

# TETHYS OIL

Fourth quarter and  
year-end report 2016



# Fourth quarter and year-end report

## 31 December 2016<sup>1</sup>

### Fourth quarter 2016

- Production amounted to 12,268 barrels per day, in line with third quarter 2016
- As per 31 December 2016, third party audited reserves on Blocks 3&4, Oman, net Tethys
  - 1P reserves 14,222 thousand barrels of oil (“mbo”) (12,905 mbo)
  - 2P reserves 21,408 mbo (18,244 mbo)
  - 3P reserves 29,729 mbo (27,863 mbo)
- The increase in 2P reserves represents an internal reserve replacement ratio of 171 percent
- Tethys Oil estimates that correction of an export reporting error reduces fourth quarter 2016 revenue and result negatively by MUSD 5.9. Tethys Oil estimates that the negative undiscounted net cash effect will be less than MUSD 1.4.
- Revenue of MUSD 20.7, compared to MUSD 26.1 in the third quarter 2016
- EBITDA of MUSD 9.6, compared to MUSD 15.7 in the third quarter 2016
- Net result of MUSD 1.5, compared to MUSD 6.4 in the third quarter 2016
- Earnings per share amounted to USD 0.04 during fourth quarter 2016
- The board of directors proposes a dividend of SEK 1.00 per share (SEK 1.00)
- 12 new wells completed on Blocks 3&4 during the fourth quarter
- New boundaries agreed for Block 3, new license area for Blocks 3&4 29,130 km<sup>2</sup>
- Recommended production of 12,300 BOPD during first six months 2017 following OPEC and non-OPEC agreement

MUSD (unless specifically stated)	Fourth quarter 2016	Third quarter 2016	Fourth quarter 2015	Full year 2016	Full year 2015
Net daily production before government take (bbl)	12,268	12,297	10,956	12,235	9,804
Net barrels sold, after government take (bbl)	583,772	501,167	366,746	2,357,701	1,805,056
Average selling price per barrel, USD	46.0	45.8	47.9	40.5	58.1
Revenue	20.7	26.1	26.0	87.1	107.0
EBITDA	9.6	15.7	13.3	44.1	58.6
Operating result	-1.7	4.4	3.5	-0.5	23.0
Result for the period	1.5	6.4	3.1	2.7	23.4
Net cash	39.0	48.2	51.2	39.0	51.2
Investments in oil and gas properties	15.0	9.3	7.0	48.5	40.8
Earnings per share (after dilution), USD	0.04	0.19	0.09	0.08	0.66

<sup>1</sup> Starting 1 January 2016, the Tethys Oil group presents the financial reports in USD. Please note that all comparative financials have been restated. For further information, please see Accounting principles on page 17.

# Dear friends and investors,

What a year 2016 turned out to be. The oil business went on quite a rollercoaster ride, but Tethys Oil held on and in the end 2016 did not turn out badly at all. Our revenues and EBITDA came in 19 and 25 percent respectively lower than last year and amounted to MUS\$ 87.1 and 44.1 respectively after a one off adjustment for an export reporting error that Tethys Oil has estimated to MUS\$ 5.9. We remained cash flow positive the entire year, even in the dark days of January when oil prices briefly dropped below USD 30 per barrel and we end the year with a net cash position of MUS\$ 39 after having distributed MUS\$ 15 to our shareholders during the year (SEK 4 per share).

## **Production growth**

We produced 4.4 million barrels of oil, up 25 percent compared to 2015 and the highest so far for any year. We believe that our production will continue to grow, but still with monthly fluctuations. The slight shortfall we saw in December was due to temporary factors and the fact that the Shahd water injection took and for that matter takes, longer to kick in than we had hoped. The important thing in this regard is that Shahd water injection works, which will impact both reserves and production positively going forward. So for 2017 we continue to believe in increasing production compared to 2016. We should of course bear in mind that Oman has signed up to the OPEC initiated production limitations, which gives us a monthly target production of 12,300 BOPD for the first six months. Actual production is however likely to continue to fluctuate depending both on our production capacity but now also on how the maximum monthly production allowed by Oman is filled. So now let us turn to something which ended the year tremendously well – Reserves.

## **Increasing reserves**

We are delighted to report a reserve replacement ratio of 171 percent. Despite increasing our production by 25 percent, we increased our reserves by more and at the end of the year 2016 the 2P reserves amounted to 21.4 million barrels. The increased reserves are attributable to our ongoing appraisal and optimization

program. Drilling of appraisal and production wells and implementation of water injection has resulted in reserves having moved from the 3P to the 2P category. The 3P number has further increased as the appraisal wells have pushed the limits of the areas of our fields that are in production. Exploration, that is the drilling of previously undrilled structures that could turn into future oil fields, did not start until late in the year and consequently no results were known at year-end, the year-end reserve numbers contain practically no new discoveries. Instead we reached it by showing the robustness of our existing fields, and for that matter – our business model. We believe that our existing fields have further scope for development and we are hopeful that the exploration wells currently in progress and those planned for later in 2017, will have a significant impact on our ability to further increase reserves.

## **Strengthened oil price environment**

In the final quarter of 2016, the oil price strengthened even further following the agreement between OPEC and non-OPEC members to cut oil output and reached above USD 55 per barrel at year end. With our two months lag in our selling price, we will see the benefit of the price increase in the first quarter 2017. The average achieved price during the fourth quarter was USD 46.0 per barrel, in line with the third quarter 2016.

