountered oil, but none were deemed commercially viable. There is no question about it – vast amounts of oil have been formed on the blocks. The trick is to find the traps, where oil could have accumulated.

3D seismic surveys have been a key factor to the development of the blocks. Seismic data have 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.

Despite intense exploration and development activity for over ten years, large areas on the blocks have yet to be explored. With annual seismic programmes, some 10,000 km², out of the total area of the blocks of 29,130 km², of seismic data have been acquired so far whereof some 1,650 km² were acquired in 2019.

Tethys Oil believes that there is significant remaining potential on Blocks 3&4. In 2020, a full rig year will be dedicated to drilling exploration and appraisal wells. The seismic acquired in 2019 is being interpreted and new seismic is being collected so that by the end of 2020, an overwhelming majority of the most prospective areas of Blocks 3&4 will be covered by high resolution 3D seismic.

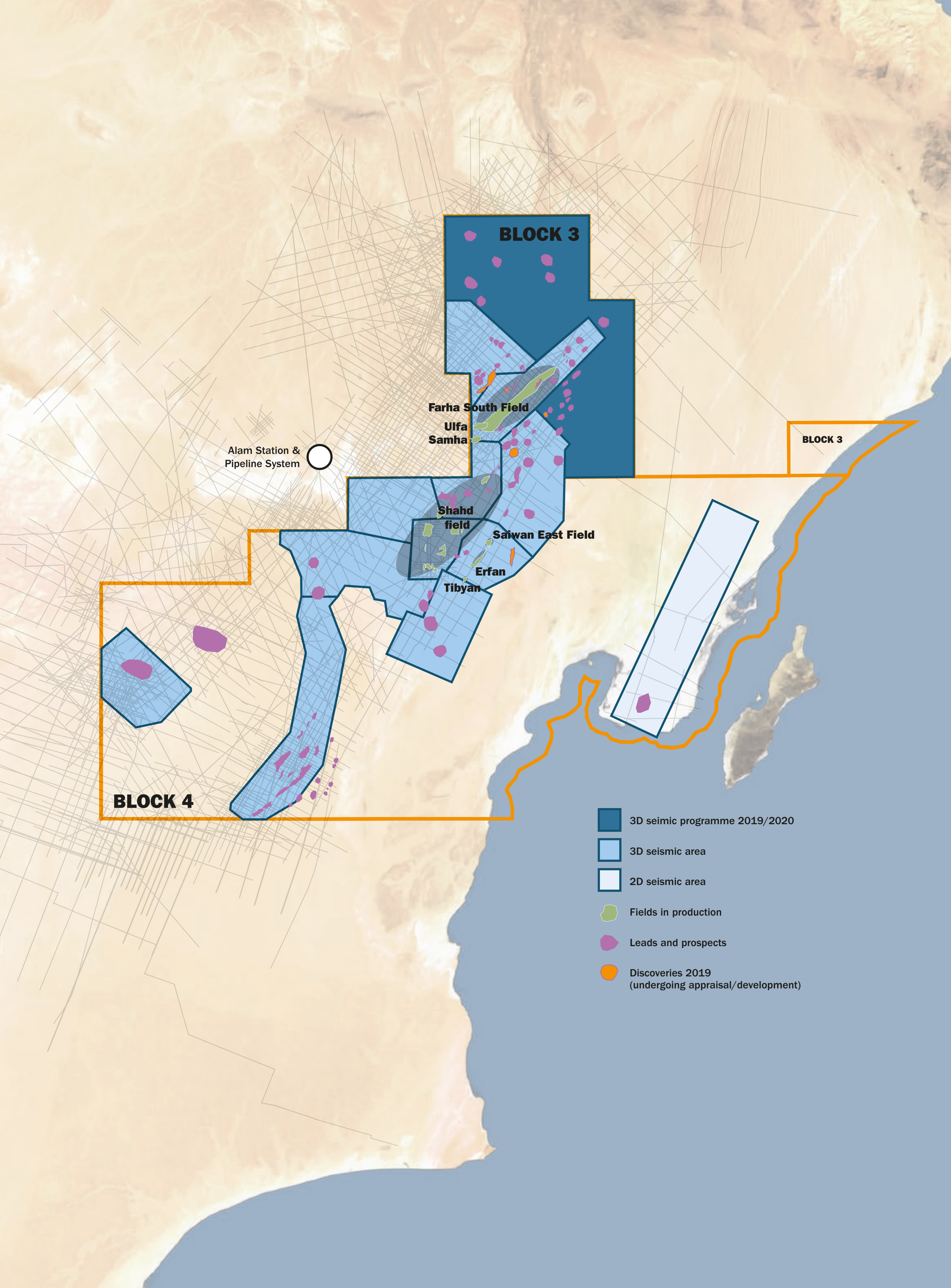


Formations

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.


BLOCK 3
Farha South Field
Ulfa
Samha
Alam Station &
Pipeline System
Shahd
field
Saiwan East Field
Erfan
Tibyan
BLOCK 3
BLOCK 4
3D seimic programme 2019/2020
3D seismic area
2D seismic area
Fields in production
Leads and prospects
Discoveries 2019
(undergoing appraisal/development)

Exploration gears up on Block 49

Tethys Oil's second licence in Oman, Block 49, was awarded in 2017. After two years of seismic work, including reprocessing of older seismic data, and processing and interpretation of seismic data from a new campaign, Tethys Oil is ready to spud an exploration well in 2020.

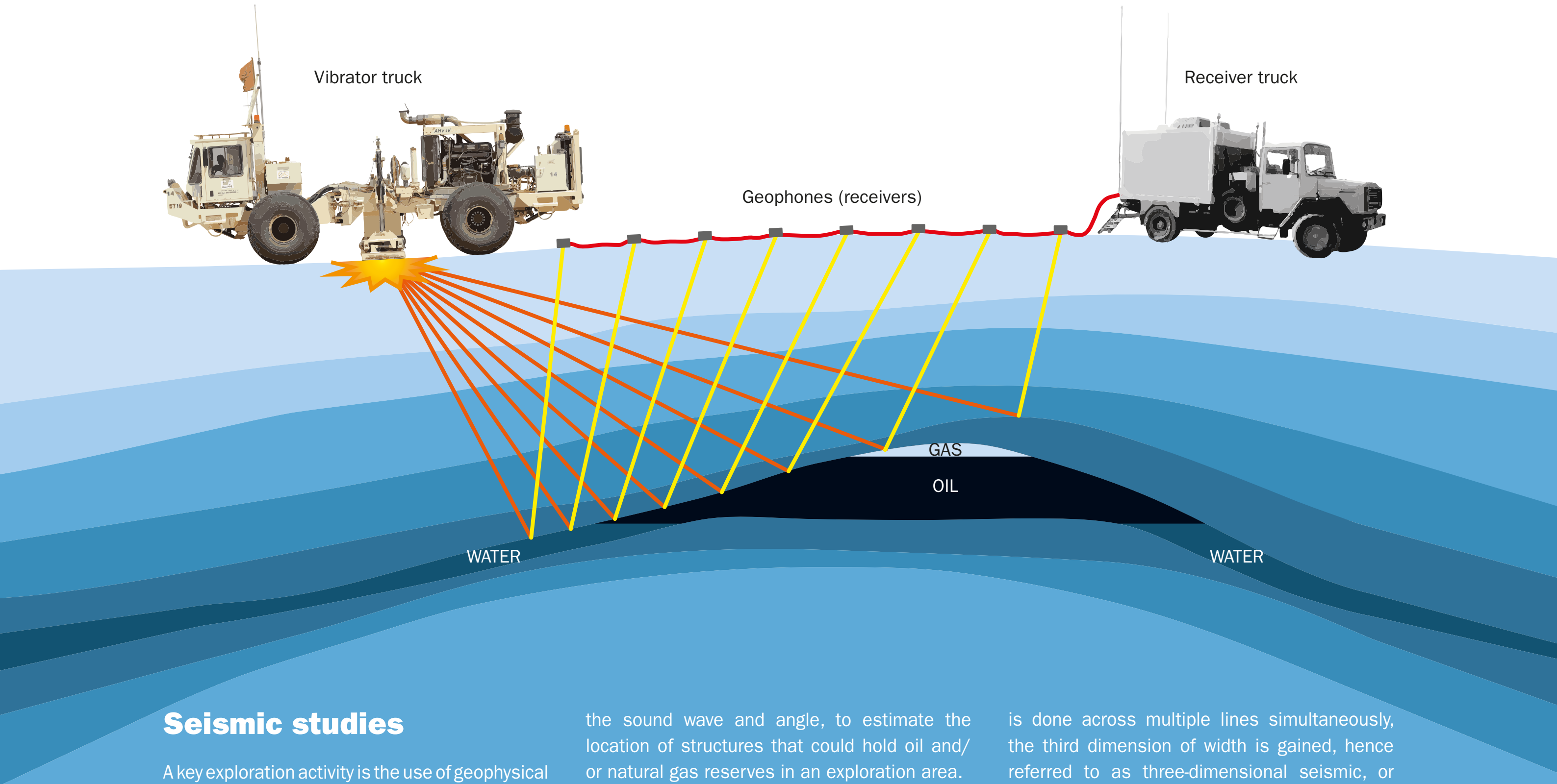
The Block 49 licence covers an area of 15,439 km². Nine wells have been drilled by previous operators within the block boundaries, several of which are reported to have encountered oil shows. Among the legacy wells, Dauka-1 was the first well ever drilled in Oman in 1955.

One of the first steps to be taken after the award of the licence, was the reprocessing of some 1,464 km of the over 11,000 km of 2D seismic data acquired by previous operators that had been made available to Tethys Oil. Through this reprocessing, a number of seismic anomalies were identified, which could be possible – primarily stratigraphic – oil traps. The anomalies have been identified within the deeper formations in the block at depths of 2,500 metres or below.

In 2018, Tethys Oil launched a seismic campaign on Block 49, whereby 253 km² of 3D and 299 km of 2D seismic data was acquired in the north-eastern part of the licence area. The purpose of the seismic campaign was to further define possible oil traps and to enhance the understanding of the deeper parts of the block in general.

After processing and completion of the first phase of the seismic interpretation in second half of 2019, a drillable prospect was identified in the north eastern part of the Block. The prospect, known as Thameen ("Precious") has been further delineated and the drilling of a well is being planned to a depth of close to 4,000 meters to evaluate three potential reservoir targets. Drilling preparations are well underway and Tethys Oil is actively seeking a suitable rig. In parallel seismic interpretations and overall geological modelling of Block 49 continues.

The Exploration and Production Sharing Agreement ("EPSA") for Block 49 covers an initial exploration period of three years until November 2020 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, the 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. Tethys Oil holds 100 percent of the licence interest and is the operator.

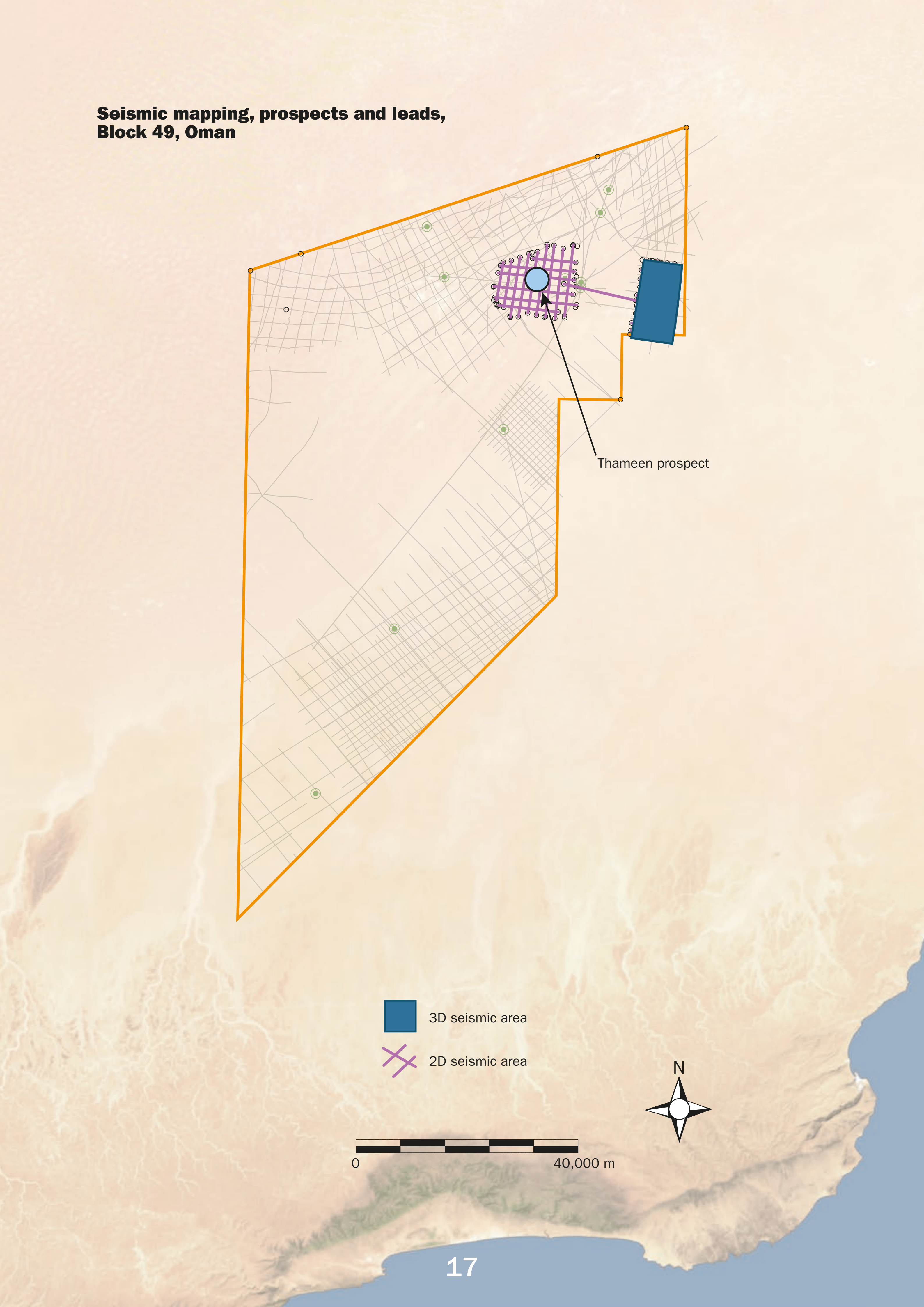


Seismic studies

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.

Seismic mapping, prospects and leads, Block 49, Oman



New opportunities added through Block 56

In late October 2019, Tethys Oil announced having entered into an agreement to acquire a 20 percent interest in the Exploration and Production licence covering Block 56 onshore Oman from Biyaq Oilfield Services.

Block 56 covers an area of 5,808 km² in the south-eastern part of Oman some 200 km south of Blocks 3&4. The licence is operated by a subsidiary to Medco Energi. To date 11 wells have been drilled on the Block and all but one have encountered oil or oil shows, although, none has yet been determined to be a commercial discovery. The current operator has successfully drilled three of these wells. As of the beginning of 2020, a work programme to test up to three wells is ongoing.

The Block lies at the intersection of different geological provinces including the prolific South Oman Salt Basin. It offers exploration potential in multiple play concepts, both proven and unproven, many of which are familiar to Tethys Oil from its current operations in the country.

The licence for Block 56 is governed by an EPSA signed in November 2014. Its initial three-year exploration phase has been extended until December 2020, and the partners have the option to enter into a second exploration phase ending in December 2023. The initial work commitments during the first period include geological studies and exploratory drilling.

Office and staff

During 2019, Tethys Oil had an average of 23 full-time employees of seven nationalities, in a broad age range, of which 35% were female and 65% 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 engineers and subsurface specialists are based at Tethys Oil's office in Muscat together with finance and administration staff. As per the Omani government directive related to the employment, preference is given to Omani nationals in recruiting new staff. The Muscat office is the base for Tethys Oil's Chief Technical Officer (CTO).

Stockholm Office

Tethys Oil head office is located in Stockholm, Sweden. The Stockholm office is the base for the Managing Director and the Chief Financial Officer (CFO), along with Tethys Oil's finance, legal, business development and communication staff.

Transportation and sales (Blocks 3&4)

All oil produced at the fields is transported through a pipeline to the Qarn Alam metering station, to the west of the blocks. At the metering station, the oil volumes are recorded and the quality is measured. From Qarn Alam, the oil is transported through the 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, primarily 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, 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 produced on a licence, no costs can be recovered. If no commercial oil discovery is made on an exploration licence, the exploring oil company bears 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 selling price is based on the monthly average price of the front-month future contract of Oman export blend as traded on the Dubai Mercantile Exchange, including trading and quality adjustments.

Corporate Governance Report 2019

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 2019 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 2019. 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 25.

External and internal framework for governance in Tethys Oil

External:

- Swedish Companies Act
- Accounting legislation (e.g. Swedish Book-keeping 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
- Internal control framework with Code of Conduct, polices etc.