## **Fourth quarter in focus**

In the fourth quarter, we report revenues of MUS\$ 20.7. Our EBITDA for the quarter amounted to MUS\$ 9.6. The numbers were negatively affected by a one off adjustment for an export reporting error. Our cash flow from operations amounted to MUS\$ 16.2, and our net result amounted to MUS\$ 1.5. Even following our distribution of MUS\$ 12 to our shareholders in the fourth quarter, our net cash is continued solid with MUS\$ 39.0 as per 31 December 2016.

## **Outlook**

The partner group for Blocks 3&4, Oman, have now agreed upon the work programme for 2017. The budget will



be in line with 2016, but more attention will be given exploration activities. We are targeting to drill a number of explorations wells.

We are also actively pursuing new acreage and acquisition opportunities and remain cautiously optimistic about our prospects. A number of new projects have been and continue to be evaluated.

We continue to be a cash dividend company, and propose a dividend of SEK 1.00 per share. Depending on how events will unfold during the year, we will continually evaluate the possibility of distributing more cash to shareholders in accordance with our long term financial goals, as we have done over the past years.

So stay with us, we have every reason to be optimistic about the future. Our main assets show strong promise to deliver outstanding growth and with the money we have, we pursue growth even further and faster while at the same time continue to distribute significant amounts of cash to our shareholders!

Stockholm in February 2017

Magnus Nordin  
*Managing director*

# Operational and financial review<sup>2</sup>

## Production

Tethys Oil's core area is onshore the Sultanate of Oman ("Oman"), where the company holds a 30 percent interest in blocks 3&4 ("Blocks 3&4"). Tethys Oil also has interests in three licenses onshore Lithuania<sup>3</sup> and in two dormant licenses onshore France.

Production primarily comes from three fields on Blocks 3&4; Farha South, Shahd and Saiwan East. Tethys Oil's share of production, before government take, from Blocks 3&4 during the fourth quarter 2016 was 1,118,227 barrels of oil, corresponding to 12,155 barrels of oil per day. The production is in line with the third quarter 2016 and is up 25 percent year on year.

Production of the Farha South and Saiwan East fields have been well in line with expectations whereas the production from the

Shahd field during the fourth quarter has been somewhat below expectations. This is primarily caused by a slower implementation of water injection than anticipated. Positive effects from the water injection are observed in several of the Shahd structures but the full effect has not yet materialised. The programme continues and as it takes effect it is anticipated that some wells closed down for pressure build up and reservoir management can be opened again.

The production at the end of the fourth quarter 2016 was affected by maintenance operations in the export pipeline. This resulted in certain limitations in the export pipeline, which caused a need to both store surplus production and to temporarily shut down some wells.

Production on the Gargzdai field, Lithuania, has been stable.

Tethys Oil's share of quarterly volumes, before government take (bbls)	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015
<b>Oman, Blocks 3&amp;4<sup>4</sup></b>					
Production	1,118,227	1,120,764	1,096,416	1,101,031	997,904
Average daily production	12,155	12,182	12,049	12,099	10,847
<b>Lithuania, Gargzdai</b>					
Production	10,394	10,518	10,466	10,306	10,007
Average daily production	113	114	115	113	109
<b>Total production</b>	<b>1,128,621</b>	<b>1,131,282</b>	<b>1,106,882</b>	<b>1,111,336</b>	<b>1,007,782</b>
<b>Total average daily production</b>	<b>12,268</b>	<b>12,297</b>	<b>12,164</b>	<b>12,212</b>	<b>10,956</b>

## Reserves

### Oman

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

### Development of reserves, Blocks 3&4

(Audited by DeGolyer and MacNaughton Canada Limited)

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

2 The consolidated financial statements of the Tethys Oil Group (hereafter referred to as "Tethys Oil", "Tethys" or the "Group"), in which group Tethys Oil AB (publ) (the "Company") with organisational number 556615-8266 is the parent company, are hereby presented for the fourth quarter of, and full year 2016. Segments of the Group are geographical markets. The numbers in the tables in this report may not add exactly due to rounding.

3 The interest in the three Lithuanian licences are indirectly held through a shareholding in two Danish private companies, which in turn hold shares in Lithuanian companies holding 100 percent of the licences. The two companies are not consolidated in Tethys Oils financial statements and are therefore only presented in the balance sheet under Investments in associates and in the income statement as Net profit/loss from associates.

4 On Blocks 3&4, the joint venture share of production (after government take) is currently 52 percent of total production. The basis of production sharing is further explained in the Annual Report 2015

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

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

(Audited by DeGolyer and MacNaughton Canada Limited)

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

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

#### Export reporting error

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

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

#### Revenue

	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015
Oil sold, bbl	583,772	501,167	740,844	531,918	366,746
Underlift (overlift) movement, bbl	(2,294)	81,630	(170,708)	40,618	152,164
Oil price, USD/bbl	46.0	45.8	35.9	35.7	47.9
Net sales, MUSD	26.9	22.9	26.6	19.0	17.6
Underlift (overlift) adjustments, MUSD	(6.2)	3.1	(6.0)	0.7	8.4
<b>Revenue, MUSD</b>	<b>20.7</b>	<b>26.1</b>	<b>20.6</b>	<b>19.7</b>	<b>26.0</b>

During the fourth quarter 2016, Tethys Oil sold 583,772 barrels of oil from Blocks 3&4, representing a 16 percent increase in comparison with the third quarter of 2016 when 501,167 barrels of oil were sold. The higher sales volumes in the fourth quarter compared with the third quarter 2016 have resulted in an increase of the overlift position during the quarter.

Adjustment for the increase of the overlift position quarter on quarter amounted to MUSD 0.3. A one-time adjustment of MUSD 5.9 due to the Export Reporting Error has been included in the overlift position, bringing the total adjustment for increase of overlift position for the fourth quarter to MUSD 6.2. For further information, please see section Export Reporting Error on page 5.

The adjustment for increase in overlift position together with net sales of MUSD 26.9 add up to revenue of MUSD 20.7. Including the adjustment for the Export Reporting Error, the fourth quarter 2016 revenue is down 20 percent compared to the third quarter 2016 revenue. Excluding the effect of the Export Reporting Error,

revenue would have amounted to MUSD 26.6, corresponding to an increase in revenue of 2 percent compared to the third quarter 2016.

Oil sale volumes are nominated two months in advance and are not based upon the actual production in a month; as a result, oil sale volumes can be above or below production volumes. Where the sales volume exceeds the volume of barrels produced an overlift position occurs and where it is less, an underlift position occurs. The company has increased the overlift position during the fourth quarter, which as per 31 December 2016 amounts to 28,029 barrels. In rectifying the Export Reporting Error, the Blocks 3&4 partners have agreed with the pipeline operator and the Oman Ministry of Oil and Gas to repay the error amount in cash and as such the Export Reporting Error is not included in the number of barrels overlift closing position.

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. The selling price is the monthly average of the two month future price for Oman blend.

The average selling price amounted to USD 46.0 per barrel during the fourth quarter 2016, compared to USD 45.8 during the third quarter 2016. The average price for Dated Brent oil for the fourth quarter amounted to USD 49.1 per barrel.

Net sales during the fourth quarter 2016 was MUSD 26.9 compared to MUSD 22.9 during the third quarter 2016.

### Operating expenses

	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015
Production costs, MUSD	8.1	8.4	9.6	7.5	10.3
Well workovers, MUSD	1.1	0.7	0.6	0.6	1.6
<b>Total operating expenses, MUSD</b>	<b>9.2</b>	<b>9.1</b>	<b>10.2</b>	<b>8.1</b>	<b>11.8</b>
Operating expenses per barrel, USD	<b>8.2</b>	8.1	9.3	7.3	11.9

Operating expenses during the fourth quarter 2016 amounted to MUSD 9.2 compared to MUSD 9.1 during the third quarter 2016. Operating expenses are related to oil production on Blocks 3&4, and comprise expenses for field staff, expenses related to maintenance, well workovers and interventions and administration.

Operating expenses per barrel during the last five quarters have been in the range USD 7 to 12 per barrel. During 2016 operating expenses per barrel has been significantly reduced compared with 2015. The reduction in operating expenditures per barrel has been expected and is the result of general cost reductions and higher production.

### Depletion, depreciation and amortisation

	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015
DD&A, MUSD	<b>11.2</b>	11.3	11.0	11.0	9.8
DD&A per barrel, USD	<b>10.0</b>	10.0	10.0	10.0	9.8

Depletion, depreciation and amortisation ("DD&A") for the fourth quarter 2016 amounted to MUSD 11.2, which is in line with the third quarter 2016. The DD&A charge relates to Blocks 3&4.

### Net back

USD/bbl <sup>5</sup>	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015
Oil price achieved (sales barrels)	46.0	45.8	35.9	35.7	47.9
Revenue (after government take)	23.9	23.8	18.7	18.6	24.9
Operating expenses	8.2	8.1	9.3	7.3	11.9
<b>Net back</b>	<b>15.7</b>	<b>15.7</b>	<b>9.4</b>	<b>11.2</b>	<b>13.0</b>

Net back during the fourth quarter 2016 is in line with the third quarter 2016.

### Net result from associated companies

Tethys Oil holds indirect interest in the three Lithuanian licences; Gargzdai, Rietavas and Raseiniai, through associated companies Jylland Olie and Odin Energi. The result from Tethys Oil's share in these associated companies during the fourth quarter 2016 amounted to MUSD -0.7 compared to MUSD 0.0 during the third quarter 2016.

### Administrative expenses

Administrative expenses amounted to MUSD 1.2 for the fourth quarter 2016 compared to MUSD 1.3 during the third quarter 2016. Administrative expenses are mainly salaries, rents, listing costs and external services. Administrative expenses have been relatively stable between the quarters.

### Net financial result

The net financial result for the fourth quarter 2016 is primarily related to currency exchange effects. The net financial result amounted during the fourth quarter to MUSD 3.2 compared to MUSD 1.9 during the third quarter. Currency exchange differences recorded on loans between the parent company and subsidiaries are non-cash related items. Interest and fees related to the credit facility amounted to MUSD -0.1 and other financial expenditures amounted to MUSD -0.3. The stronger USD compared to SEK is the main reason behind the currency exchange effect.

### Tax

In Oman, Tethys Oil's oil and gas operations are governed by an Exploration and Production Sharing Agreement (EPSA) whereby Tethys Oil receives its share of oil after government take. Under the terms of the EPSA, Tethys Oil is subject to Omani income taxes and royalties which are paid in full, on behalf of Tethys Oil, from the government share of oil. These taxes are netted against revenue in the income statement.