Shareholders

Tethys Oil's shares are traded on Nasdaq Stockholm. At year end 2019 the share capital amounted to SEK 6,050,862, represented by 36,294,960 shares, each with a par value of SEK 0.17. All shares represent one vote each. At 31 December 2019, the number of shareholders was 7,044 (6,602). Of the total number of shares, foreign shareholders accounted for approximately 65 percent. Lansdowne Partners Austria is the only shareholder with a holding in excess of 10 percent of shares and votes, with a holding of 3,633,699 shares representing 10.0 percent of shares and votes. Tethys Oil's holding of its own shares amounted to 1,954,163 (5.4 percent). For further information on share, share capital development and shareholders, see pages 29–31 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 register 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 15 May 2019. 188 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 2018 and discharge of liability for the Board of Directors and the Managing Director;
- Re-election of Robert Anderson, Alexandra Herger, Magnus Nordin, Per Seime and Geoffrey Turbott, with Geoffrey Turbott elected as chairman of the Board. Gavin Graham was also elected to join the Board of Directors, it being resolved that the Board of Directors shall comprise of six ordinary members;
- Remuneration of the members of the Board of Directors and the chairman of the Board of Directors, including Board committee membership, to be as follows: (i) annual fees of the members of the Board of Directors of SEK 330,000 (excluding the CEO); (ii) annual fees of the chairman of the Board of Directors of SEK 700,000; (iii) annual fees for committee members of SEK 35,000 per committee assignment, annual fees for the chairmen of the remuneration committee and technical committee, if applicable, of SEK 65,000 each and an annual fee for the chairman of the audit committee of SEK 90,000, unless the committee is chaired by the chairman of the Board of Directors in which case an annual fee of SEK 65,000. The total fees for committee work, including committee chairmen fees shall not exceed SEK 360,000; and (iv) 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, within a frame of SEK 250,000, may be paid by resolution of the Board of Directors;
- Re-election of PricewaterhouseCoopers AB as auditors. Auditors will be paid as invoices are approved;
- Guidelines for compensation of senior executives;
- Authorisation for the payment of a dividend of SEK 2.00 per share to the Company's shareholders to be paid in two instalments of SEK 1.00 per share each in May and November 2019 and that the record dates for such cash dividends be 17 May 2019 and 18 November 2019;
- Approval of a incentive programme as part of the remuneration package to employees. Issuance of 350,000 warrants where each warrant is entitled to subscription to one new share in Tethys Oil during the period 1 June 2022 up to and including 7 October 2022. Subscription price for the warrants was SEK 78.50 per share;
- Authorisation for the Company to perform an extraordinary distribution of SEK six (6) per outstanding share through a share split, a reduction of the share capital with redemption of shares from the share split and an increase of the share capital by way of a bonus issue;
- Authorisation for the Board to resolve on repurchasing own shares up to but not more than one-tenth of all outstanding shares and to resolve on transfer of own shares;
- Rules for the appointment and work of the nomination committee; and
- Authorisation 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 and with the right to deviate from the shareholders' preferential rights up to but not more than one-tenth of all outstanding shares, to enable the Company to make business acquisitions and to raise capital for the Company's business operations.

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 2019, the nomination committee for the AGM 2020 consists of members appointed by three of the largest shareholders of the Company based on shareholdings as per 30 September 2019 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 27 November 2019. Owing to one of Tethys Oil's largest shareholders as at 30 September 2019 divesting a large part of their holdings in October 2019, Tethys Oil was unable to disclose the composition of its nomination committee by the date falling six months prior to the AGM as required by Code 2.5 of the Swedish Code of Corporate Governance.

The nomination committee for the AGM 2020 has held four meetings during its mandate and informal contacts have taken place between such meetings. The nomination committee report, including the final proposals to the AGM 2020, 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; and
- Proposal regarding procedures and principles for establishing a nomination committee and issues pertaining thereto for the AGM 2021.

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 in 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 2020 consisted of the following members:

- Viktor Modigh, chairman of the nomination committee, representing Magnus Nordin;
- Mikael Petersson, representing Lansdowne Partners Austria GmbH and Coeli Asset Management AB;
- Jan Risberg, representing himself; and
- Geoffrey Turbott, chairman of Tethys Oil

Board of Directors elected at the AGM 2019

Member	Elected	Position	Year of birth	Nationality	Independent in relation to the Company	Independent in relation to the Company's larger shareholders
Geoffrey Turbott	2015	Chairman	1963	New Zealand	Yes	Yes
Robert Anderson	2017	Member	1953	United Kingdom	Yes	Yes
Gavin Graham	2019	Member	1954	United Kingdom	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

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 2019 has consisted of six members and no deputies. Geoffrey Turbott has been chairman of the Board. Five Board members are independent from the Company and the Company's management, and six Board members are independent from larger shareholders. For further information on the Board members, please see pages 26–27.

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 controls are properly managed. The Board of Directors adopts strategies and goals and resolves on larger investments, acquisitions and disposals of business activities or assets. It 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 five ordinary meetings during a calendar year.

Timing and main items for ordinary meetings following AGM	
May	Constituting meeting
August	Second quarter report, review auditors' report
September–November	Strategy and discussion investment plan/budget
December	Investment plan and budget, liquidity and forecast
January–February	Fourth quarter and year-end report, allocation of profit, review auditors' report
March–April	Annual report and AGM

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 Board members. 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 in assessing the results, and it is a component in the nomination committee's work to submit a proposal to the AGM concerning Board members.

The Board's work in 2019
During 2019, the Board held 20 meetings of which eight were ordinary and twelve extraordinary, in person, via telephone and per capsulam meetings. Attendance at the meetings are shown in the table below. Board secretary was the Company's Senior legal counsel, Kelsey Emms. 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 in 2019

Board member	Board	Member Audit Committee	Member Remuneration Committee	Member of Technical Committee	Board meetings	Audit Committee meetings	Remuneration Committee meetings	Technical Committee meetings
Geoffrey Turbott	Chairman	Yes (Chairman)	–	–	19/20	5/5	–	–
Robert Anderson	Member	–	–	Yes (Chairman)	20/20	–	–	10/10
Gavin Graham	Member	–	–	Yes	13/20	–	–	7/10
Alexandra Herger	Member	–	Yes	Yes	19/20	–	3/3	10/10
Magnus Nordin	Member	–	–	–	20/20	–	–	–
Per Seime	Member	Yes	Yes (Chairman)	–	20/20	5/5	3/3	–

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 the period 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 2020, consisting of Geoffrey Turbott as chairman and Per Seime as a member of the committee. The committee remained unchanged throughout the year. The Audit Committee convened five times in 2019. 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 being providing support to the Board in the decision-making processes regarding such matters. The Audit Committee also regularly liaises with the Group's statutory auditors as part of the annual audit process and reviews the audit fees and the auditors' independence and impartiality. The Audit Committee reports to the Board, normally in conjunction with the following Board meeting.

Remuneration Committee
The Board has established a Remuneration Committee for the period up to and including the AGM 2020, consisting of Per Seime as chairman and Alexandra Herger as a member of the committee. The committee remained unchanged throughout the year. The Remuneration Committee convened three times in 2019. The work has mainly focused on establishing principles for remuneration to management, establishing key performance indicators, to monitor and evaluate variable remuneration and the application of the guidelines for remuneration as well as to construct and propose the share-based incentive programme. The Remuneration Committee reports to the Board, normally in conjunction with the following Board meeting.

Technical Committee
The Board has established a Technical Committee for the period up to and including the AGM 2020, consisting of Robert Anderson as chairman, Alexandra Herger and Gavin Graham as members of the committee. The Technical Committee convened ten times in 2019. The work has mainly focused on following up on work programs, budgets and investment proposals, 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. Members of the committee during 2019 prior to AGM 2019 consisted of Robert Anderson (chairman) and Alexandra Herger.

External auditors of the Company

Statutory auditors
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 Ulrika Ramsvik as lead partner and Bo Hjalmarsson as co-signing auditor. PricewaterhouseCoopers AB was elected as the Company's auditors at the AGM 2019.

Tethys Oil's auditor: Pricewaterhouse-Coopers AB

	Ulrika Ramsvik	Bo Hjalmarsson
Role	Lead partner	Co-signing auditor
Company auditor since	2014	2018

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 the audit. Remuneration to the auditors of Tethys Oil is paid in accordance with approved current accounts. In 2019, remuneration to PricewaterhouseCoopers AB amounted to MUSD 0.1 (MUSD 0.1). For details on remuneration to auditors, see note 10, Auditor's fees.

Independent qualified reserves auditor
Tethys Oil's independent qualified reserves auditor annually certifies Tethys Oil's oil reserves and resources, although such assets are not included in the Company's balance sheet. The independent qualified reserves auditor for the 2019 report was ERC Equipoise Limited ("ERCE"), the same that also audited the 2018 report. For further information, see Reserves on page 9.

Managing Director and executive management

The executive management in Tethys Oil throughout 2019 has consisted of the Managing Director (Magnus Nordin), CFO (Jesper Alm until June 2019 followed by William Holland) and the 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; and
- Severance arrangements

The Board has the right to deviate from the remuneration policy if there are particular reasons.

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

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

Variable salary
Senior executives shall be part of two variable remuneration systems payable in cash and/or in combination with a right to acquire warrants in the Company in a long-term incentive program. When allocating warrants the same financial and operational key indicators as for variable cash salary shall be considered.

The yearly variable cash salary shall be within the range of 1–12 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 key performance indicators both for the group's overall and financial performance as well as individual performance. 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. The variable remuneration shall not be pensionable.

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

Severance arrangements
A mutual termination period of 12 months applies between the Company and the Managing Director and up to six months between the Company and other senior executives. Severance pay shall be paid to the Managing Director of up to 12 months fixed salary and up to 12 months fixed salary for other senior executives if the Company terminates their employment.

Remuneration to executive management 2019
(MSEK)

	Basic salary	Pension arrangements	Variable salary	Share based long-term incentive	Other benefits	Total 2019	Total 2018
Managing Director	3.271	0.659	0.696	1.566	0.025	6.217	5.252
Other executive management	7.086	0.771	0.679	1.088	0.011	9.635	6.491
Total	**10.357**	**1.431**	**1.376**	**2.654**	**0.036**	**15.853**	**11.671**

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

Remuneration to the Board 2019
Remuneration to be paid to the Board of Directors for the period between the AGMs of 2019 and 2020 amounts to a total of TSEK 2,355, allocated among the Board members in the way shown in the below table. The annual general meeting 2019 resolved that remuneration of the chairman of the Board of Directors shall be TSEK 700 per annum and of the other members TSEK 330 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 fee for committee members is TSEK 35 per committee assignment and annual fees for the chairman of the remuneration and technical committees are TSEK 65. The annual fee for the chairman of the audit committee is TSEK 90, unless the committee is chaired by the Chairman of the Board in which case the annual fee is 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 2019 and 2020 (in their capacity as board members)
(TSEK)

Member	Board of directors	Audit Committee	Technical Committee	Remuneration Committee	Total
Geoffrey Turbott	700	65	–	–	765
Robert Anderson	330	–	65	–	395
Gavin Graham	330		35		365
Alexandra Herger	330	–	35	35	400
Magnus Nordin	–	–	–	–	–
Per Seime	330	35	–	65	430
Total	**2,020**	**100**	**135**	**100**	**2,355**

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 the 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 operators 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 minimises the risks for errors in the financial reporting. The control activities also include following up on the authorisation 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 reports 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 interests or early stage operated exploration interests, 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, 9 April 2020

Tethys Oil AB (publ)
The Board of Directors

Auditor's report on the Corporate Governance Statement

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

Engagement and responsibility

It is the board of directors who is responsible for the corporate governance statement for the year 2019 on pages 20–25 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 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, 9 April 2020
PricewaterhouseCoopers AB

Ulrika Ramsvik
Authorized Public Accountant
Lead Partner

Bo Hjalmarsson
Authorized Public Accountant

Board of Directors

Member	Geoffrey Turbott	Rob Anderson	Gavin Graham
Function	Chairman of the Board and chairman of the Audit Committee	Board member and chairman of the Technical Committee	Board member and member of the Technical Committees
Elected	2015	2017	2019
Year of birth	1963	1953	1954
Nationality	New Zealand	United Kingdom	United Kingdom
Education/background	Former member of New Zealand's Institute of Chartered Accountants	MA Engineering, Christ's College, Cambridge University. Chartered Engineer & Fellow of the Institution of Mechanical Engineers	BA and MA in Geology from Cambridge University, PhD in Geology from the Open University
Experience	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	VP Projects & Engineering at TNK-BP, Head of Projects at BP. Engineer with deep experience in oil installations and major oil and gas field developments	Geologist with extensive experience of the oil industry, Oman in particular. Senior positions in Shell, Petrofac and Grupa LOTOS
Other board duties	Board member: Tetbury Forestry Ltd. and Progress Land Ltd.	–	Non-Executive Director for Echo Energy PLC, member of the Advisory Panel of Windsor Energy Group, member of the Advisory Board of Crystol Energy, member of the Management Committee of Access for Women in Energy and advisor for Tudor, Pickering & Holt.
Shares in Tethys Oil (per 31 December 2019)[1]	35,400	–	–
Warrants in Tethys Oil (per 31 December 2019)[1]	–	–	–
Board and committe remuneration (TSEK)[2]	765	395	365
Independent in relation to the Company	Yes	Yes	Yes
Independent in relation to the Company's larger shareholders	Yes	Yes	Yes

1 Privately or via company
2 Resolved upon at the AGM 2019

Member	**Alexandra Herger**	**Magnus Nordin**	**Per Seime**
Function	Board member and member of the Remuneration and Technical Committees	Board member and Managing Director	Board member, chairman of the Remuneration Committee and member of the Audit Committee
Elected	2017	2001	2017
Year of birth	1957	1956	1946
Nationality	United States	Sweden	Norway
Education/background	BA Geology, Ohio Wesleyan University and Master studies Geology, University of Houston	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)
Experience	VP Global Exploration at Marathon Oil, executive positions at Shell and Enterprise Oil	Several executive positions in different oil companies	Oil and gas lawyer with more than 30 years' experience. Lawyer for Mobil Oil (Norway, USA and Indonesia) and legal advisor to oil companies. Previously chair of board for Premier Oil Norge and Nexen Exploration Norge.
Other board duties	Board member: Panoro Energy ASA, Electromagnetic Geoservices ASA (EMGS) and Tortoise Capital Advisors Member: Women's Leadership Committee, Oil Council and Leadership Texas, Foundation for women's resources, member of the PGS ASA's Nomination Committee	Board member: Minotaurus AB, including subsidiaries, and Minotaurus Energi AS	–
Shares in Tethys Oil (per 31 December 2019)[1]	–	1,550,427	5,000
Warrants in Tethys Oil (per 31 December 2019)[1]	–	2017/20: 75,000 2018/21: 75,000 2019/22: 60,000	–
Board and committe remuneration (TSEK)[2]	400	–	430
Independent in relation to the Company	Yes	No	Yes
Independent in relation to the Company's larger shareholders	Yes	Yes	Yes

1 Privately or via company
2 Resolved upon at the AGM 2019

Executive management

Member	**Magnus Nordin**	**Petter Hjertstedt**	**Fredrik Robelius**
Function	Board member and Managing Director	Acting Chief Financial Officer	Chief Technical Officer
Employed since	2004	2016	2011
Education/background	Bachelor of Arts, University of Lund and Master of Arts, University of California, Los Angeles	Finance and accounting at Linköping University, Sweden	Education: PhD Engineering Physics, Uppsala University; Postgraduate Diploma Petroleum Engineering, Heriot-Watt University
Year of birth	1956	1979	1973
Nationality	Sweden	Sweden	Sweden
Experience	Several executive positions in different oil companies	Equity research analyst at SEB, Pareto Securities and Carnegie Investment Bank. Finance and Investor Relations at PA Resources	Energy engineering positions in Fortum, petroleum engineering related positions in Tanganyika Oil and Sinopec
Shares in Tethys Oil (per 31 December 2019)[3]	1,550,427	3,900	8,600
Warrants in Tethys Oil (per 31 December 2019)	2017/20: 75,000 2018/21: 75,000 2019/22: 60,000	2017/20: 16,000 2018/21: 20,000 2019/22: 25,000	2017/20: 48,000 2018/21: 48,000 2019/22: 50,000

3 Privately, via company and insurance policy

The Tethys Oil share

Tethys Oil's shares are traded on Nasdaq Stockholm. With the purpose of improving liquidity and reducing the spread between buyers and sellers of Tethys Oil shares, the Company has contracted 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 2019 amounts to SEK 6,050,862 represented by 36,294,960 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 2019, the Board of Directors had remaining outstanding authorisation from the AGM to issue up to 10 percent of the shares up until the next AGM. As per 31 December 2019, Tethys Oil held 1,954,163 (5.4 percent) of its own shares which were purchased during 2014 to 2019 at an average price of SEK 59.17. 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, however not included in the number of shares in circulation, which amounts to 34,340,797.