<sup>5</sup> Effects of the Export Reporting Error have not been included in the calculation of Net back.

## Result

Tethys Oil reports a net result after tax for the fourth quarter 2016 of MUSD 1.5, representing earnings per share of USD 0.04. The result for the fourth quarter 2016 is down compared to the third quarter 2016 where the net result amounted to MUSD 6.4. The net result for the fourth quarter has been negatively impacted by MUSD 5.9 as a consequence of the Export Reporting Error. Excluding the effect of the Export Reporting Error, the net result would have amounted to MUSD 7.4. For further information, please see section Export Reporting Error on page 5.

## Investments and work programme

During the fourth quarter 2016, total investments amounted to MUSD 15.0 of which almost all relate to Blocks 3&4.

### Summary of oil and gas properties (MUSD):

Country	Book value 30 Dec 2016	Book value 31 Dec 2015	Investments Jan-Dec 2016
Oman	190.8	189.1	48.2
Lithuania	-	-	-
France	-	-	-
New ventures	0.3	0.1	0.3
<b>Total</b>	<b>191.1</b>	<b>189.1</b>	<b>48.5</b>

### Blocks 3&4

Investments on Blocks 3&4, were higher during the first quarter 2016 and fourth quarter 2016 compared to the second and third quarter 2016.

Investments Blocks 3&4, MUSD	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015
Drilling – Exploration/ Appraisal	0.5	0.0	0.9	1.0	0.2
Drilling – Development	7.9	5.7	5.3	6.6	3.9
G&G	1.3	0.9	0.8	1.2	-0.3
Facilities	2.3	2.3	2.0	4.2	1.7
Pipeline	0.4	0.1	-0.1	1.2	-0.1
Other capex	2.5	0.3	0.2	0.8	1.6
<b>Total investments Blocks 3&amp;4</b>	<b>14.9</b>	<b>9.3</b>	<b>9.0</b>	<b>15.0</b>	<b>7.0</b>

A total of 12 wells were completed on Blocks 3&4 during the fourth quarter. The focus of the drilling programme shifted compared to the third quarter, and the majority of the wells were drilled on the Farha South field with the target to reach an optimal development of the field. The exploration programme gained momentum with two exploration wells drilling and the successful

drilling of a new fault block on the Farha South field. A total of five rigs including a work over rig were in operation on the blocks.

Wells completed Q4 2016 (primary purpose)	Farha South Field	Shahd and Saiwan East Fields	Total
Appraisal/Production	5	2	7
Water injection	2	1	3
Water source	-	2	2
<b>Total</b>	<b>7</b>	<b>5</b>	<b>12</b>

### Block 3: Farha South Field

A total of five appraisal/production wells were drilled on the Farha South field in the fourth quarter. Three production wells were drilled in fault block Q and one in fault block B. Fault block B was discovered with the drilling of FS-3 in the first quarter 2009 and four wells are now in production on the block. Fault block Q was first drilled in the first quarter 2012, and seven wells are producing on the block. Both fault blocks have been developed with the water injection system. All four wells encountered oil and have been put into production.

The fifth well in the Farha South area, the FS-130 was drilled in a previously undrilled fault block. The new fault block AO is located about one kilometre to the west of fault block Z, in the south west part of the field. FS-130 was drilled vertically down to the target, the Barik sandstone, with a total vertical depth of 1,680 metres. FS-130 encountered oil and has been connected to the production system.

The water injection system was further developed during the quarter, and two injector wells were drilled on the field. One well was drilled on each of fault blocks G and Q.

The produced water treatment system on Farha South field has been expanded in order to handle the increasing volumes of the water produced in connection with the oil production. This system cleans the water, and thus allows it to be re-injected through the water injection wells. The expansion of the system decreases the need for new water wells as well as taking care of the water by-product.

Following the increased drilling focus on the field, production has increased during the quarter.

### Block 4: Shahd and Saiwan East oil fields

Two production well were drilled on the Shahd field. The SH I-6 well was drilled in the Shahd I area as a combined appraisal and development well, targeting to drain the Khufai formation in the northern part of the SH I structure. SH I-6 well was drilled with a vertical pilot hole followed by a deviated development hole. An extensive logging program was performed and a 17 metres core was taken. The well was completed with an electrical submersible pump (ESP). The SH K-2 well was drilled as a horizontal well in the Shahd K area. Both wells encountered oil and are connected

to the production system. Water injection is planned to be implemented in both the Shahd I and K areas in the future.

The SH H-5 well was also drilled on the Shahd field. The well was designed as a combined appraisal and water injection well in the Shahd H area. The SH H-5 well was drilled as a vertical hole to the top of Masirah Bay formation. An extensive logging and coring program was conducted in order to get a better understanding of the Khufai formation. The well was completed as an injector well. Water is injected into the Khufai formation to support pressure in existing Shahd H producer wells.

The water injection programme continued on the Shahd field with two new water wells, in Shahd areas B and H.

Work overs have been conducted on two wells on the Shahd and Saiwan East fields during the quarter.

A set of new separators were installed on the Saiwan East field during the fourth quarter.

#### *Exploration on Blocks 3&4*

Two exploration wells were spudded during the fourth quarter. Erfan-1, was spudded in November on a previously undrilled structure located approximately 6 kilometres south west of the Saiwan East field on Block 4. The Khufai formation is the main target, with the Lower Buah and Masirah Bay formations as secondary targets. Erfan-1 reached a total depth of 2,590 metres in January 2017 and the well is being evaluated.