Tethys Oil has a warrant programme as part of the remuneration package to employees. Warrants currently outstanding have been issued following the AGMs in 2017, 2018 and 2019. 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
2017/20	350,000	335,000	75.10	1.14
2018/21	350,000	324,000	81.70	1.09
2019/22	350,000	350,000	78.50	1.00

Share capital development

Since the company's inception in September 2001 and up to 31 December 2019, 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	Share split 100:1	1,00	495 000	500 000	0	500 000
2003	Share issue	1,00	250 000	750 000	250 000	750 000
2004	Share split 2:1	0,50	750 000	1 500 000	0	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 issues	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	Share split 3:1	0,17	12 785 524	19 178 286	0	3 196 381
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 issues	0,17	3 300 000	27 280 086	550 000	4 546 681
2009	Exercise of warrants	0,17	769 005	28 049 091	128 167	4 674 848
2010	Exercise of warrants	0,17	1 144 451	29 193 542	190 742	4 865 590
2010	Share issue	0,17	500 000	29 693 542	83 334	4 948 924
2010	Exercise of warrants	0,17	2 810 947	32 504 489	468 491	5 417 415
2011	Non-cash issue	0,17	39 261	32 543 750	6 544	5 423 958
2012	Share issue	0,17	3 000 000	35 543 750	501 667	5 925 625
2015	Share split 1:2 (redemption shares)	0,08	35 543 750	71 087 500	0	5 925 625
2015	Redemption	0,08	-35 543 750	35 543 750	-2 962 813	2 962 813
2015	Bonus issue	0,17	0	35 543 750	2 962 813	5 925 625
2016	Share split 1:2 (redemption shares)	0,08	35 543 750	71 087 500	0	5 925 625
2016	Redemption	0,08	-35 543 750	35 543 750	-2 962 813	2 962 813
2016	Bonus issue	0,17	0	35 543 750	2 962 813	5 925 625
2018	Share split 1:2 (redemption shares)	0,08	35 543 750	71 087 500	0	5 925 625
2018	Redemption	0,08	-35 543 750	35 543 750	-2 962 813	2 962 813
2018	Bonus issue	0,17	0	35 543 750	2 962 813	5 925 625
2018	Exercise of warrants	0,17	352 560	35 896 310	58 777	5 984 402
2019	Share split 1:2 (redemption shares)	0,08	35 896 310	71 792 620	0	5 984 402
2019	Redemption	0,08	-35 896 310	35 896 310	-2 992 201	2 992 201
2019	Bonus issue	0,17	0	35 896 310	2 992 201	5 984 402
2019	Exercise of warrants	0,17	398 650	36 294 960	66 460	6 050 862

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 2019, the Board of Directors proposes to the AGM 2020 a total distribution of SEK 5.00 per share, corresponding to MSEK 165.3 in total. The distribution, subject to approval by the AGM, is proposed to be made by a cash dividend of SEK 2.00 per share and SEK 3.00 per share by a mandatory share redemption programme. (AGM 2019 resolved on a total distribution of SEK 8.00 per share, of which SEK 2.00 per share as cash dividend and SEK 6.00 per share by a mandatory share redemption programme, equal to MSEK 274.0).

Share ownership structure

The 15 largest shareholders in Tethys Oil as per 29 February 2020.

Name	Number of shares	Share of capital and votes
Lansdowne Partners	3,633,699	10.0%
Magnus Nordin	1,550,427	4.3%
JP Morgan Asset Management	1,157,340	3.2%
Avanza Pension	847,774	2.3%
Liontrust	832,029	2.3%
Jan Risberg	700,000	2.0%
Carl Erik Norman	610,000	1.7%
Nordnet Pension Insurance	558,840	1.5%
Grandeur Peak Global Advisors, LLC	552,048	1.5%
Schroders	502,931	1.4%
Russell Investments	450,609	1.2%
Peder Månsson	445,974	1.2%
Daniel Hägerlöf	333,060	0.9%
AXA	311,092	0.9%
Goldman Sachs Asset Management	299,046	0.8%
Total, 15 largest shareholders	**12,784,869**	**35.2%**
Summary, others appr. 7,800 shareholders	21,340,688	58.8%
Outstanding shares	**34,125,557**	**94.0%**
Tethys Oil AB	2,169,403	6.0%
Total number of shares (incl. treasury shares)	**36,294,960**	**100.0%**

Source: Monitor by Modular Finance as per 29 February 2020. Compiled and processed data from various sources, including Euroclear, Morningstar and the Swedish Financial Supervisory Authority (Finansinspektionen). The verification date may vary for certain shareholders.

Distribution of shareholdings

Distribution of shareholdings per 29 February 2020.

Holding	Number of shares	Percentage of shares	Number of shareholders	Percentage of shareholders
1 – 500	688,524	1.9%	5,886	75.1%
501 – 1,000	708,796	2.0%	851	10.9%
1,001 – 5,000	1,903,703	5.2%	812	10.4%
5,001 – 10,000	871,921	2.4%	119	1.5%
10,001 – 20,000	896,308	2.5%	59	0.8%
20,001 – 50,000	1,536,525	4.2%	48	0.6%
50,001 – 100,000	1,888,916	5.2%	26	0.3%
100,001 – 200,000	2,565,075	7.1%	17	0.2%
200,001 –	16,008,517	44.1%	20	0.3%

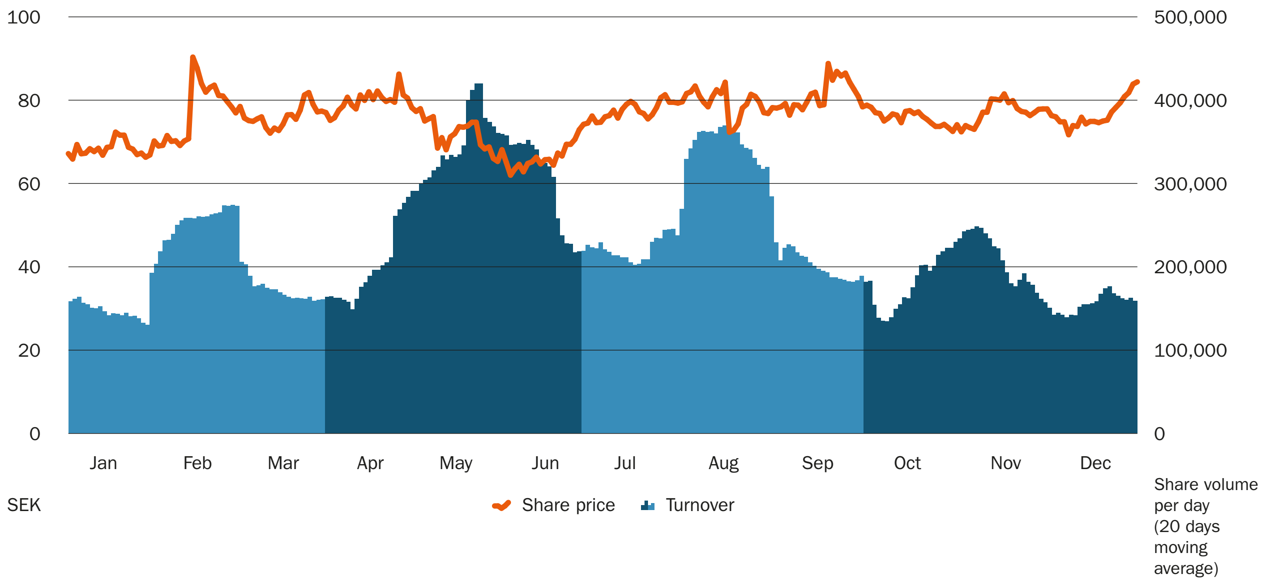
Source: Monitor by Modular Finance as per 29 February 2020.

Share statistics 2019

The final transaction price in 2019 was SEK 84.40 corresponding to a total market capitalization of MSEK 3,063. During the year the price of Tethys Oil's share increased by 30 percent.

Based on data from NASDAQ Stockholm, the highest transaction price in 2019 was SEK 93.84 on 12 February and the lowest was SEK 60.00 on 3 June. The turnover velocity (annual turnover/outstanding shares) was 158 percent on Nasdaq Stockholm.

Share price development and turnover 2019



Payments to authorities 2019

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 2019 for the group in which Tethys Oil AB (publ) ("Tethys Oil") is the parent company.

Per project

Project	Production sharing		License costs	Total
	Barrels ('000)	USD ('000)	USD ('000)	USD ('000)
Oman				
Block 3&4	2,301	148,284	–	148,284
Block 49	–	–	250	250
Total Oman	**2,301**	**148,284**	**250**	**148,534**
Total Tethys Oil	**2,301**	**148,284**	**250**	**148,534**

Per Authority

	Production sharing		License costs	Total
	Barrels ('000)	USD ('000)	USD ('000)	USD ('000)
Sultanate of Oman – Ministry of Oil & Gas	2,301	148,284	100	148,384
Sultanate of Oman – Ministry of Finance	–	–	150	150
Total Oman	**2,301**	**148,284**	**250**	**148,534**
Total Tethys Oil	**2,301**	**148,284**	**250**	**148,534**

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.

Licence costs
This pertains to costs for maintaining the exploration licence 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	2019	2018	2017	2016	2015
Operational items					
Production before government take, Oman Blocks 3&4, bbl	4,683,754	4,294,852	4,439,119	4,436,438	3,539,632
Production per day, Oman Blocks 3&4, bbl	12,832	11,767	12,162	12,121	9,698
Net sales after government take, bbl	2,259,849	2,163,148	2,316,404	2,357,701	1,805,056
Achieved oil price, USD/bbl	64.2	70.5	51.8	40.5	58.1
Revenue and other income, MUSD	150.8	157.3	119.3	87.1	107.0
EBITDA, MUSD	92.9	106.6	78.2	44.0	58.6
EBITDA-margin, %	62%	68%	66%	51%	55%
Operating result, MUSD	37.1	60.7	38.4	-0.5	23.0
Operating margin, %	25%	39%	32%	-1%	21%
Net result, MUSD	38.3	62.2	33.1	2.7	23.4
Net margin, %	25%	40%	28%	3%	22%
Cash and cash equivalents, MUSD	75.6	73.1	42.0	39.0	51.2
Shareholders' equity, MUSD	276.3	267.6	228.5	196.9	217.2
Balance sheet total, MUSD	300.2	291.4	244.7	239.0	253.6
Capital structure					
Equity ratio, %	92%	92%	93%	82%	86%
Leverage ratio, %	neg.	neg.	neg.	neg.	neg.
Investments, MUSD	65.2	55.8	40.4	48.5	40.8
Net cash, MUSD	75.1	73.1	42.0	39.0	51.2
Profitability					
Return on shareholders' equity, %	14.10%	25.09%	15.56%	1.29%	10.85%
Return on capital employed, %	14.66%	26.66%	18.97%	4.20%	13.59%
Other					
Average number of full-time employees	23	20	19	19	17
Distribution per share, SEK	8.00	6.00	1.00	4.00	3.00
Cash flow from operations per share, USD	2.64	2.97	1.46	1.53	1.69
Number of shares at year end, thousands	36,295	35,896	35,544	35,544	35,544
Of which repurchased shares at period end, thousands	1,954	1,644	1,644	1,329	1,084
Number of shares at year end (excluding repurchased shares), thousands	34,341	34,252	33,900	34,215	34,460
Shareholders' equity per share, USD	7.61	7.45	6.43	5.54	6.11
Weighted average number of shares (before dilution) for the year, thousands	34,223	34,011	34,170	34,324	34,964
Weighted average number of shares (after dilution) for the year, thousands	34,303	34,140	34,385	34,372	34,964
Earnings per share before dilution, USD	1.12	1.83	0.97	0.08	0.67
Earnings per share after dilution, USD	1.12	1.82	0.96	0.08	0.67

Tethys Oil discloses alternative performance measures as part of its financial statements prepared in accordance with ESMA's (European Securities and Markets Authority) guidelines. Tethys Oil believes that the alternative performance measures provide useful supplemental information to management, investors, security analysts and other stakeholders. They are meant to provide an enhanced insight into the financial development of Tethys Oil's business operations and improve comparability between periods. Alternative performance measures are not defined under IFRS and should not be viewed as a substitute for financial information presented in accordance with IFRS but rather as a complement. Reconciliations of relevant alternative performance measures are provided on the following page. Definitions of the performance measures are provided under the key ratio definitions below.

Definitions of key ratios

Relevant reconciliations of alternative performance measures

MUSD	2019	2018	2017	2016	2015
Operating result	37.1	60.7	38.4	-0.5	23.0
Add: Depreciation, depletion and amortization	47.6	45.9	39.5	44.4	34.7
Add: Exploration costs	8.2	–	0.3	0.1	1.0
EBITDA	**92.9**	**106.6**	**78.2**	**44.0**	**58.6**
Cash and bank	75.6	73.1	42.0	39.0	51.2
Less: Interest bearing debt	-0.5	–	–	–	–
Net cash	**75.1**	**73.1**	**42.0**	**39.0**	**51.2**

Margins

EBITDA-margin
EBITDA as a percentage of yearly revenue and other income.

Operating margin
Operating result as a percentage of yearly revenue and other income.

Net margin
Net result as a percentage of yearly revenue and other income.

Capital structure

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

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

Investments
Total investments during the year.

Net cash
Cash and equivalents less interest bearing debt.

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 fulltime.

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

Weighted average number of shares
Number of shares at the beginning of the year with newly issued shares time weighted for the period on issue.

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

n.a. Not applicable.

n.m. Not meaningful.

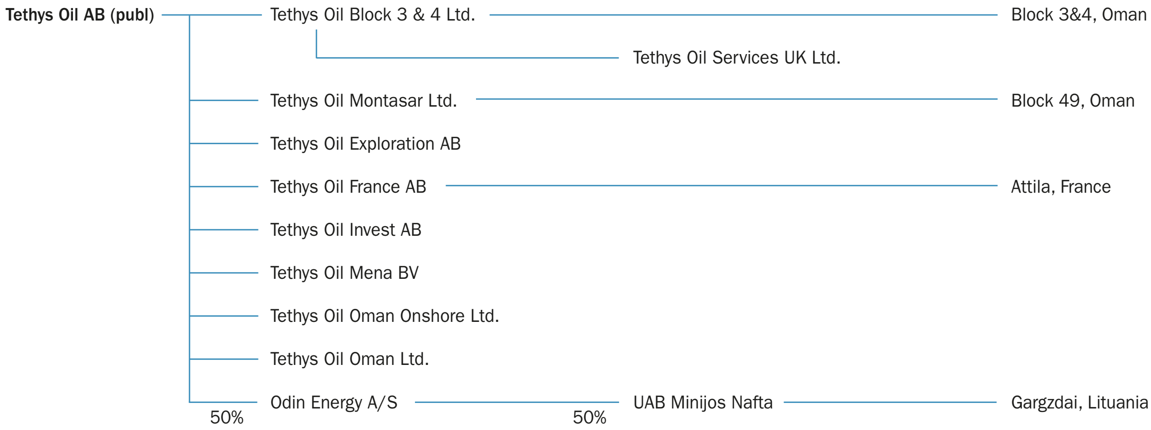
Definitions and abbreviations

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

bbl	Oil production is often given in numbers of barrels per day. One barrel of oil = 159 litres, 0.159 cubic meters
bopd	Barrels of Oil per Day
mbo	Thousand Barrels
mmbo	Million Barrels
EPSA	Exploration and Production Sharing Agreement

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-month period ended on 31 December 2019. 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 the Sultanate of Oman, where the Group holds interests in Blocks 3&4, Block 49 and Block 56 (subject to final government approval). The Company holds a 30 percent non-operated interest in the exploration and production licence for Blocks 3&4, a 100 percent operated interest in the exploration licence for Block 49 as well as a 20 percent non-operated interest in the exploration license for Block 56. Tethys Oil also has an interest in a dormant onshore exploration licence in France and an indirect interest in a minor producing asset in Lithuania. The company is actively seeking to expand its operations in Oman, and the surrounding region. Tethys Oil's operational approach is to explore, appraise and develop its assets concurrently allowing for continued operations to be funded from cash flow from production. This has resulted in continuous growth in both production and reserves over time.

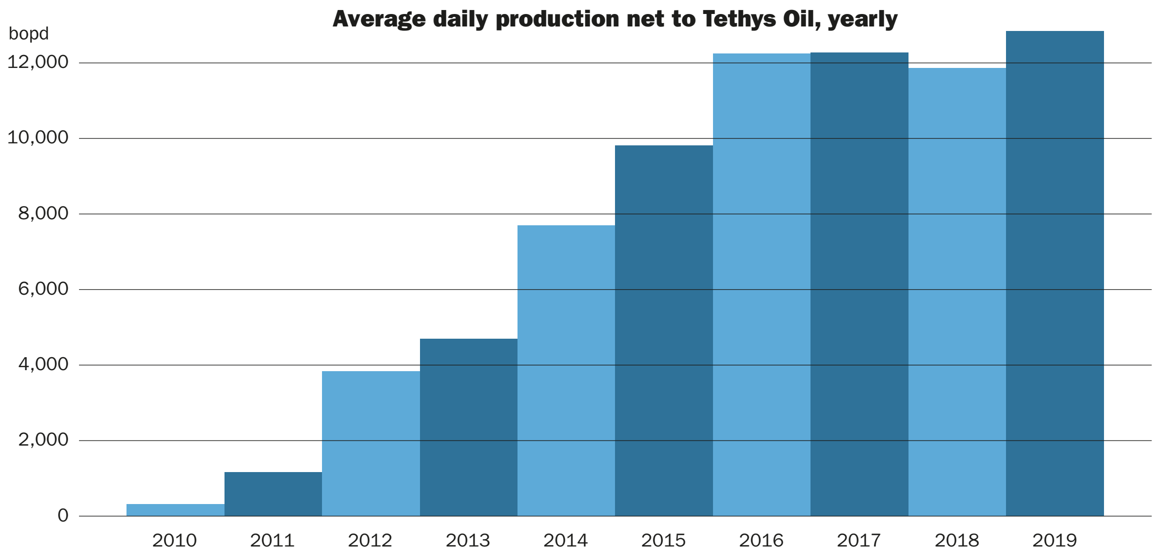
Production

The Group's reported production comes from Blocks 3&4 in Oman which averaged 12,832 barrels per day in 2019 compared to 11,767 barrels per day in 2018. The Group's reported production grew by 9 percent in 2019 compared to the year before and amounted to 4.7 million barrels (4.3 million barrels). The producing fields Farha South, Shahd and Saiwan East which have been in production for several years are mostly either at peak production or in decline. Production from the newer fields, Erfan, Ulfa and Samha, has contributed to the growth in production in 2019 and is expected to contribute an increasing share of overall production going forward. Tethys Oil has additional production in Lithuania of less than 100 barrels per day.

Production Entitlement

The terms of the Exploration and Production Sharing Agreement ("EPSA") for Blocks 3&4 allows the joint operations partners to recover their costs from up to 40 percent of the value of total oil production on an annual basis, 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 the costs incurred during the period exceeds the maximum 40 percent of production, it is carried forward to be recovered in future periods and is referred to as the 'Cost Pool'. If there are no costs to be recovered, the joint operations partners receive 20 percent of the oil produced. The terms of the EPSA thus dictates that the joint operations partners' share of production after government take to be in the range 20–52 percent, depending on available recoverable cost. Until 2019, on Blocks 3&4, the joint operations partners' share of production after government take has been in the high end of the range, 52 percent, as the joint operations partners have continued to invest on Blocks 3&4 while also recovering its historic cost pool. During 2019, the remaining balance of the cost pool was recovered, and thus, from that point on the level of cost oil was determined by the costs incurred in the period. Tethys Oil's net entitlement of 2019 was 51 percent (52 percent), and the estimated recoverable costs in the cost pool as at 31 December 2019, net to Tethys Oil, amounted to MUSD – (MUSD 14.7). Based on the expected production, investments and operating costs as well as an assumed oil price of USD 60 per barrel, Tethys Oil expects its entitlement of oil production from Blocks 3&4 to be between 51–52 percent for the year 2020.

Tethys Oil's share of volumes, before government take	2019	2018	2017	2016	2015
Tethys Oil's share of annual production, bbl					
Oman, Blocks 3&4					
Production	4,683,754	4,294,852	4,439,118	4,436,438	3,539,631
Average daily production, bopd	12,832	11,767	12,162	12,121	9,698



Reserves and contingent resources

Oman, Blocks 3&4

Tethys Oil's net working interest Reserves in Blocks 3&4 Oman as at 31 December 2019 amount to 26,112 thousand barrels of oil ("mbo") of Proven and Probable Reserves (2P). The 2P Reserve Replacement Ratio amounts to 116 percent. In addition, Tethys Oil's net working interest resources in Oman amounts to 13,458 mbo of 2C Contingent Resources. The Company's 2019 and 2018 year-end Reserves reports were audited by ERC Equipoise Limited ("ERCE") as independent qualified Reserves evaluator.

Development of reserves, Blocks 3&4 (audited)

mbo	1P	2P	3P
Total 31 December 2018	16,735	25,357	35,884
Production 2019	-4,684	-4,684	-4,684
Additions and revisions	5,285	5,439	5,719
Total 31 December 2019	**17,336**	**26,112**	**36,919**
Reserve replacement ratio	113%	116%	122%

Additions and revisions include maturation of Contingent Resources to Reserves from the ongoing appraisal program of the Ulfa, Samha and Erfan fields as well as upside revisions of the Reserves on the Farha South and Shahd fields and a small amount of Reserves attributable to the Masarrah-1 exploration well drilled in 2019.

Based on ERCE's oil price assumptions, Tethys Oil's net entitlement Reserves (Reserves after government take) amount to 7,862 mbo of 1P, 10,869 mbo of 2P and 12,160 mbo of 3P (revised following cost pool adjustments).

In addition to Reserves, Tethys Oil also announces net working interest Contingent Resources. The bulk of the estimated Contingent Resources are contained in Ulfa, Samha and Erfan fields. Development of the Contingent Resources in the discoveries is continued contingent upon the on-going appraisal programme, a committed work programme as well as budget to access these resources.

Contingent resources Blocks 3&4 (audited)

mbo	1C	2C	3C
Total 31 December 2019	**5,094**	**13,458**	**26,468**

The audit of the Reserves in Oman has been conducted using 2018 Petroleum Resources Management System (PRMS2018), 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 and other income

Revenue and other income	2019	2018	2017	2016	2015
Oil sold, bbl	**2,259,849**	2,163,148	2,316,404	2,357,701	1,805,056
Underlift (overlift) movement, bbl	**123,238**	70,174	-8,062	-50,754	35,552
Net barrels produced, after government take, bbl	**2,383,086**	**2,233,322**	**2,308,342**	**2,306,947**	**1,840,608**
Oil price, USD/bbl	**64.2**	70.5	51.8	40.5	58.1
Revenue, MUSD	**145.0**	152.6	119.9	95.4	104.9
Underlift (overlift) adjustments, MUSD	**5.8**	4.7	(0.6)	(2.4)	2.2
Overlift adjustment reporting error, MUSD	**–**	–	–	(5.9)	–
Revenue and other income, MUSD	**150.8**	**157.3**	**119.3**	**87.1**	**107.0**

During 2019, Tethys Oil sold 2,259,849 barrels of oil from Blocks 3&4, representing a 4 percent increase compared to 2018 when 2,163,148 barrels of oil were sold. The increase in oil sold was offset by the 9 percent decrease in achieved oil price resulting in a revenue of MUSD 145.0 (MUSD 152.6), a 5 percent decline. In addition to revenue, there has been an adjustment for an increased underlift position amounting to MUSD 5.8 (MUSD 4.7) which together with revenue adds up to revenue and other income of MUSD 150.8, a 4 percent decline for 2019 compared to MUSD 157.3 in 2018.

The achieved oil price (also known as the average selling price) in 2019 was USD 64.2 (USD 70.5) per barrel.

Volumes for oil sales are nominated two months in advance and are not based upon the actual production in a month; as a result, sales volumes can be above or below production volumes. Where the sales volume exceeds the quantity of barrels produced, an overlift position occurs and where it is less, an underlift position occurs. During the year, the group extended its underlift position from 34,083 barrels at the end of 2018 to 157,321 at per the 31 December 2019. The underlift position at the end of 2019 was primarily due to a majority of the December lifting nomination being lifted in early January 2020. 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 originate from Blocks 3&4 and are made on a monthly basis. Tethys Oil's selling price is based on the Official Selling Price (OSP) as set by the Sultanate of Oman's Ministry of Oil and Gas, in addition to trading and quality adjustments. The OSP is calcultade using the monthly average price of the front month future contract of Oman Export blend as traded on the Dubai Mercantile Exchange.

Operating expenses

Operating expenses, Blocks 3&4	2019	2018	2017	2016	2015
Production costs, MUSD	**47.2**	42.6	32.6	33.5	38.4
Well workovers, MUSD	**4.4**	3.4	2.3	3.1	4.5
Total operating expenses, MUSD	**51.6**	**45.9**	**34.9**	**36.5**	**42.9**
Operating expenses per barrel, USD	**11.0**	10.7	7.9	8.2	12.1

Production costs relate to oil production on Blocks 3&4, and comprise expenses for throughput fees, energy, consumables, field staff, maintenance, as well as administration, including operator overhead. Well workovers and interventions relate to downhole work and replacing of electric submersible pumps enabling shut-in wells to restart production. The work programme for well workovers for the year was increased for a second consecutive year.

Production costs, well workovers and interventions together comprise operating expenses, amounting to MUSD 51.6 in 2019 (MUSD 45.9), an increase of 12 percent compared to 2018. The increase in costs was driven by the costs relating to the commissioning of the Ulfa EPF, increased diesel fuel rates, maintenance costs and third-party services.

Depletion, depreciation and amortisation

DD&A	2019	2018	2017	2016	2015
DD&A, MUSD	**47.6**	45.9	39.5	44.4	34.6
DD&A per barrel, USD	**10.2**	10.7	8.9	10.0	9.8

Depletion, depreciation and amortisation ("DD&A") for 2019 amounted to MUSD 47.6 (MUSD 45.9), which is higher than 2018 and is attributable to increased production offset by a lower DD&A rate per barrel. The DD&A charge relates to Blocks 3&4.

Netback

Netback, Blocks 3&4, USD/bbl	2019	2018	2017	2016	2015
Oil price achieved (sales barrels)	**64.2**	70.5	51.8	40.5	58.1
Revenue (after government take)	**31.1**	36.7	27.0	21.0	30.2
Operating expenses	**11.1**	10.7	7.9	8.2	12.1
Netback	**22.3**	**26.0**	**19.1**	**12.8**	**18.1**

The decrease in netback per barrel during 2019 has mainly been driven by the oil price development.

Exploration Costs

Exploration costs amounting to MUSD 8.2 (MUSD –) were recorded in 2019 and are primarily related to the cost of the Luja-1, Yamin-1, Yusr-1, Maather-1 and Mahamid-1 exploration wells which, following drilling and testing, were all deemed uneconomic. Exploration and appraisal costs are capitalised as they are incurred and subject to regular review. Dry or uneconomic wells are expensed when the recoverability of the costs is deemed highly unlikely.

Administrative expenses

Administrative expenses amounted to MUSD 7.0 for 2019 compared to MUSD 5.7 during 2018 with the increase driven by an increase in staff and consultancy costs. Administrative expenses are mainly salaries, rents, listing costs and external services.

Net financial result

The net financial result for 2019 of MUSD 1.2 (MUSD 1.5) has been impacted by net gains due to changes in foreign exchange rates due to the USD strengthening against the SEK, MUSD 0.9, as well as interest income of MUSD 0.8 offset by other financial expenses of MUSD -0.5. Currency translation differences recorded on loans between the parent company and subsidiaries are non-cash related items.

Tax

Tethys Oil's oil and gas operations in Oman are governed by an Exploration and Production Sharing Agreement for each licence ("EPSA") whereby Tethys Oil receives its share of oil after government take. Under the terms of each 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. The effect of these taxes is netted against revenue and other income in the income statement.

Result

Tethys Oil reports a net result after tax for 2019 of MUSD 38.3 (MUSD 62.2), representing earnings per share of USD 1.12 (USD 1.82). The result for 2019 was down compared to 2018 mainly due to lower oil prices, increased operating expenses, exploration costs and administrative expenses.

Investments and work programme

Summary of oil and gas interests (MUSD):

Country/Asset	Book value 31 Dec 2019	Investments Jan–Dec 2019	Book value 31 Dec 2018	Investments Jan–Dec 2018
Oman Blocks 3&4	194.8	54.0	194.0	50.4
Oman Block 49	8.0	2.3	5.7	5.3
Oman Block 56	8.6	8.6	–	–
Lithuania	–	–	–	–
France	–	–	–	–
New ventures	0.3	0.3	0.3	0.1
Total	**211.7**	**65.2**	**200.0**	**55.8**

During 2019, total investments in oil and gas properties amounted to MUSD 65.2 compared to MUSD 55.8 in 2018. Of 2019 investments, MUSD 54.0 related to Blocks 3&4, MUSD 2.3 to Block 49 and MUSD 8.6 to Block 56.

Blocks 3&4

Investments Blocks 3&4, MUSD	2019	2018	2017	2016	2015
Drilling	**25.0**	25.5	26.6	30.3	20.5
G&G	**10.1**	11.2	4.2	4.5	8.9
Facilities	**18.9**	13.7	9.1	13.4	11.3
Total investments Blocks 3&4	**54.0**	**50.4**	**39.9**	**48.2**	**40.7**

Operations

Tethys Oil holds interests in three licence areas covering four Blocks onshore Oman. The majority of investments and all income relate to the Blocks 3&4 exploration and production licence, where the Company holds a 30% non-operated interest. Tethys Oil holds 100% interest and is operator of exploration licence Block 49 and a 20% non-operated interest in the exploration licence Block 56, that was acquired in the fourth quarter 2019.

The main objectives of the 2019 work programme on Blocks 3&4 were production enhancement from all fields, optimisation of the Ulfa field production facilities ("Ulfa EPF"), maturation of contingent resources, and continued exploration activities. The work programme on Block 49 focused on interpretation and mapping of the seismic acquired in 2018 and preparations for upcoming exploration drilling. Block 56 operations were from acquisition in the fourth quarter focused on evaluation of exploration wells and production testing.

Blocks 3&4

Production increased during the year to reach an average daily production of 12,832 bopd in 2019, over nine percent higher than in 2018. The increase over 2018 is primarily due to the launch of the Ulfa field production facilities, successful completion of infill wells and appraisal wells and ongoing production optimisation through maintenance and upgrading activities, including work overs in the Farha South, Shahd and Saiwan East fields. Three rigs and one workover rig have been operating during the year.

Wells completed 2019 (primary purpose)	Ulfa-, Samha and Erfan fields	Farha South Field	Shahd and Saiwan East Fields	Near and far field exploration	Total
Appraisal/ Production	7	5	9	–	**21**
Water injection	–	2	3	–	**5**
Water source	–	–	1	–	**1**
Exploration	–	–	–	5	**5**
Total	**7**	**7**	**13**	**5**	**32**

Ulfa, Samha and Erfan Fields

The appraisal programme of the Ulfa and Samha fields was initiated in the first quarter 2018 with the objective to mature contingent resources into reserves and to optimise plans for future production.

The construction of the Ulfa EPF was finalised in the end of 2018, and the facility commenced production towards the very end of the year. The EPF includes separators, heater treaters and pipelines. A new pipeline has been constructed to connect the Ulfa

EPF with the Saiwan East production facility. The launch of the Ulfa EPF included some start-up issues, mainly relating to gas handling. As a consequence, wells at Samha and Ulfa were shut in or put on restricted production. As at the end of March 2019, additional capacity for gas separation was installed and these wells were put back in production. The Ulfa EPF has been fine-tuned throughout the year, with additional gas separation capacity added to further increase the total oil and gas handling capacity of the production facility.

During the year, three new appraisal/production wells were drilled on the Erfan field, three on the Ulfa field and one on Samha field. Production data from the wells is being used to optimise production and support the maturation of the contingent resources into reserves.

Farha South field

The commissioning of the Ulfa EPF has released capacity at the Farha South production facility, enabling new production from the Farha South field to be added.

During the year, stimulation of water injection wells continued. A programme to replace some of the electrical submersible pumps ("ESP") was implemented in order to improve flow in the Farha South flowline system, which will reduce back pressure and in turn increase production. An API tank has been installed to further enhance the water handling capacity at the Farha South production facility.

Four new production wells have been drilled on producing fault blocks on the field. One appraisal/production well was drilled in previously undrilled fault block on the field during the first quarter 2019. The well did not encounter oil.

Shahd and Saiwan East oil fields

The operations on Shahd included drilling of nine production wells on the Shahd field, with the majority being drilled on the Shahd I structure. Those wells contributed to the increase in production in the second half of the year.

Infrastructure development

A gas-powered generator has been installed and commissioned on the Shahd field. This pilot project is part of an ambitious plan aimed at materially reducing flaring and diesel consumption.

A new camp for contractors has been developed on Block 3&4, with contractors moving in late in the third quarter 2019. New camps have been central component in the preparing of the fields for the future. A new camp for employees will be the next step in this development of the fields.

Exploration activities – Seismic acquisition

At the end of the year, the 2019/2020 seismic programme was launched. The surveys targeting more than 4,000 km² of new seismic data. 1,650 km² of 3D seismic was acquired east of Farha South, ahead of schedule, in the fourth quarter 2019 allowing the 2020 seismic programme to be launched already in 2019. The 2020 programme covers the complete licence area north of the Farha South field. In parallel interpretation of previously acquired seismic is ongoing generating a number of leads for further study.

Exploration activities – Exploration drilling

Five exploration wells were completed in 2019. One well, the Masarrah-1 well, resulted in a new discovery. The other four wells had oil shows while drilling, but none flowed oil to surface. Although four of the exploration wells didn't result in commercial discoveries, all wells have increased the geological understanding of the respective areas and will be valuable to the continued exploration activity on the Blocks and in de-risking other leads and prospects. The wells have been suspended to enable further work in the future if warranted. The well costs were expensed in the fourth quarter of 2019 (see section "Exploration cost").

Drilled or tested exploration wells in 2019:

- The Masarrah-1 well, a near field Ulfa/Samha analogy well, was drilled about 10 km northeast of the Ulfa discovery. The well had good oil shows from target formation Khufai and tested light oil with good flow rates. The well resulted in a new mid-sized oil discovery. The well was completed as a producer from the Khufai formation.
- The Mahamid-1 well was drilled about 11 km east of the Farha South infrastructure to explore deeper sections of Block 3.
- Maather-1 was drilled 13km southeast of Samha-1 to test the Buah and Khufai potential to the east of the Ulfa and Samha fields. Secondary targets were the Masirah Bay formation and the underlying older Cryogenian formations.
- Yusr-1 was drilled north of the Farha South field. The well targeted the possible northern extension of the carbonate Buah and Khufai reservoirs.
- Yamin-1, was drilled 10km east-southeast of Saiwan East-2 to test the Khufai formation.