The exploration well Ulfa-1 was spudded in late December 2016 on Block 3. Ulfa-1 will test a previously undrilled structure, located along the Farha South trend within the Farha South 3D-area, approximately 20 kilometres north of the Shahd K area. The well is being drilled as a deviated well targeting the Barik, Lower Buah and Khufai formations.

#### *New ventures*

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

#### *Budget and work programme Blocks 3&4 2017*

The joint venture partners on Blocks 3&4 have agreed a budget for 2017 which in amounts is similar to the 2016 budget. The 2017 work programme is expected to have an increased focus on drilling previously undrilled structures (exploration) compared to the 2016 work programme and may see a decrease in production wells as the producing fields near optimization. The budget and work programme will be continuously monitored and may be subject to revisions.

#### **Associated companies**

##### *Lithuania*

As per 31 December 2016, the value of the shareholding in the two associated Danish companies holding the interest in Lithuanian licenses, amounted to MUSD 0.3 compared to the third quarter

MUSD 1.0. The reduction in book value is explained by a loss from associated companies. For more information regarding the ownership structure, please refer to the Annual report 2015. The book value related to Minijos Nafta (Gargzdai) is zero and as there are no liabilities related to Minijos Nafta. Tethys Oil does not recognize any negative net result from Minijos Nafta.

Production continues on the Gargzdai licence. With the current higher oil price environment, some high water rate production wells previously shut-in are now being re-opened for testing and possibly being put back into production. During the fourth quarter, a total of 19 wells were in production on the license.

The operator has been granted a five year extension to the Raseiniai license. The remaining commitments will be additional 3D seismic and 1 well. The license is now valid until September 2022.

#### **Liquidity and financing**

Cash and bank and Net cash as per 31 December 2016 amounted to MUSD 39.0 compared to MUSD 48.2 as per 30 September 2016 and MUSD 51.2 per 31 December 2015.

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

An extra general meeting ('EGM) of shareholders was held 25 October 2016 in Stockholm. The EGM resolved to distribute SEK 3.00 per share through a share redemption programme. The total value of the distribution amounted to MUSD 11.5. The redemption programme was completed at the end of November. There is more information regarding the redemption programme on Tethys Oil's website, [www.tethysoil.com](http://www.tethysoil.com).

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

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

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

#### **Parent company**

The Parent company reports a net result after tax for the fourth quarter 2016 amounting to MSEK 21.0 compared to MSEK 20.0 for the third quarter 2016. Administrative expenses amounted to MSEK 6.7 for the fourth quarter 2016 compared to MSEK 5.5 for the third quarter 2016. Net financial result amounted to MSEK 31.4 during the fourth quarter 2016 compared to MSEK 21.0 for



the third quarter 2016. The stronger USD in comparison to SEK is the main reason for the positive net financial result during the fourth quarter.

#### **Share data**

As per 31 December 2016, the number of outstanding shares in Tethys Oil amount to 35,543,750, with a quota value of SEK 0.17. All shares represent one vote each. The Company has the same amount of shares outstanding as per 31 December 2015. Tethys Oil has a warrant based incentive programme for employees, for further information please see Note 9 on page 19. As the subscription price is below the share price as per the reporting date in this report, the warrants are included in the diluted number of shares which amount to 36,232,460 per 31 December 2016.

As per 31 December 2016, Tethys Oil held 1,329,224 of its own shares which have been purchased since commencement of the programme during the fourth quarter 2014. No shares were purchased during the fourth quarter 2016. The repurchased shares are still included in the total number of shares, but are not included in the average number of shares in circulation. The weighted average number of shares in circulation during the fourth quarter 2016 before dilution is 34,214,526 and after dilution 34,405,662.

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

#### **Seasonal effects**

Tethys Oil has no significant seasonal variations.

#### **Risks and uncertainties**

A statement of risk and uncertainties are presented in note 1, page 17.

#### **Transactions with related parties**

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

#### **Dividend**

The board of directors proposes a dividend of SEK 1.00 per share (1.00).