Block 49, Oman

A seismic campaign was conducted on Block 49 in late 2018. 253 km² of 3D and 299 km of 2D seismic data were acquired in the north-eastern part of the licence area with the purpose to further define possible oil traps and to enhance the understanding of the deeper parts of the block in general. The data from the survey was processed and delivered to Tethys Oil in 2019 for interpretation and mapping. In addition, some 1,464 km of older 2D seismic data, acquired by previous operators, had been reprocessed.

The first phase of the seismic interpretation was completed in the third quarter 2019 resulting in the identification of a drillable prospect in the north eastern part of the Block. The prospect, known as Thameen ("Precious") has been further delineated during the fourth quarter, and the drilling of a well is being planned to a depth of close to 4,000 meters to evaluate three potential reservoir targets. Drilling preparations are well underway, and Tethys Oil is actively seeking a suitable rig on a tight rig market in Oman. Drilling activities are being led by a drilling manager who was contracted in the second quarter. In parallel, seismic interpretations and overall geological modelling of Block 49 continues.

Block 56

In late October 2019, Tethys Oil announced having entered into an agreement to acquire a 20 percent interest in the Exploration and Production licence covering Block 56 onshore Oman from Biyaq Oilfield Services ("Biyaq"). Tethys Oil has paid Biyaq the initial consideration for the acquisition in the fourth quarter of 2019.

Block 56 covers an area of 5,808 km² in the south-eastern part of Oman some 200 km south of Blocks 3&4. The licence is operated by a subsidiary to Medco Energi. To date, 11 wells have been drilled on the Block and all but one has encountered oil or oil shows, although none has yet been determined to be a commercial discovery. The current operator has successfully drilled three of these wells. A work programme to test up to three was initiated at the beginning of 2020.

The Block lies at the intersection of different geological provinces including the prolific South Oman Salt Basin. It offers exploration potential in multiple play concepts, both proven and unproven, many of which are familiar to Tethys Oil from its current operations in the country.

The licence for Block 56 is governed by an Exploration and Production Sharing Agreement signed in November 2014. Its initial three-year exploration phase has been extended until December 2020, and the partners have the option to enter into a second exploration phase ending in December 2023.

New ventures

In December 2018, Tethys Oil announced that it had entered into an agreement to acquire a two percent participating interest in Block 53 onshore Oman from Total E&P Oman, a wholly-owned subsidiary of Total S.A. Block 53 holds the Mukhaizna oil field, the single largest producing oil field in Oman. The Mukhaizna field is a giant heavy-oil development operated by Occidental Petroleum, with an average gross daily production in excess of 100,000 bopd. The closing of the acquisition was subject to government approval and the waiver of partner pre-emption rights. Tethys Oil was, in the first quarter 2019, informed by the seller that partner pre-emption rights have been exercised, and as a result Tethys Oil will not be able to complete the transaction.

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

Associated companies

Lithuania

During 2019, Tethys Oil divested its holding in the Danish company Jyllands Olie ApS, holding the company's interests in the Rietavas and Raseinai exploration licences for a nominal consideration. Tethys Oil's interest in the production licence Garzdai is held indirectly through a Danish limited liability company which holds shares in the Lithuanian operating company which holds 100 percent of the licence. Consequently Tethys Oil has an effective 25% interest in the Gargzdai licence. The holding in Gargzdai is consolidated through a one-line consolidation in Tethys Oil's financial statements and are presented in the balance sheet under "Investments in associates" and in the income statement as "Share of net profit/loss from associates".

As at 31 December 2019, the value of the shareholding in the associated Danish company holding the interests in the Lithuanian Gargzdai licences, amounted to MUSD 0.0 compared to MUSD 0.0 at the end of 2018. Share of net profit/loss from associated companies amounted to MUSD 0.7 following receipt of dividends during 2019 (0.9). 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.

Liquidity and financing

Cash and bank as per 31 December 2019 amounted to MUSD 75.6 compared to MUSD 73.1 as per 31 December 2018.

In May and November 2019, a dividend of SEK 1.00 per share was paid to shareholders, which in total amounted to MUSD 7.1. Furthermore, MUSD 21.4 was distributed to shareholders through a mandatory share redemption programme.

During the twelve months ending 31 December 2019, the cash flow from operations amounted to MUSD 96.0 (MUSD 105.4) and cash flow used in investments in oil and gas amounted to MUSD 65.2 (MUSD 55.8). For the twelve months of 2019, free cash flow (cash flow from operations less investments) amounted to MUSD 31.4 (MUSD 50,4).

Tethys Oil's operations on Blocks 3&4, Block 49, and Block 56, 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 company.

Parent company

The parent company reports a net result after tax for 2019 amounting to MSEK 277.6 compared to MSEK 244.4 for 2018. Administrative expenses amounted to MSEK 43.1 for 2019 compared to MSEK 32.8 for 2018. Net financial result amounted to MSEK 303.6 during 2019 compared to MSEK 259.5 for 2018. Dividends from subsidiaries amounting to MSEK 276.8 and currency exchange gains related to intercompany loans were the main reason for the net financial result.

Significant agreements and commitments

In Tethys Oil's oil and 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 interests 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 relate to the different periods. Tethys Oil has fulfilled its commitments on Blocks 3&4. On Block 49, the initial work commitments during the first period includes 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 for which Tethys Oil can be held liable. 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 for which Tethys Oil can be held liable.

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

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 15 May 2019 Robert Anderson, Alexandra Herger, Magnus Nordin, Per Seime and Geoffrey Turbott were re-elected and Gavin Graham was elected as members of the Board. No deputy directors were appointed. At the same meeting, Geoffrey Turbott was re-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 20 meetings during 2019. The six members of the board have consisted of five non-executive directors and the managing director. The board has three committees – Audit Committee, Remuneration Committee and Technical 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.

Organisation

At the end of the year, Tethys Oil had an average number of full-time employees of 23 (20). Of these, 8 (7) were women. In addition, contractors and consultants are engaged in Tethys Oil's operations.

Remuneration policy

The Board of Directors of Tethys Oil AB (publ) (the "**Company**", together with its subsidiaries the "**Group**") proposes that the Company shall apply the following guidelines for executive remuneration agreed after the Annual General Meeting 2020.

Background

The guidelines to be approved by the Annual General Meeting 2020 are the result of a review to comply with revised Swedish legislation resulting from the European Union Shareholder Rights Directive II and the 2020 revised Swedish Corporate Governance Code. However, few material changes are proposed for how the Company manages executive remuneration matters.

Application of guidelines

These guidelines apply to remuneration to senior executives and to members of the Board of Directors if remuneration is paid for work performed outside the scope of the ordinary board work (e.g. pursuant to an employment or consultancy agreement). For the purposes of these guidelines, senior executives include the Managing Director, the Deputy Managing Director (if applicable) and certain other executives who, from time to time, are members of the Group Executive Management. As of the date of these guidelines, the Company's senior executives are the Managing Director, the Chief Financial Officer and the Chief Technical Officer.

These guidelines do not apply to any remuneration resolved upon or approved by the General Meeting and are only applicable to remuneration agreed, and amendments to remuneration already agreed, after the adoption of these guidelines by the Annual General Meeting 2020.

These guidelines constitute a framework within which remuneration to senior executives may be decided on by the Board of Directors.

General remuneration principles

In short, the Group's business strategy is to create shareholder value working across the whole upstream oil and gas industry lifecycle of exploration, appraisal, development and production. A central objective in the Group's business model is to explore for and produce oil and gas in an economically, socially, and environmentally responsible way. For more information regarding the Group's strategic priorities, please refer to the Group's Annual Reports and the Company's website, www.tethysoil.com.

The Company's remuneration principles are to ensure responsible and sustainable remuneration decisions that support the Company's strategy, long-term interests and sustainable business practices and further enhance the Group's market position as well as increase the shareholder value. To this end, salaries and other employment terms shall enable the Group to retain and recruit skilled senior executives at a reasonable cost. The remuneration shall be on market terms and based on the principles of performance, competitiveness and fairness.

When evaluating whether these guidelines and the limitations set out herein are reasonable, the Board of Directors (including the Remuneration Committee) has considered the total income of all employees of the Company, including the various components of their remuneration as well as the increase and growth rate over time.

In order to comply with mandatory rules or established local practice, remuneration which is subject to rules outside Sweden may be adjusted to comply with such local rules, taking into account, to the extent possible, the overall purpose of these guidelines.

Elements of remuneration

The remuneration covered by these guidelines may consist of basic salary, variable cash salary, pension, non-financial benefits and severance pay. In addition hereto, the General Meeting may decide on, inter alia, long-term incentive programs in which senior executives can participate.

Principles for 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 each senior executive.

On the assumption of payment of full variable cash salary, pension benefits and other benefits the basic salary is expected to amount to no more than 45 per cent of the total remuneration. If there is no variable cash salary, pension benefits or other benefits, the basic salary will constitute the entire remuneration.

Principles for variable cash salary

Variable cash salary, i.e. cash bonuses, shall be based on a set of predetermined and measurable performance criteria that reflect the key drivers for pursuing the Company's strategy, long-term interests and sustainable business practices. Such performance criteria include (but are not limited to) HSE, production, reserves replacement, business development and financial performance as well as individual performance.

To which extent the criteria for awarding variable cash salary have been satisfied shall be determined annually in connection with the publication of the year-end report for the respective financial year based on an evaluation of the senior executive's achievement of the performance indicators as described in the agreed individual performance targets.

Payment of variable cash salary shall be conditional upon the senior executive remaining employed for the duration of the qualification period. The Board of Directors 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.

Variable cash remuneration shall qualify for pension benefits only to the extent it is required pursuant to mandatory provisions of applicable collective bargaining agreements.

The annual variable cash salary may not amount to more than 12 months' basic salary, and is therefore expected to amount to no more than 50 per cent of the total remuneration.

Principles for pension benefits

Pension benefits shall comprise a defined contribution scheme with premiums calculated on the full basic salary and be set on an individual basis, however, provided that mandatory provisions of applicable collective bargaining agreements do not require otherwise.

Pension benefits may not amount to more than 30 per cent of the basic salary and is therefore expected to amount to no more than 25 per cent of total remuneration.

Principles for non-financial benefits

Non-financial benefits shall be based on market terms and shall facilitate the duties of senior executives. Non-financial benefits may include, inter alia, life insurance, medical insurance et cetera.

Premiums and other costs relating to non-financial benefits may not amount to more than five per cent of the basic salary and is therefore expected to amount to no more than five per cent of the total remuneration.

Remuneration during notice period and severance pay

The notice period for termination of the Managing Director shall not exceed twelve months and the notice period for termination of other senior executives shall not exceed nine months.

A mutual termination period of twelve months applies between the Company and the Managing Director and of up to nine months between the Company and other senior executives.

Severance pay to the Managing Director and other senior executives shall not exceed twelve months' basic salary, provided that the employment is terminated by the Company. In the event the senior executive terminates his or her employment, no severance shall be payable.

Principles for certain remuneration to members of the Board of Directors

To the extent members of the Board of Directors perform work for the Company outside the scope of the ordinary board work, consultancy fees on market terms may be paid in addition to any board fees resolved upon by the General Meeting. The nomination committee is tasked with proposing a frame for such remuneration, to be approved by the Annual General Meeting.

Long-term incentive programs

Principles for remuneration resolved upon by the General Meeting are not covered by these guidelines. Accordingly, these guidelines do not apply to, i.e., the Company's long-term incentive programs resolved upon by the General Meeting.

The Company's existing long-term incentive programs are directed to certain key employees of the Group and designed to create conditions for retaining and recruiting competent and committed personnel to the Group. More information on the Company's existing and proposed incentive programs from time to time is available on the Company's website, www.tethysoil.com.

The role of the Remuneration Committee

The Board of Directors has established a Remuneration Committee to deal with matters of executive compensation and wider Group remuneration. Specifically, it is tasked to:

- Recommend and review remuneration guidelines for the Managing Director, the executive management and other employees in the Group to the Board of Directors;
- Recommend Company Performance Targets for each year to the Board of Directors;
- Recommend Managing Director Performance Targets for each year to the Board of Directors, and inform the Board of Directors of the Performance Targets agreed between the Managing Director and the executive management;
- Recommend remuneration (salary and benefits) for the Managing Director to the Board of Directors and inform the Board of Directors of the remuneration (salaries and benefits) for the executive management;
- Recommend allocation of bonus and warrants to the Managing Director to the Board of Directors and inform the Board of Directors of allocation of bonus and warrants to the executive management; and
- Recommend incentive programme guidance relating to employees to the Board of Directors.

Preparation and review of the compliance of these guidelines

These guidelines have been prepared by the Remuneration Committee of the Board of Directors and the Board of Directors. The Remuneration Committee is responsible for preparation of updated proposals in respect of guidelines for remuneration to the senior executives. A proposal for amended guidelines is to be prepared by the Board of Directors when the need for material amendments arises, but at least every four years.

The guidelines may also be amended by way of a resolution by other General Meetings than Annual General Meetings.

Within the scope and on the basis of these guidelines, the Board of Directors shall, based on the Remuneration Committee's preparation and recommendations, annually decide on the specific revised remuneration terms for each senior executive and make such other decisions in respect of remuneration for senior executives that may be required.

The members of the Remuneration Committee are independent in relation to the Company and the senior executives. The Managing Director and the other senior executives do not participate in the Board of Directors' handling of and resolutions regarding remuneration-related matters if they are affected by such matters.

Principles for derogations from these guidelines

The Board of Directors may temporarily resolve to derogate from these guidelines, in whole or in part, if in a specific case there is special cause for such derogation and a derogation is necessary to serve the Company's long-term interests, including its sustainability, or to ensure the Company's financial viability.

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 Annual Report. The sustainability report is available on the corporate website, www.tethysoil.com.

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 Block 3&4 Limited, Tethys Oil Montasar Limited and Tethys Oil Oman Onshore Limited. The Tethys Oil Group was established on 1 October 2003. The Group has branch offices in Muscat, Oman and Dubai, the United Arab Emirates.

Share data

As at 31 December 2019, the number of outstanding shares in Tethys Oil amount to 36,294,960, with a quota value of SEK 0.17. All shares represent one vote each. The number of shares has increased by 398,650 during 2019 due to the exercise of employee-held warrants. Tethys Oil has a warrant-based incentive programme for employees which may increase the number of shares depending on the share price during the exercise periods, for further information please see note 22.

As at 31 December 2019, Tethys Oil held 1,954,163 of its own shares which have been purchased since commencement of the programme in the fourth quarter 2014. The purpose of the repurchasing program is to optimise 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. 310,000 were purchased during 2019. 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 2019 before dilution is 34,222,908 and after dilution 34,302,921. After 31 December 2019 and up to the date of publication for this report, Tethys Oil has acquired a further 1,284,189 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 2019: SEK 2.00) equal to MSEK 66.1 (MSEK 68.5). The Board of Directors proposes an extraordinary distribution of SEK 3.00 per share (AGM 2019: SEK 6.00) by way of a mandatory share redemption programme following the AGM 2020 equal to MSEK 99.2 (205.5). It is also proposed that the balance of retained earnings after the dividend be retained in the business as described below.

MSEK	2019	2018
Retained earnings	104.8	128.9
Profit for the year	277.6	244.4
	382.4	**373.3**
The Board of Directors proposes that these earnings be appropriated as follows:		
To the shareholders, a distribution of SEK 2.00 per share (AGM 2019: SEK 2.00)	66.1	68.5
To the shareholders, an extraordinary distribution of SEK 3.00 per share (AGM 2019: SEK 6.00)	99.2	205.5
To be retained in the business	217.1	99.3
	382.4	**373.3**

Cash dividend

Tethys Oil's board of directors has proposed a cash dividend of SEK 2.00 per share amounting to SEK 66,113,216 at the current number of shares outstanding (net of treasury shares) and an extraordinary distribution of SEK 3.00 per share amounting to SEK 99,169,824. The dividend and extraordinary distribution are subject to approval at the AGM 2020. This is a total distribution of SEK 165,283,040. The preliminary record date for the dividend is 15 May 2020.

The parent company has distributable earnings (unrestricted equity) of MSEK 382.4 at 31 December 2019. Since the start of 2020 Tethys has repurchased shares to a value of MSEK 64.2, leaving a balance of MSEK 318.4 in unrestricted equity in the parent company. After the dividend and cash distribution of MSEK 165.3 the parent company will have retained earnings of MSEK 152.9.

As per 31 December 2019, the Group's and the parent company's equity ratio amounted to 92.0 percent and 97.4 percent, respectively. After the dividend, distribution & buyback, the Group's and the parent company's equity ratio will amount to 91.4 percent and 94.8 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 consolidated Group's needs through a comprehensive evaluation of the parent company's and the Group's financial position and the parent company's and the Group's possibilities to fulfil their commitments in the long term.