#### **Significant events after the reporting period**

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

# Consolidated statement of comprehensive income in summary

MUSD	Note	Fourth quarter 2016	Third quarter 2016	Fourth quarter 2015	Twelve months 2016	Twelve months 2015
Revenue	3	20.7	26.1	26.0	87.1	107.0
Operating expenses		-9.2	-9.1	-12.0	-36.5	-42.9
<b>Gross profit</b>		<b>11.5</b>	<b>17.0</b>	<b>14.0</b>	<b>50.5</b>	<b>64.2</b>
Depletion, depreciation and amortisation		-11.2	-11.3	-9.8	-44.4	-34.7
Exploration costs		-0.1	-	-0.0	-0.1	-1.0
Net profit/loss from associates		-0.7	-	0.4	-0.7	-0.4
Administrative expenses	9	-1.2	-1.3	-1.1	-5.8	-5.2
<b>Operating result</b>		<b>-1.7</b>	<b>4.4</b>	<b>3.5</b>	<b>-0.5</b>	<b>23.0</b>
<b>Net financial result</b>	4	<b>3.2</b>	<b>1.9</b>	<b>-0.3</b>	<b>3.1</b>	<b>0.5</b>
<b>Result before tax</b>		<b>1.5</b>	<b>6.4</b>	<b>3.2</b>	<b>2.7</b>	<b>23.5</b>
Income tax		-	-	-0.1	-	-0.1
<b>Result for the period</b>		<b>1.5</b>	<b>6.4</b>	<b>3.1</b>	<b>2.7</b>	<b>23.4</b>
<b>Other comprehensive result</b>						
Items that may be subsequently reclassified to profit or loss:						
Currency exchange differences		-4.9	-2.5	-0.2	-7.0	-3.5
<b>Other comprehensive result for the period</b>		<b>-4.9</b>	<b>-2.5</b>	<b>-0.2</b>	<b>-7.0</b>	<b>-3.5</b>
<b>Total comprehensive result for the period</b>		<b>-3.4</b>	<b>3.9</b>	<b>2.9</b>	<b>-4.4</b>	<b>19.9</b>
Attributable to:						
Shareholders in the parent company		-3.4	3.9	2.9	-4.4	19.9
Non controlling interest		-	-	-	-	-
Number of shares outstanding		35,543,750	35,543,750	35,543,750	35,543,750	35,543,750
Number of shares outstanding (after dilution)		36,232,460	35,543,750	35,543,750	36,232,460	35,543,750
Weighted average number of shares (before dilution)		34,214,526	34,216,440	34,574,539	34,324,020	34,964,288
Weighted average number of shares (after dilution)		34,405,662	34,216,440	34,574,539	34,372,065	34,964,288
Earnings per share (before dilution), USD		0.04	0.19	0.09	0.08	0.67
Earnings per share (after dilution), USD		0.04	0.19	0.09	0.08	0.67

# Consolidated balance sheet in summary

MUSD	Note	31 Dec 2016	31 Dec 2015	31 Dec 2014
<b>ASSETS</b>				
<b>Non current assets</b>				
Oil and gas properties	5	191.1	189.1	166.4
Office equipment		0.1	0.1	0.2
Investment in associates		0.3	2.0	5.2
		<b>191.4</b>	<b>191.3</b>	<b>171.8</b>
<b>Current assets</b>				
Other receivables		7.4	9.2	11.4
Prepaid expenses		1.1	1.9	2.5
Cash and cash equivalents		39.0	51.2	47.8
		<b>47.5</b>	<b>62.3</b>	<b>61.7</b>
<b>TOTAL ASSETS</b>		<b>238.9</b>	<b>253.6</b>	<b>233.5</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>				
<b>Shareholders' equity</b>				
Share capital		0.8	0.8	0.8
Additional paid in capital		71.0	71.0	71.0
Reserves		-1.1	5.9	9.4
Retained earnings		126.2	139.5	133.1
<b>Total shareholders' equity</b>		<b>196.8</b>	<b>217.2</b>	<b>214.3</b>
<b>Non current liabilities</b>				
Non current provisions	7	8.8	4.0	3.3
Loan facility	6	-	-	-
		<b>8.8</b>	<b>4.0</b>	<b>3.3</b>
<b>Current liabilities</b>				
Current provisions	7	1.9	-	-
Accounts payable		0.2	0.1	0.3
Accrued expenses		9.8	20.2	14.5
Other current liabilities	8	21.5	12.1	1.1
		<b>33.3</b>	<b>32.4</b>	<b>15.9</b>
<b>Total liabilities</b>		<b>42.1</b>	<b>36.3</b>	<b>19.2</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>238.9</b>	<b>253.6</b>	<b>233.5</b>

# Consolidated statement of changes in equity in summary

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

# Consolidated cash flow statement in summary

MUSD	Note	Fourth quarter 2016	Third quarter 2016	Fourth quarter 2015	Twelve months 2016	Twelve months 2015
<b>Cash flow from operations</b>						
Operating result		-1.7	4.4	3.5	-0.5	23.0
Interest received		-	-	-	-	-
Interest paid	4	-0.1	-0.1	-0.2	-0.7	-1.0
Income tax		-	-	-0.1	-	-0.1
Adjustment for exploration costs		0.1	-	-	0.1	1.0
Adjustment for depletion, depreciation and other non-cash related items	8	16.2	10.6	9.4	45.7	32.8
<b>Total cash flow from operations before change in working capital</b>		<b>14.5</b>	<b>14.9</b>	<b>12.7</b>	<b>44.7</b>	<b>55.7</b>
Change in receivables		0.6	-8.7	-13.0	-1.8	-8.9
Change in liabilities		1.1	9.3	2.9	9.8	12.3
<b>Cash flow from operations</b>		<b>16.2</b>	<b>15.5</b>	<b>2.6</b>	<b>52.7</b>	<b>59.1</b>
<b>Investment activity</b>						
Investment in oil and gas properties	5	-15.0	-9.3	-7.0	-48.5	-40.8
Investment in other fixed assets		0.0	0.0	-	-	-0.0
Cash from associated companies, net		0.0	0.3	-	0.1	2.8
<b>Cash flow from investment activity</b>		<b>-15.0</b>	<b>-9.1</b>	<b>-7.0</b>	<b>-48.4</b>	<b>-38.1</b>
<b>Financing activity</b>						
Purchase of own shares		-	-0.3	-1.6	-1.7	-4.8
Share redemption		-11.5	-	-	-11.5	-8.5
Dividend		-	-	-	-4.1	-4.3
Long term credit, net after issue costs		-	-	-10.2	-	-0.1
<b>Cash flow from financing activity</b>		<b>-11.5</b>	<b>-0.3</b>	<b>-11.8</b>	<b>-17.4</b>	<b>-17.7</b>
<b>Period cash flow</b>		<b>-10.3</b>	<b>6.1</b>	<b>-16.2</b>	<b>-13.1</b>	<b>3.4</b>
Cash and cash equivalents at the beginning of the period		48.2	41.2	67.4	51.2	47.8
Exchange gains/losses on cash and cash equivalents		1.2	0.9	0.0	0.9	0.0
Cash and cash equivalents at the end of the period		39.0	48.2	51.2	39.0	51.2