In light of developments since the close of 2019 with regards to the global spread of the COVID-19 coronavirus, the dissolution of the OPEC+ production limitations and resulting significant drop in oil price, Tethys Oil has revised its budgets, plans and capital requirements. On the basis of these revised assumptions and plans, the board of directors has reviewed its distribution proposal to ensure that the parent company has sufficient liquidity and capital to satisfy the needs and requirements of the Group going forward.

The board of directors has concluded that despite recent negative developments in the company's operating environment, the parent company's and the Group's financial position gives rise to the conclusion than that the parent company and the Group can continue its operations and meet its obligations in the short and long term and continue to make 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's 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, 13 May 2020.

Future outlook

In January 2020, an outbreak of a highly contagious novel coronavirus (Covid-19) started in China. The virus has subsequently spread to the rest of the world and as of March, was declared a global pandemic by the World Health Organisation (WHO). As the outbreak of Covid-19 has spread, governments and authorities around the world have responded with measures to limit the contagion. These measures have included limitations in international travel, movements of individuals within cities and countries, closure of borders, closure of shops, restaurants and places of work as well as in some cases limitations on people's ability to leave their homes. The scope of the measures implemented is changing rapidly making the effects difficult to predict.

The various restrictions put in place in addition to the focusing of resources to fight the disease and treating those infected has already had notable impact on local economies, travel and international trade. As the spread of the disease continues to develop, the full effect of the pandemic on the world economy will not be known for some time. In the countries where Tethys Oil has a presence measures have been taken that have restricted normal movement of the Group's employees. Thus far the virus and the resulting restrictions have not had any material impact on Tethys Oil's employees' health and wellbeing, although going forward such risks cannot be ruled out. The impact of the restrictions and other measures on the Group's ability to operate have thus far been limited but, it cannot be ruled out, that the restrictions on movements, trade and transport can come to impact the company's ability to execute its operations, especially with regards to dependence upon international supply-chains.

The Covid-19 outbreak and the economic impact of resulting measures to restrict its spread has had a profound effect on international energy markets. The International Energy Agency (IEA) and other forecasters are currently expecting demand to decline by between 10–20 percent in the second quarter of 2020 and given the continued contagion it is uncertain how long the demand weakness will persist.

Coinciding with the decline in oil demand, in March 2020 the OPEC+ group of countries failed to reach an agreement to increase and extend its production limitations that aim to stabilise the oil price. Following the breakdown of OPEC+ talks, a number of its key members, rather than cutting production further, opted to increase oil output.

The combination of a decline in demand and increased supply from the OPEC+ countries has resulted in oversupply of the market and sent oil prices tumbling. Both the Brent and WTI oil price benchmarks have lost more than 50 percent of their value since the start of the year. Share prices of listed oil companies have also declined significantly in the same time period.

The Covid-19 outbreak's impact on the economy and energy prices, and the risk to Tethys Oil's ability to conduct its operations are currently subject to significant uncertainty. The lower oil prices will impact Tethys Oil's profitability and free cash flows in 2020 and potentially beyond, also it cannot be ruled out that it may have an impact on the long-term value of its assets.

In the view of Tethys Oil, the current oil market situation has been brought about by a number of exceptional circumstances. While it is still difficult to assess the full impact of the viral outbreak on societies and economies across the world it is clearly an exceptional event which is unlikely to persist in the longer term. Likewise, the breakdown of talks between the major oil producing nations in the OPEC+ group has reduced oil prices to levels where many producers are loss-making and government budgets do not balance; an unsustainable situation which, we believe, will eventually lead to a new agreement. However, if no action is taken by the OPEC+ countries to reduce production output the lower prices will eventually result in the shutdown of high cost oil production as well as slow the pace of investment in new production output. The aforementioned effects in combination with the natural depletion and decline in production of existing fields will result in a reduction of oil supply and move the market closer to balance. The timing of the above-mentioned effects remains subject to significant uncertainty. Tethys Oil's management and board of directors are closely monitoring developments in order to assess any potential impact on the Group and take action accordingly.

On the 25 March 2020, HM the Sultan of Oman issued Royal Decree No. 35/2020 authorising the assignment of 20% of the rights and obligations of Biyaq Oilfield Services LLC in the Exploration and Production Sharing Agreement for Block 56 to a wholly-owned subsidiary of Tethys Oil AB. The issuance of Royal Decree No. 35/2020 constitutes the final approval required to effect Tethys Oil's farm-in to Block 56.

Consolidated statement of comprehensive income

1 January – 31 December, MUSD	**Note**	**2019**	**2018**
Revenue	4	145.0	152.6
Underlift/overlift adjustments		5.8	4.7
Revenue and other income	3	**150.8**	**157.3**
Operating expenses	9	-51.6	-45.9
Gross profit		**99.2**	**111.4**
Depletion. depreciation and amortisation	3,8	-47.6	-45.9
Exploration costs	8	-8.2	–
Share of net profit/loss from associates	6	0.7	0.9
Administrative expenses	10–12,22	-7.0	-5.7
Operating result		**37.1**	**60.7**
Financial income and similar items	13	1.7	1.9
Financial expenses and similar items	14	-0.5	-0.4
Net financial result		**1.2**	**1.5**
Result before tax		**38.3**	**62.2**
Income tax	15	–	–
Net result		**38.3**	**62.2**
Other comprehensive result			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences		-1.6	-3.7
Other comprehensive result		**-1.6**	**-3.7**
Total comprehensive result		**36.7**	**58.5**
Attributable to:			
Shareholders in the parent company		36.7	58.4
Non controlling interest			
Number of shares outstanding	17	36,294,960	35,896,310
Number of shares outstanding (after dilution)	17	34,374,526	35,912,250
Weighted average number of shares (before dilution)	17	34,222,908	34,010,616
Weighted average number of shares (after dilution)	17	34,302,921	34,140,318
Earnings per share (before dilution). USD	17	1.12	1.83
Earnings per share (after dilution). USD	17	1.12	1.82

Consolidated balance sheet

As at 31 December, MUSD	Note	2019	2018
ASSETS			
Non current assets			
Oil and gas properties	8	211.7	200.0
Other Fixed Assets		0.6	0.1
		212.3	**200.1**
Current assets			
Trade and other receivables	16	12.0	17.9
Prepaid expenses		0.3	0.3
Cash and cash equivalents		75.6	73.1
		87.9	**91.3**
TOTAL ASSETS		**300.2**	**291.4**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	17		
Share capital		0.8	0.8
Additional paid in capital		76.3	74.0
Reserves		-1.9	-0.3
Retained earnings		201.1	193.1
Total shareholders' equity		**276.3**	**267.6**
Non current liabilities			
Non-current provisions	7	9.6	8.9
Other non-current liabilities	18,19	1.4	–
		11.0	**8.9**
Current liabilities			
Current provisions	7,19	–	1.0
Accounts payable and other current liabilities	20	12.9	13.9
		12.9	**14.9**
Total liabilities		**23.9**	**23.9**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**300.2**	**291.4**

Consolidated statement of changes in equity in summary

	Attributable to shareholders of the parent company				
MUSD	**Share capital**	**Paid in capital**	**Other reserves**	**Retained earnings**	**Total equity**
Opening balance 1 January 2018	**0.8**	**71.0**	**3.4**	**153.3**	**228.5**
Comprehensive income					
Net result 2018	–	–	–	62.2	**62.2**
Currency exchange differences 2018	–	–	-3.7	–	**-3.7**
Total comprehensive income			**-3.7**	**62.2**	**58.5**
Transactions with owners					
Share issue	0.0	2.9	–	–	**2.9**
Dividend	–	–	–	-7.5	**-7.5**
Share redemption	–	–	–	-15.1	**-15.1**
Incentive programme	–	–	–	0.2	**0.2**
Total transactions with owners	**0.0**	**2.9**	**0.0**	**-22.4**	**-19.4**
Closing balance 31 December 2018	**0.8**	**74.0**	**-0.3**	**193.1**	**267.6**
Opening balance 1 January 2019	**0.8**	**74.0**	**-0.3**	**193.1**	**267.6**
Comprehensive income					
Net result 2019	–	–	–	38.3	**38.3**
Currency exchange differences 2019	–	–	-1.6	–	**-1.6**
Total comprehensive result	**0.0**	**0.0**	**-1.6**	**38.3**	**36.7**
Transactions with owners					
Repurchase of own shares	–	–	–	-2.1	**-2.1**
Share redemption	–	–	–	-21.4	**-21.4**
Dividend	–	–	–	-7.1	**-7.1**
Share issue	0.0	2.3	–	–	**2.3**
Incentive programme	–	–	–	0.3	**0.3**
Total transactions with owners	**0.0**	**2.3**	**0.0**	**-30.3**	**-28.0**
Closing balance 31 December 2019	**0.8**	**76.3**	**-1.9**	**201.1**	**276.3**

Consolidated cash flow statement

1 January – 31 December, MUSD	**Note**	**2019**	**2018**
Cash flow from operations			
Operating result		37.1	60.7
Interest received	13	0.8	0.3
Interest paid	14	-0.0	0.0
Income tax		–	–
Adjustment for exploration costs	8	8.2	–
Adjustment for depletion, depreciation and other non-cash related items	8	46.0	41.7
Total cash flow from operations before change in working capital		**92.1**	**102.7**
Change in receivables		5.9	-7.2
Change in liabilities		-2.0	9.9
Cash flow from operations		**96.0**	**105.4**
Investment activity			
Investment in oil and gas properties	8	-65.2	-55.8
Investment in office equipment		-0.1	-0.1
Cash from associated companies, net		0.7	0.9
Cash flow from investment activity		**-64.6**	**-55.0**
Financing activity			
Repurchase of own shares	17	-2.1	–
Share redemption		-21.4	-15.1
Dividend		-7.1	-7.5
Share issue		2.3	2.9
Cash flow from financing activity		**-28.3**	**-19.7**
Cash flow for the year		**3.1**	**30.7**
Cash and cash equivalents at the beginning of the year		73.1	42.0
Exchange gains/losses on cash and cash equivalents		-0.6	0.5
Cash and cash equivalents at the end of the year		75.6	73.1

Parent company income statement

1 January – 31 December, MSEK	**Note**	**2019**	**2018**
Other income	5	10.7	9.7
Share of net profit/loss from associates	6	6.4	8.0
Administrative expenses	10–12, 22	-43.1	-32.8
Operating result		**-26.0**	**-15.1**
Financial income and similar items	13	303.8	259.7
Financial expenses and similar items	14	-0.2	-0.2
Net financial result		**303.6**	**259.5**
Result before tax		**277.6**	**244.4**
Income tax	15	–	–
Net result[1]		**277.6**	**244.4**

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	2019	2018
ASSETS			
Non-current assets			
Other fixed assets		0.0	0.0
Shares in subsidiaries	21	1.0	1.0
Long term receivables from subsidiaries	25	446.2	222.0
Investment in associates	6	0.0	0.0
		447.2	**223.0**
Current assets			
Other receivables	16	0.1	2.3
Prepaid expenses		0.8	0.9
Cash and cash equivalents		25.4	240.2
		26.3	**243.4**
TOTAL ASSETS		**473.5**	**466.5**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	17		
Restricted equity:			
Share capital		6.0	5.9
Statutory reserve		71.1	71.1
Unrestricted equity:			
Share premium reserve		481.0	481.0
Retained earnings		-376.2	-352.1
Net result		277.6	244.4
Total shareholders' equity		**459.5**	**450.3**
Current liabilities			
Accounts payable and other current liabilities	20	5.4	3.9
Other current liabilities to group companies	25	8.6	12.2
Total liabilities		**14.0**	**16.2**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**473.5**	**466.5**

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 2018	**5.9**	**71.1**	**481.0**	**-262.9**	**85.0**	**380.1**
Transfer of prior year net result	–	–	–	85.0	-85.0	**–**
Comprehensive income						
Net result 2018	–	–	–		244.4	**244.4**
Total comprehensive income	**–**	**–**	**–**		**244.4**	**244.4**
Transactions with owners						
Impacting share issue	0	–	–	25.9	–	**25.9**
Dividend	–	–	–	-68.1	–	**-68.1**
Share redemption	–	–	–	-135.6	–	**-135.6**
Incentive programme	–	–	–	2.1	–	**2.1**
Total transactions with owners	**–**	**–**	**–**	**-175.7**	**–**	**-175.7**
Merger difference	–	–	–	1.5	–	1.5
Closing balance 31 December 2018	**5.9**	**71.1**	**481.0**	**-352.1**	**244.4**	**450.3**
Opening balance 1 January 2019	**5.9**	**71.1**	**481.0**	**-352.1**	**244.4**	**450.3**
Transfer of prior year net result	–	–	–	244.4	-244.4	**0.0**
Comprehensive income						
Net result 2019	–		–	–	277.6	**277.6**
Total comprehensive income	**0.0**	**0.0**	**0.0**	**0.0**	**277.6**	**277.6**
Transactions with owners						
Repurchase of shares	–	–	–	-20.1	–	**-20.1**
Share redemption	–	–	–	-205.5	–	**-205.5**
Dividend	–	–	–	-68.5	–	**-68.5**
Share issue	0.1	–	–	21.9	–	**22.0**
Incentive programme	–	–	–	3.7	–	**3.7**
Total transactions with owners	**0.1**	**0.0**	**0.0**	**-268.5**	**0.0**	**-268.4**
Closing balance 31 December 2019	**6.0**	**71.1**	**481.0**	**-376.2**	**277.6**	**459.5**

Parent company cash flow statement

1 January – 31 December, MSEK	Note	2019	2018
Cash flow from operations			
Operating result		-26.0	-15.1
Interest received	13	0.7	0.2
Interest paid	14	-0.2	0.0
Adjustment for non cash related items		4.0	-3.0
Total cash flow from operations before change in working capital		**-21.5**	**-17.9**
Change in receivables		2.4	3.0
Change in liabilities		-3.7	-4.4
Cash flow from operations		**-22.8**	**-19.3**
Investment activity			
Dividend from associated companies		–	–
Dividend from Group companies		87.1	210.0
Investment in long term receivables		-7.9	164.0
Cash flow from investment activity		**79.2**	**374.0**
Financing activity			
Repurchase of own shares	17	-20.1	–
Share redemption		-205.5	-135.6
Dividends paid		-68.5	-68.1
Share issue		22.0	25.9
Cash flow from financing activity		**-272.2**	**-177.8**
Cash flow for the year		**-215.8**	**176.9**
Cash and cash equivalents at the beginning of the year		240.2	58.2
Exchange gains on cash and cash equivalents		1.0	5.1
Cash and cash equivalents at the end of the year		25.4	240.2

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 and parent company financial statements have been approved for issue by the Board of Directors on 9 April 2020.

Basis of preparation

The annual report of the Group and the parent company Tethys Oil AB has 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 unless 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 2018 Annual report, save for the implementation of IFRS 16 which came into effect on 1 January 2019, 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 2019

IASB issued several new and amended accounting standards that were endorsed by EU with effective date 1 January 2019. IFRS 16 Leasing has an impact on the Group's financial statements. 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. See Note 18 for more information"

IASB issued several amended accounting standards that were endorsed by EU, effective date 1 January 2020. None of these are expected to have a material effect on the Group's financial statements.

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 recognizes 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 unrealized gains and losses on transactions between subsidiaries are 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 recognizes 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 licences which are held jointly with other companies. The Groups financial statements reflect the Group's 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 recognized at the date of acquisition is recognized 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 recognized in the income statement and the Group's share in post-acquisition movements in other comprehensive income of the associated company is recognized 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 recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. Dividends from associated companies are presented in the balance sheet under "Investments in associates" and in the income statement as "Share of net profit/loss from associates".

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's percentage in the associates. Unrealized 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 recognized 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 subsidiaries 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 that 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 2019		31 December 2018	
Currency	**Average**	**Period end**	**Average**	**Period end**
SEK/USD	9.51	9.48	8.75	9.14
SEK/EUR	10.66	10.55	10.32	10.42

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 capitalized on a field area cost centre basis. This includes capitalization 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 are incurred.

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

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

Depreciation, depletion and amortisation
Producing oil and gas properties are depleted on a unit of production basis over the proved and probable reserves of the field concerned, except in the case of assets whose useful lives differ from the lifetime of the field, in which case the straight-line method is applied.

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

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

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

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

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

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

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

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

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. Financial assets 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. The Group did not have any financial assets held for trading during 2019.

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' 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.

Leasing

Tethys Oil recognizes right of use assets and lease liabilities arising from all leases in the balance sheet, with some exceptions. This model reflects that, at the start of a lease, the lessee always obtains the right to use an asset for a period of time and has an obligation to pay for that right.

The right of use asset is initially measured at cost, which equals the amount of the initial measurement of the lease liability adjusted for any lease payments made at or before the commencement date. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted at the rate implicit in the lease or if it cannot be determined at the incremental borrowing rate.

Tethys Oil has chosen the modified retrospective method, applying the short-term lease and the asset of low value exceptions. The standard has primarily impacted the accounting of the group's operational leases. The interpretation is that IFRS 16 does not relate to leases within the group's joint operations and at present the group only has office leases and IT-servers/-programs and other leases concerning items of lesser value.

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 issue 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.