# Key ratios

Group	Fourth quarter 2016	Third quarter 2016	Fourth quarter 2015	Twelve months 2016	Twelve months 2015
<b>Operational items</b>					
Production before government take, bbl	1,128,621	1,131,282	1,007,782	4,478,121	3,578,488
Production per day, bbl	12,268	12,297	10,956	12,235	9,804
Net sales after government take, bbl	583,772	501,167	366,746	2,357,701	1,805,056
Achieved oil price, USD/bbl	46.0	45.8	47.9	40.5	58.1
<b>Income statement and balance sheet</b>					
Revenue, MUSD	20.7	26.1	26.0	87.1	107.0
EBITDA, MUSD	9.6	15.7	13.3	44.1	58.6
EBITDA-margin	46%	60%	51%	51%	55%
Operating result, MUSD	-1.7	4.4	3.5	-0.5	23.0
Operating margin	-8%	17%	13%	-1%	21%
Net result, MUSD	1.5	6.4	3.1	2.7	23.4
Net margin	7%	24%	12%	3%	22%
Cash and cash equivalents, MUSD	39.0	48.2	51.2	39.0	51.2
Shareholders' equity, MUSD	196.8	210.7	217.2	196.8	217.2
Balance sheet total, MUSD	238.9	243.6	253.6	238.9	253.6
<b>Capital structure</b>					
Solvency	82%	86%	86%	82%	86%
Leverage ratio	neg.	neg.	neg.	neg.	neg.
Investments, MUSD	15.0	9.3	7.0	48.5	40.8
Net cash, MUSD	39.0	48.2	51.2	39.0	51.2
<b>Profitability</b>					
Return on shareholders' equity	0.74%	2.97%	1.44%	1.29%	10.85%
Return on capital employed	0.86%	3.73%	2.46%	4.20%	13.59%
<b>Other</b>					
Average number of full time employees	21	20	18	19	17
Dividend per share, SEK <sup>6</sup>	-	-	-	1.00	1.00
Cash flow from operations per share, USD	0.47	0.45	0.07	1.53	1.69
Number of shares on balance day, '000	35,544	35,544	35,544	35,544	35,544
Shareholders' equity per share, USD	5.54	5.93	6.11	5.54	6.11
Weighted average number of shares (before dilution) on balance day, '000	34,215	34,216	34,575	34,324	34,964
Weighted average number of shares (after dilution) on balance day, '000	34,406	34,216	34,575	34,372	34,964
Earnings per share before dilution, USD	0.04	0.19	0.09	0.08	0.67
Earnings per share after dilution, USD	0.04	0.19	0.09	0.08	0.67

<sup>6</sup> Not including share redemption of 3.00 SEK per share in Q4 2016 and 2.00 SEK per share in Q2 2015.

**Key quarterly data**

	<b>Q4 2016</b>	<b>Q3 2016</b>	<b>Q2 2016</b>	<b>Q1 2016</b>	<b>Q4 2015</b>	<b>Q3 2015</b>	<b>Q2 2015</b>	<b>Q1 2015</b>
Daily production, bbl	12,268	12,297	12,164	12,212	10,956	10,087	9,434	8,713
Barrels sold, bbl	583,772	501,167	740,844	531,918	366,746	584,399	545,019	308,892
Revenue, MUSD	20.7	26.1	20.6	19.7	25.9	30.1	26.4	24.6
EBITDA, MUSD	9.6	15.7	8.4	10.3	13.3	18.0	15.4	12.0
Return on shareholders' equity	0.78%	2.97%	1.39%	-1.05%	1.44%	3.81%	2.11%	3.52%
Cash flow from operations, MUSD	16.2	15.5	11.1	10.0	2.6	32.6	9.7	14.3
Earnings per share (after dilution), USD	0.04	0.19	-0.09	-0.07	0.09	0.24	0.13	0.22
Share price, end of period, SEK	78.3	60.5	64.5	54.0	57.5	44.4	55.5	57.8

For definitions of key ratios please refer to the 2015 Annual Report.