Revenue
Revenue from the sale of oil and gas are recognised in the income statement net of royalties in kind or in cash (government take). Revenue associated with the sale of crude oil are recognised 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. Revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

Underlift and overlift
Oil sale volumes are nominated in advance and are not based upon the actual production in a month; as a result, the Company's oil sales volumes can be above or below production entitlement volumes. Where the oil sales volume exceeds the volume of entitlement barrels produced, an overlift position occurs and where it is less, an underlift position occurs. Underlift/overlift positions are taken into account for future oil sales nominations, aiming at balancing the position. Underlifts are recorded as Other receivables valued at market value, and overlifts are recorded in Other current liabilities and accrued at the market value. Underlifts are reversed from Other receivables when the crude oil is lifted and sold. Overlifts 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, Tethys Oil's 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 recover a majority of investments and operating expenses (CAPEX and OPEX) incurred. Profit oil and gas is split between the host government and join operations parties in accordance with a fixed percentage. The joint operations partners split the cost recovery oil and gas and profit oil and gas 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 exist 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 the Swedish Annual Accounts Act and recommendation RFR 2, Accounting for Legal Entities of the Swedish Financial Reporting Board. The accounting principles of the parent company deviate from the accounting principles of the group in respect of IFRS 16 Leasing, since the parent company accounts for leasing agreements as operating leases. The Parent company only has office leases and IT-servers/-programs and other leases concerning items of lesser value.

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.

Subsidiaries
Holdings in subsidiaries are recognised 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 recognise 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

Tethys Oil is producing and exploring for oil and appraising undeveloped known oil and/or natural gas accumulations. The operational risk is different in the 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 at 31 December 2019.

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.

Net result in financial statements (MUSD)	38.3	38.3
Shift in oil price (USD/barrel)	+5	-5
Total effect on net result (MUSD)	**12.1**	**-12.1**

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 these 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.

In recent years OPEC and associated countries have, from time to time, agreed to voluntary production limitations. Oman has in the past participated in such agreements. Going forward Tethys cannot rule out the risk of such limitations impacting its oil and gas Production and sales.

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, one 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.

Licences

Tethys Oil's direct interests are held through agreements with host countries, for example licences 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 2019, all of Tethys Oil's oil sales and operative expenditures were denominated in USD. The exchange risk affects 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. The Group only has limited costs in currencies other than USD, primarily relating to the SEK costs in the parent company. Presented below is the exposure to currencies with reference to items in the financial statements:

	2019	**2018**
Revenue	100% in USD	100% in USD
Investments	99,8% in USD	99,8% in USD
External financing at year end	None	None

Tethys Oil does not currently hedge exchange rates. The Group policy is that cash held in bank should be in USD, except for a short period in order to have sufficient amounts of SEK in the Parent company to pay dividend and share redemption. Furthermore, there are relatively minor amounts in SEK held in the Parent company, in order to reduce exchange rate exposure.

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 can be negatively affected and when net assets are translated into USD which can negatively affect the Group's 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.

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 based on expected future cash flows.

Fall due profile on Tethys Oil's financial liabilities	**31 December 2019**	**31 December 2018**
MUSD	**<1 year**	**<1 year**
Accounts payables and other liabilities	12.9	13.9
Total	**12.9**	**13.9**

Credit risk
Tethys Oil's policy is to limit credit risk by limiting the counterparties 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., with 30 days payment from bill of lading. As at 31 December 2019 the Group's receivables on oil sales amounted to MUSD 2.5 (MUSD 14.9), this also represents the maximum exposure on accounts receivable. There is no history of default and the Group does currently not anticipate future credit losses. Cash and cash equivalents are maintained with banks having strong long-term credit ratings. Maximal exposure regarding other financial assets is 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.

IFRS 9 valuation categories and related balance sheet items

	31 December 2019			31 December 2018		
MUSD	Financial assets and liabilities at fair value through profit or loss	Financial assets at amortised cost	Financial liabilities at amortised cost	Financial assets and liabilities at fair value through profit or loss	Financial assets at amortised cost	Financial liabilities at amortised cost
Trade and other receivables	–	12.0	–	–	17.9	–
Cash and bank	–	75.6	–	–	73.1	–
Other non-current liabilities	–	–	1.4	–	–	–
Accounts payables and other current liabilities	–	–	12.9	–	–	13.9

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 modelling 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. Estimates in oil and gas reserves and resources may change following for instance new wells, long term production data and changes in macro economic data.

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 oil 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 2019				
MUSD	**Oman**	**Lithuania**	**Sweden**	**Other**	**Total**
Revenue and other income	150.8	–	–	–	**150.8**
Operating expenses	-51.6	–	–	–	**-51.6**
Depreciation. depletion and amortisation	-47.4	–	-0.2	–	**-47.6**
Exploration costs	-7.9	–	-0.3	–	**-8.2**
Share of net profit/loss from associates	–	0.7	–	–	**0.7**
Administrative expenses	-2.5	–	-4.5	–	**-7.0**
Operating result	**41.2**	**0.7**	**-4.8**	**–**	**37.1**
Total financial items					**1.2**
Result before tax					**38.3**
Income tax					**–**
Net result					**38.3**

	Group income statement Jan–Dec 2018				
MUSD	**Oman**	**Lithuania**	**Sweden**	**Other**	**Total**
Revenue and other income	157.3	–	–	**–**	**157.3**
Operating expenses	-45.9	–	–	–	**-45.9**
Depreciation. depletion and amortisation	-45.9	–	–	–	**-45.9**
Exploration costs	–	–	–	–	**–**
Share of net profit/loss from associates	–	0.9	–		**0.9**
Administrative expenses	-2.3	–	-2.7	-0.7	**-5.7**
Operating result	**63.2**	**0.9**	**-2.7**	**-0.7**	**60.7**
Total financial items					**1.5**
Result before tax					**62.2**
Income tax					**–**
Net result					**62.2**

Oman is Tethys Oil's only oil producing area from which revenue is recorded as at 31 December 2019 (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	**2019**	**2018**
Revenue	145.0	152.6
Underlift/overlift adjustments	5.8	4.7
Revenue and other income	**150.8**	**157.3**

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 2019 amounted to MSEK 10.7 compared to MSEK 9.7 2018. 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 to the extent it is related to interest not held by Tethys Oil. All other internal chargeouts are eliminated in the consolidated financial statements. Tethys Oil is as at 31 December 2019 operator in Block 49, Oman and hold 100% of the licence interest.

Note 6, Associated companies

Tethys Oil AB holds an indirect interest in the Gargzdai licence in Lithuania. A dividend of MUSD 0.7 was received from the holding company during 2019 compared to MUSD 0.9 in 2018.

	Group MUSD		**Parent** MSEK	
	2019	**2018**	**2019**	**2018**
Tethys Oil's share of net profit from associated companies	0.7	0.9	6.4	8.0

Note 7, Provisions

Tethys Oil estimates that Tethys Oil's share of site restoration regarding Blocks 3&4 at year end 2019 amounts to MUSD 9.6 (MUSD 6.9). As a consequence of the revised site restoration provision, oil and gas properties have increased by 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 liability of MUSD 1.0 relating to the Export Reporting Error. Final settlement has been agreed in the first quarter 2019 and outstanding amounts are therefore now treated as liabilities as opposed to provisions in previous year.

MUSD	Abandonment provision	Export reporting error	Total
1 January 2019	**6.9**	**3.0**	**9.9**
Additions	–	–	–
Payments and transfer to liabilities	–	-3.0	-3.0
Changes in estimates	2.2	–	2,2
Unwinding of discount	0.5	–	0.5
31 December 2019	**9.6**	**0.0**	**9.6**
Current		–	0.0
Non-current	9.6	–	9.6
Total	**9.6**	**0.0**	**9.6**

MUSD	Abandonment provision	Export reporting error	Total
1 January 2018	**6.1**	**4.0**	**10.1**
Additions	–	–	–
Payments	–	-1.0	-1.0
Changes in estimates	0.4	–	0,4
Unwinding of discount	0.4	–	0.4
31 December 2018	**6.9**	**3.0**	**9.9**
Current		1.0	1.0
Non-current	6.9	2.0	8.9
Total	**6.9**	**3.0**	**9.9**

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 and 56 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	Block 49[1]	Exploration	Nov 2020[1]	100%	**Tethys Oil**
Oman	Block 56	Exploration	Dec 2020	20%	**Medco Arabia Ltd,** Intaj LLC, Tethys Oil and Biyaq Oil Field Services
France	Attila[2]	Exploration	Feb 2019	40%	**Galli Coz,** Tethys Oil
Lithuania	Gargzdai[3]	Production	No expiration date	25%	Odin, GeoNafta, Tethys Oil

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 licence 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 Attila licence had an expiry date in February 2019. Tethys Oil is reviewing further measures.

3 The interest in the Lithuanian Gargzdai licence is indirectly held through a shareholding in a Danish private company, which in turn hold shares in the Lithuanian company holding 100 percent of the licence. The Danish company Odin Energi is not consolidated in Tethys Oils financial statements due to the ownership structure, which is why there is no oil and gas property related to the licence. The ownership of Odin Energi is presented in the balance sheet under Investment in associates.

MUSD	31 December 2019	31 December 2018
Producing cost pools	194.8	194.0
Non-producing cost pools	16.9	6.0
Total oil and gas properties	**211.7**	**200.0**

MUSD Licence	Phase	Tethys Oil's share	Book value 31 Dec 2019	Investments (Jan–Dec 2019)	Other non-cash adjustments (Jan–Dec 2019)	DD&A (Jan–Dec 2019)	Exploration costs (Jan–Dec 2019)	Book value 1 Jan 2019
Oman Blocks 3&4	Prod.	30%	194.8	54.0	2.1	-47.4	-7.9	194.0
Oman Block 49	Expl.	100%	8.0	2.3	–	–	–	5.7
Oman Block 56	Expl.	20%	8.6	8.6	–	–	–	–
France Attila	Expl.	40%	0.0	0.0	–	–	–	0.0
New ventures			0.3	0.3	–	–	-0.3	0.3
Total			**211.7**	**65.2**	**2.1**	**-47.4**	**-8.2**	**200.0**

MUSD Licence	Phase	Tethys Oil's share	Book value 31 Dec 2018	Investments Jan–Dec 2018	Other non-cash adjustments Jan–Dec 2018	DD&A Jan–Dec 2018	Exploration costs Jan–Dec 2018	Book value 1 Jan 2018
Oman Blocks 3&4	Prod.	30%	194.0	50.4	0.4	-45.9	–	189.1
Oman Block 49	Expl.	100%	5.7	5.3	–	–	–	0.4
France Attila	Expl.	40%	0.0	–	–	–	–	0.0
New ventures			0.3	0.1	–	–	–	0.2
Total			**200.0**	**55.8**	**0.4**	**-45.9**	**0.0**	**189.7**

MUSD Producing cost pools	Oman Block 3&4	Total
Cost 1 Jan 2019	418.4	418.4
Investments	54.0	54.0
Changes in estimates	2.1	2.1
Write offs	-7.9	-7.9
Cost 31 Dec 2019	**466.6**	**466.6**
Accumulated depreciation 1 Jan 2019	-224.3	-224.3
Depletion charge for the year	-47.4	-47.4
Accumulated depreciation 31 Dec 2019	**-271.7**	**-271.7**
Net book value 31 Dec 2019	**194.8**	**194.8**

MUSD Producing cost pools	Oman Block 3&4	Total
Cost 1 Jan 2018	367.6	367.6
Investments	50.4	50.4
Changes in estimates	0.4	0.4
Write offs	–	–
Cost 31 Dec 2018	**418.4**	**418.4**
Accumulated depreciation 1 Jan 2018	-178.4	-178.4
Depletion charge for the year	-45.9	-45.9
Accumulated depreciation 31 Dec 2018	**-224.3**	**-224**
Net book value 31 Dec 2018	**194.0**	**194.0**

Impairment testing
Tethys Oil assesses the need for an impairment test through the performing of an impairment trigger test. In the impairment trigger test the Company uses its best efforts to estimate future production, operational costs and investments needs. In order to calculate estimated future cash flows various oil price scenarios have been used, including ERCE's year-end price forecast and the oil price forward curve as of the 31 December 2019. In 2018 and 2019 no impairment triggers were found and consequently no impairment tests or impairments of assets were deemed necessary.

Exploration costs of MUSD 8.2 (MUSD 0.0) were recorded in 2019

MUSD Investments Block 3&4 Categories	2019	2018
Drilling	25.0	25.5
G&G	10.1	11.2
Facilities	18.9	13.7
Total	**54.0**	**50.4**

MUSD Oil & gas properties Block 3&4 Categories	31 december 2019	31 december 2018
Drilling	100.7	101.1
G&G	28.3	27.3
Facilities	65.9	65.7
Total	**194.8**	**194.1**

Note 9, Operating expenditures

	Group MUSD		**Parent** MSEK	
Operating expenditures	**2019**	**2018**	**2019**	**2018**
Production costs	-47.2	-42.5	–	–
Well workovers	-4.4	-3.4	–	–
Total	**-51.6**	**-45.9**	**–**	**–**

Note 10, Remuneration to Company auditor

	Group MUSD		**Parent** MSEK	
Remuneration to company auditor include:	**2019**	**2018**	**2019**	**2018**
PwC:				
Audit fee	-0.1	-0.1	-1.1	-1.0
Audit-related fees	-0.0	-0.0	-0.3	-0.0
Tax consultation	–	–		–
Other	–	–	–	–
Total	**-0.1**	**-0.1**	**-1.4**	**-1.0**

Of the Group total during 2019, MUSD 0.1 (MUSD 0.1) has been in relation to PwC Sweden.

Note 11, Administrative expenses

	Group MUSD		**Parent** MSEK	
Administrative expenses	**2019**	**2018**	**2019**	**2018**
Personnel costs	-4.5	-3.1	-22.6	-16.5
Rent	-0.4	-0.5	-2.5	-1.9
Other office costs	-0.3	-0.1	-2.0	-0.6
Listing costs	-0.1	-0.1	-1.3	-1.1
Costs of external relations	-0.1	-0.2	-1.3	-1.3
Other costs	-1.6	-1.7	-13.4	-11.4
Total	**-7.0**	**-5.7**	**-43.1**	**-32.8**

Note 12, Employees

Average number of full time employees per country	2019 Total	2019 Total men	2018 Total	2018 Total men
Parent company				
Sweden	6	3	7	4
Total parent company	**6**	**3**	**7**	**4**
Subsidiary companies in Sweden	**–**	**–**	**–**	**–**
Subsidiary companies foreign				
Oman	15	11	12	9
United Arab Emirates	1	–	1	–
United Kingdom	1	1	–	–
Total subsidiary companies foreign	**17**	**12**	**13**	**9**
Total group	**23**	**15**	**20**	**13**

MUSD	2019		2018	
Salaries, other remuneration and social costs	**Salaries, other remune-ration**	**Social costs**	**Salaries, other remune-ration**	**Social costs**
Parent company				
Sweden	-1.6	-0.6	-1.4	-0.5
Total parent company	**-1.6**	**-0.6**	**-1.4**	**-0.5**
Subsidiary companies in Sweden				
Subsidiary companies foreign				
Oman	-2.1	–	-1.6	–
United Arab Emirates	-0.2	–	-0.2	–
United Kingdom	-0.4	–	–	–
Total subsidiary companies foreign	**-2.7**	**–**	**-1.8**	**–**
Total group	**-4.3**	**-0.6**	**-3.2**	**-0.5**

MUSD	2019		2018	
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	-0.7	-0.9	-0.6	-0.8
Total parent company	**-0.7**	**-0.9**	**-0.6**	**-0.8**
Subsidiary companies in Sweden	**–**	**–**	**–**	**–**
Subsidiary companies foreign				
Oman	–	-2.1	–	-1.6
United Arab Emirates	–	-0.2	–	-0.2
United Kingdom	–	-0.4	–	–
Total subsidiary companies foreign	**–**	**-2.7**	**–**	**-1.8**
Total group	**-0.7**	**-3.6**	**-0.6**	**-2.6**

During 2019, one woman has been a member of the Board of Directors, compared to one in 2018. No women have been members of the executive management. At the AGM of shareholders on 15 May 2019 Gavin Graham was newly elected and Robert Anderson, Alexandra Herger, Magnus Nordin, Per Seime and Geoffrey Turbott were re-elected members of the board. No deputy directors were appointed. At the same meeting, Geoffrey Turbott 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. The increase in remuneration to executive management primarily relate to increased base salaries.

Salaries and other remuneration to executive management during 2019, MSEK	**Basic salary**	**Pension arrange-ments**	**Variable Salary**	**Share based long term incentive[1]**	**Other benefits**	**Total 2019**
Managing director	3.271	0.659	0.696	1.566	0.025	6.217
Other executive manage-ment	7.086	0.771	0.679	1.088	0.011	9.635
Total	**10.357**	**1.431**	**1.376**	**2.654**	**0.036**	**15.853**

Salaries and other remuneration to executive management during 2018, MSEK	**Basic salary**	**Pension arrange-ments**	**Variable Salary**	**Share based long term incentive[1]**	**Other benefits**	**Total 2018**
Managing director	2.842	0.729	0.536	1.120	0.025	5.252
Other executive manage-ment	3.847	0.377	0.875	1.164	0.156	6.419
Total	**6.689**	**1.106**	**1.411**	**2.284**	**0.181**	**11.671**

1 The Managing director received 60,000 (75,000) and Other executive management received 100,000 (96,000) warrants in the 2019 incentive programme, totalling 160,000 (171,000) warrants.

Remuneration to board members AGM 2019 to AGM 2020	MSEK
Geoffrey Turbott	0.765
Robert Anderson	0.395
Alexandra Herger	0.400
Magnus Nordin	–
Per Seime	0.430
Gavin Graham	0.365
Total	**2.355**

Remuneration to board members AGM 2018 to AGM 2019	MSEK
Geoffrey Turbott	0.695
Robert Anderson	0.365
Alexandra Herger	0.370
Magnus Nordin	–
Per Seime	0.400
Total	**1.830**

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 programme
- Other benefits
- Severance arrangements

The Board has the right to deviate from the remuneration policy if there are particular reasons.

Basic salary

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

Pension arrangements

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

Variable salary
Senior executives shall be part of two variable remuneration systems payable in cash and/or in combination with a right to acquire warrants in the Company in a long-term incentive programme.

Senior executives may have the right to participate in share based long-term incentive programs. When allocating warrants the same financial and operational key indicators as for variable cash salary shall be considered.

The yearly variable cash salary shall be up to 12 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 key performance indicators both for the Group's overall and financial performance as well as individual performance. 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. The variable remuneration shall not be pensionable.

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 mutual termination period of 12 months applies between the Company and the Managing Director and up to six months between the Company and other senior executives. Severance pay shall be paid to the Managing Director of up to 12 months fixed salary and up to 12 months fixed salary for other senior executives if the Company terminates their employment.

Note 13, Financial income and similar items

	Group MUSD		**Parent** MSEK	
	2019	**2018**	**2019**	**2018**
Interest income	0.8	0.3	18.3	15.8
Currency exchange gains, net	0.9	1.6	8.7	13.8
Other financial income	–	–	–	–
Dividend from group companies	–	–	276.8	230.1
Total	**1.7**	**1.9**	**303.8**	**259.7**

Note 14, Financial expenses and similar items

	Group MUSD		**Parent** MSEK	
	2019	**2018**	**2019**	**2018**
Interest expenses	-0.0	-0.0	-0.2	-0.2
Other financial expenses	-0.5	-0.4	0.0	0.0
Total	**-0.5**	**-0.4**	**-0.2**	**-0.2**

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 239.1 (MSEK 236.3). 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)	**2019**	**2018**
Result before tax	277.6	244.4
Tax at applicable tax rate 21.4% (2018: 22%)	-59.4	-53.8
Tax on non-deductible expenses	-0.2	-0.1
Reversal of tax on non-taxable income	60.6	52.4
Utilized (+) / Built up (–) tax loss carry forwards previously not recorded as deferred tax assets	-1.0	1.5
Tax expense	**0.0**	**0.0**

Tethys Oil's oil and gas operations in Oman are governed by a separate Exploration and Production Sharing Agreement for each licence ("EPSA") whereby Tethys Oil receives its share of oil after government take. Under the terms of each 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. The effect of these taxes is netted against revenue and other income in the income statement.

Note 16, Trade and other receivables

	Group MUSD		**Parent** MSEK	
Other receivables	**2019**	**2018**	**2019**	**2018**
VAT	0.0	0.3	0.0	2.3
Trade receivables Oil sales	2.5	14.9	–	–
Underlift position	9.5	2.7	–	–
Other	0.0	0.0	0.1	0.0
Total	**12.0**	**17.9**	**0.1**	**2.3**

Note 17, Shareholders' equity

As at 31 December 2019, the number of outstanding shares in Tethys Oil amount to 36,294,960, with a quota value of SEK 0.17. All shares represent one vote each. During 2019, the number of outstanding shares increased by 398,650 shares, from 35,896,310 to 36,294,960. Tethys Oil has a warrant-based incentive programme for employees, for further information please see note 22. As the average subscription price for three tranches of the incentive programme were partly below the average share price during 2019, dilution effects of the warrants are included in the weighted average number of shares after dilution, which amounted to 34,302,921 during 2019.

As at 31 December 2019, Tethys Oil held 1,954,163 of its own shares which have been purchased since commencement of the programme in 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. 310,000 shares were purchased during 2019 (–). 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 2019 before dilution is 34,222,908 and after dilution 34,302,921.

After 31 December 2019 and up to the date of publication for this report, Tethys Oil has acquired a further 1,284,189 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 1,954,163 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 2019: SEK 2.00). Proposed record date is 15 May 2020.

The Board of Directors proposes an extraordinary distribution of SEK 3.00 per share by way of a mandatory share redemption programme following the AGM 2020 (AGM 2019: SEK 6.00). Further details to follow in the proposal to the 2020 AGM.

Note 18, Leasing

	31 Dec 2018		1 Jan 2019 Adjusted for IFRS 16		Jan–Dec 2019			31 Dec 2019	
MUSD	Right of use assets	Lease liabilities, interest bearing	Right of use assets	Lease liabilities, interest bearing	Payment of leasing debt	Depreciation	Interest costs	Right of use assets	Lease liabilities, interest bearing
Fixed assets (incl. in Other fixed assets)	–	–	0.7	–	–	-0,2	–	0,5	–
Short term leasing debt (incl. in Accounts payable and other current liabilities)	–	–	–	-0.2	0.2	–	–	–	-0.0
Long term leasing debt (incl. in Other non-current liabilities)	–	–	–	-0.5	–	–	–	–	-0.5
Interest costs	–	–	–	–	–	–	0.0	–	0.0
Total	**–**	**–**	**0.7**	**-0.7**	**0.2**	**-0.2**	**0.0**	**0.5**	**-0.5**

Note 19, Other non-current liabilities

Tethys Oil has a non-current liability of MUSD 1.0 relating to the Export Reporting Error. Final settlement has been agreed in the first quarter 2019 and outstanding amounts are therefore now treated as liabilities as opposed to provisions in previous year.

Note 20, Accounts payable and other current liabilities

	Group MUSD		**Parent** MSEK	
Accounts payable and other current liabilities	**31 December 2019**	**31 December 2018**	**31 December 2019**	**31 December 2018**
Accounts payable	0.4	0.1	1.5	1.1
Operator balance. Blocks 3&4 Oman	10.8	9.9	–	–
Other current liabilities	1.7	3.9	3.9	2.8
Total	**12.9**	**13.9**	**5.4**	**3.9**

Note 21, Shares in subsidiaries

Company	Reg. Number	Reg. office	Number of shares	Percentage	Nominal value per share
Tethys Oil Invest AB	556658-1442	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 Middle East North Africa B.V.	27306813	Netherlands	18,000	100%	EUR 1
Tethys Oil Oman Ltd	95212	Gibraltar	100	100%	GBP 1
Tethys Oil Block 3&4 Ltd	101981	Gibraltar	1,000	100%	USD 1
Tethys Oil Montasar Ltd	115710	Gibraltar	1,000	100%	USD 1
Tethys Oil Oman Onshore Ltd	118203	Gibraltar	1,000	100%	USD 1

On 26 February 2019 Tethys Oil Turkey AB was sold to Svenska Standardbolag AB for liquidation. Tethys Oil Turkey AB had no operations at the time of liquidation. The effect on the parent company's financial statements and position resulting from its sale and liquidation was immaterial.

On 14 March 2019 Windsor Petroleum (Spain) Inc. was liquidated. Windsor Petroleum (Spain) Inc. had no operations at the time of its liquidation. The effect on the parent company's financial statements and position resulting from its liquidation was immaterial.

Shares in subsidiaries, MSEK	**Parent, 2019**	**Parent 2018**
1 January	1.0	0.9
Acquisitions/Relinquishments	0.0	0.0
Merger	–	0.1
31 December	**1.0**	**1.0**

Note 22, 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 no vesting period or other restrictions and 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 2019 and 2018 following a decision by the respective AGM. The number of issued warrants during 2019 was 350,000 (350,000) and the number of warrants allocated during 2019 was 350,000 (329,000). Issued but not allocated warrants are held by the Company. Warrants exercised during the year were 335,000 and expired 15,000.

Warrant incentive programme	**Exercise period**	**Subscription price,** SEK	**Shares per warrant**	**Number of warrants**				
				1 Jan 2019	**Issued 2019**	**Exercised 2019**	**Expired 2019**	**31 Dec 2019**
2016 incentive programme	28 May – 4 Oct. 2019	55.00	1.19	350,000	–	335,000	15,000	–
2017 incentive programme	30 May – 2 Oct. 2020	75.10	1.14	350,000	–	–	–	350,000
2018 incentive programme	1 Jun – 2 Oct. 2021	81.70	1.09	350,000	–	–	–	350,000
2019 incentive programme	1 Jun – 7 Oct. 2022	78.50	1.00	–	350,000	–	–	350,000
Total				**1,050,000**	**350,000**	**335,000**	**15,000**	**1,050,000**

Warrant incentive programme	**Exercise period**	**Subscription price,** SEK	**Shares per warrant**	**Number of warrants**				
				1 Jan 2018	**Issued 2018**	**Exercised 2018**	**Expired 2018**	**31 Dec 2018**
2015 incentive programme	23 May – 5 Oct, 2018	73.50	1.13	356,000	–	312,000	44,000	–
2016 incentive programme	28 May – 4 Oct, 2019	59.90	1.10	350,000	–	–	–	350,000
2017 incentive programme	30 May – 2 Oct, 2020	81.80	1.04	350,000	–	–	–	350,000
2018 incentive programme	1 Jun – 2 Oct, 2021	89.00	1.00	–	350,000	–	–	350,000
Total				**1,056,000**	**350,000**	**312,000**	**44,000**	**1,050,000**

	Group MUSD		**Parent** MSEK	
Warrant incentive programme	**2019**	**2018**	**2019**	**2018**
Incentive programme cost	-0.7	-0.5	-3.9	-2.1
Total	**-0.7**	**-0.5**	**-3.9**	**-2.1**

As the average subscription price for three tranches of the incentive programme were partly below the average share price during 2019, dilution effects of the warrants are included in the weighted average number of shares after dilution, which amounted to 34,302,921 during 2019. 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 23, Pledged assets

As at 31 December 2019, pledged assets amounted to MUSD 0.5 related to a pledge in relation to office rental in the parent company (0.5).

Note 24, Contingent liabilities

There are no outstanding contingent liabilities as at 31 December 2019, nor for the comparative period.

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 Block 3&4 Limited, Tethys Oil Montasar Limited and Tethys Oil Oman Onshore Limited.

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

Transactions with group companies, MSEK	**2019**	**2018**
Interest income	17.7	15.6
Other income	10.7	9.7
Dividend income	276.7	230.1
Total	**305.1**	**255.4**

Balance with related parties, MSEK	**2019**	**2018**
Receivable from subsidiaries	446.2	222.0
Total	**446.3**	**222.0**

Balance with related parties, MSEK	**2019**	**2018**
Payable to subsidiaries	8.6	12.2
Total	**8.6**	**12.2**

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 are 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

In January 2020, an outbreak of a highly contagious novel coronavirus (Covid-19) started in China. The virus has subsequently spread to the rest of the world and as of March, was declared a global pandemic by the World Health Organisation (WHO). As the outbreak of Covid-19 has spread, governments and authorities around the world have responded with measures to limit the contagion. These measures have included limitations in international travel, movements of individuals within cities and countries, closure of borders, closure of shops, restaurants and places of work as well as in some cases limitations on people's ability to leave their homes. The scope of the measures implemented is changing rapidly making the effects difficult to predict.

The various restrictions put in place in addition to the focusing of resources to fight the disease and treating those infected has already had notable impact on local economies, travel and international trade. As the spread of the disease continues to develop, the full effect of the pandemic on the world economy will not be known for some time. In the countries where Tethys Oil has a presence measures have been taken that have restricted normal movement of the Group's employees. Thus far the virus and the resulting restrictions have not had any material impact on Tethys Oil's employees' health and wellbeing, although going forward such risks cannot be ruled out. The impact of the restrictions and other measures on the Group's ability to operate have thus far been limited but, it cannot be ruled out, that the restrictions on movements, trade and transport can come to impact the company's ability to execute its operations, especially with regards to dependence upon international supply-chains.

The Covid-19 outbreak and the economic impact of resulting measures to restrict its spread has had a profound effect on international energy markets. The International Energy Agency (IEA) and other forecasters are currently expecting demand to decline by between 10–20 percent in the second quarter of 2020 and given the continued contagion it is uncertain how long the demand weakness will persist.

Coinciding with the decline in oil demand, in March 2020 the OPEC+ group of countries failed to reach an agreement to increase and extend its production limitations that aim to stabilise the oil price. Following the breakdown of OPEC+ talks, a number of its key members, rather than cutting production further, opted to increase oil output.

The combination of a decline in demand and increased supply from the OPEC+ countries has resulted in oversupply of the market and sent oil prices tumbling. Both the Brent and WTI oil price benchmarks have lost more than 50 percent of their value since the start of the year. Share prices of listed oil companies have also declined significantly in the same time period.

The Covid-19 outbreak's impact on the economy and energy prices, and the risk to Tethys Oil's ability to conduct its operations are currently subject to significant uncertainty. The lower oil prices will impact Tethys Oil's profitability and free cash flows in 2020 and potentially beyond, also it cannot be ruled out that it may have an impact on the long-term value of its assets.

On the 25 March 2020, HM the Sultan of Oman issued Royal Decree No. 35/2020 authorising the assignment of 20% of the rights and obligations of Biyaq Oilfield Services LLC in the Exploration and Production Sharing Agreement for Block 56 to a wholly-owned subsidiary of Tethys Oil AB. The issuance of Royal Decree No. 35/2020 constitutes the final approval required to effect Tethys Oil's farm-in to Block 56.

On the 6 April 2020, Tethys Oil announced a revised financial guidance for the full year 2020. Guidance for capital expenditures related to oil and gas assets was revised to MUSD 50–64 from previously MUSD 64–71. The expected annual average production of 12,600–13,400 barrels per day before government take, and the operating expenses of USD 11.5 per barrel remain unchanged.

Assurance

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

Stockholm, 9 April 2020

Geoffrey Turbott
Chairman of the board

Rob Anderson
Director

Gavin Graham
Director

Alexandra Herger
Director

Magnus Nordin
Managing Director

Per Seime
Director

Auditor's endorsement

Our audit report was submitted on 9 April 2020.
PricewaterhouseCoopers AB

Ulrika Ramsvik
Authorized Public Accountant
Lead Partner

Bo Hjalmarsson
Authorized Public Accountant

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 2019.

The annual accounts and consolidated accounts of the company are included on pages 35–67 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 and the group as of 31 December 2019 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 2019 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 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 2019 and 70% of the group's assets as per 31 December 2019. 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 management 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 audit 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 six months period ended 30 June, 2019 and after the year-end audit of the financial year 2019.

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 consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated 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 USD 211.7 million as per 31 December 2019 and the major part represented by the producing assets in Blocks 3 & 4 in Oman. The oil and gas properties relating to Block 3 & 4 in Oman amounted to USD 194.8 million by 31 December 2019.

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 prospective resources, short and long term oil prices, future costs as well as the discount and inflation rates.

Following the analysis of potential impairment indicators for Blocks 3 & 4 in it was concluded that no impairment was recorded.

Refer to pages 38–39 in the Directors' report, page 54 in the Accounting Policies and note 2 and 8 in the financial statements for more information.

How our audit addressed the Key audit matter

We have audited 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 of the recoverable amount of Blocks 3 & 4. 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;
- reconciliation of hydrocarbon production profiles to the combination of proved and probable reserves from reserve reports from ERC Equipoise Limited 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;
- benchmarking of inflation and discount rates applied;
- testing of the mathematical accuracy of the model

We have obtained the estimation of proven and probable reserves and contingent resources 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 reserves auditor ERC Equipoise Limited, to satisfy ourselves they were appropriately qualified to carry out the volumes estimation;
- assessing the process for making in-house estimates of prospective resources;
- validation of that the updated reserves and resources estimates were included appropriately in management'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 1–19 and 26–34. Other information those not include the Financial statements, consolidated accounts and our audit report related to the Financial statements. 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 Director's 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 intend 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 Revisorsinspektionen's website: www.revisorsinspektionen.se/revisornsansvar. 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 Director's and the Managing Director of Tethys Oil AB for the year 2019 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 Director's 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 Director's 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' equity, consolidation requirements, liquidity and position in general.

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

Auditor's responsibility

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

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

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

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

A further description of our responsibility for the audit of the administration is available on Revisorsinspektionen's website: www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor's report.

PricewaterhouseCoopers AB, 405 32 Göteborg, was appointed auditor of Tethys Oil AB by the general meeting of the shareholders on the 15 May 2019 and has been the company's auditor since the 2001. The company has been listed at NasdaqOMX since the 2 May 2013.

Stockholm, 9 April 2020

PricewaterhouseCoopers AB

Ulrika Ramsvik
Authorized Public Accountant
Lead Partner

Bo Hjalmarsson
Authorized Public Accountant

Financial information

The company plans to publish the following financial reports:

First quarter report 2020 (January – March 2020) on 5 May 2020
Second quarter report 2020 (January – June 2020) on 11 August 2020
Third quarter report 2020 (January – September 2020) on 3 November 2020
Fourth quarter report 2020 (January – December 2020) on 9 February 2021

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