## Parent company income statement in summary<sup>7</sup>

MSEK	Note	Fourth quarter 2016	Third quarter 2016	Fourth quarter 2015	Twelve months 2016	Twelve months 2015
<b>Other income</b>		2.0	4.5	1.1	10.6	10.5
Net profit/loss of associates		-5.6	-	3.5	-5.6	-3.2
Administrative expenses		-6.7	-5.5	-5.2	-31.3	-29.2
<b>Operating result</b>		<b>-10.3</b>	<b>-1.0</b>	<b>-0.6</b>	<b>-26.3</b>	<b>-21.9</b>
Net financial items		31.4	21.0	311.5	46.6	332.1
<b>Result before tax</b>		<b>21.0</b>	<b>20.0</b>	<b>310.9</b>	<b>20.3</b>	<b>310.2</b>
Income tax		-	-	-	-	-
<b>Result for the period<sup>8</sup></b>		<b>21.0</b>	<b>20.0</b>	<b>310.9</b>	<b>20.3</b>	<b>310.2</b>

## Parent company balance sheet in summary

MSEK	Note	31 Dec 2016	30 Sep 2016	31 Dec 2015
<b>ASSETS</b>				
Total non current assets		245.8	220.7	148.5
Total current assets		108.3	214.4	368.1
<b>TOTAL ASSETS</b>		<b>354.1</b>	<b>435.0</b>	<b>516.6</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>				
Restricted shareholders' equity		77.0	77.0	77.0
Unrestricted shareholders' equity		266.1	347.7	394.9
Total current liabilities		11.0	10.3	44.8
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>354.1</b>	<b>435.0</b>	<b>516.6</b>

7 Please note that the parent company presents the financial reports in SEK. For more information please see Accounting principles on page 17.

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



# Notes

## General information

Tethys Oil AB (publ) ("the Company"), organisation 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 licences in Oman, Lithuania and France.

The Company is a limited liability company incorporated and domiciled in Stockholm, Sweden. The Company is listed on Nasdaq Stockholm.

## Accounting principles

The fourth quarter and year-end report 2016 of the Tethys Oil Group has been prepared in accordance with IAS 34 and the Annual Accounts Act. The fourth quarter and year-end report 2016 of the Parent company has been prepared in accordance with the Annual Accounts Act and the Recommendation RFR 2 "Accounting for legal entities", issued by the Swedish Financial Accounting Standards Council.

The accounting principles as described in the Annual report 2015 have been used in the preparation of this report, except for the financial reporting currency which has changed from SEK to USD (please see "New financial reporting currency" below).

With effect from the second quarter report 2016, Tethys Oil has applied the ESMA's (European Securities and Markets Authority) guidelines for alternative performance measures. Definitions of performance measures are provided in the Annual Report 2015 and the relevant reconciliations can be found on page 15 of this report.

## Fair value

The nominal value of accounts payables, cash and bank and accounts receivables is a fair approximation of those line items as they are short term in nature.

### IAS 39 valuation categories and related balance sheet items

	31 December 2016				31 December 2015		
	Financial assets and liabilities at fair value through profit or loss	Other receivables and cash and bank	Other liabilities		Financial assets and liabilities at fair value through profit or loss	Other receivables and cash and bank	Other liabilities
MUSD				MUSD			
Other receivables	-	7.4	-	Other receivables	-	9.2	-
Cash and bank	-	39.0	-	Cash and bank	-	51.2	-
Accounts payables	-	-	0.2	Accounts payables	-	-	0.1
Other current liabilities	-	-	21.5	Other current liabilities	-	-	12.1

## Note 1, Risks and uncertainties

The Group's activities expose it to a number of risks and uncertainties which are continuously monitored and reviewed. The main risks and uncertainties are operational and financial risks described below.

### Operational risk

At its current stage of development Tethys Oil is commercially producing oil and is furthermore exploring for and appraising undeveloped known oil and/or natural gas accumulations. The operational risk is different in these 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. 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

### New financial reporting currency

IAS 21 allows financial reporting in currencies other than Swedish kronor (SEK), for Swedish groups. Tethys Oil's board of directors have decided to adopt USD as the reporting currency for the Group in order to improve the understanding of Tethys Oil's financial reporting and to increase transparency. As a consequence of the change in accounting principles, the comparative figures are translated into USD whereby assets and liabilities are translated at the closing rate at the date of that balance sheet and income and expenses are translated at the exchange rates at the dates of the transactions. Equity is translated against historical rates. The financial reporting in USD has commenced as from 1 January 2016. The parent company will continue to use SEK as financial reporting currency.

### Exchange rates

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

Currency	31 December 2016		30 September 2016		31 December 2015	
	Average	Period end	Average	Period end	Average	Period end
SEK/USD	8.63	9.42	8.46	8.67	8.45	8.51

Movements in currency exchange rates does not materially impact Tethys Oil's operating result, as all revenue and most costs are denominated in the same currency as the reporting currency USD.

and expected cash flows and 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 are no oil price hedges in place as per 31 December 2016.

Another operational risk factor is access to equipment in Tethys Oil's projects. 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. Through its operations Tethys Oil is furthermore subject to political risk, environmental risk and the risk of not being able to retain key personnel.

A more detailed analysis of the Group's risks and uncertainties and how the Group addresses these risks, are given in the Annual report for 2015.

## Note 2, Segment reporting

The Group's accounting principle for segments describes that operating segments are based on geographic perspective. The operating result for each segment is presented below.

Group income statement Jan-Dec 2016						Group income statement Jan-Dec 2015					
MUSD	Oman	Lithuania	Sweden	Other	Total	MUSD	Oman	Lithuania	Sweden	Other	Total
Revenue	87.1	-	-	-	<b>87.1</b>	Revenue	107.0	-	-	-	<b>107.0</b>
Operating expenses	-36.5	-	-	-	<b>-36.5</b>	Operating expenses	-42.9	-	-	-	<b>-42.9</b>
Depreciation, depletion and amortisation	-44.4	-	-	-	<b>-44.4</b>	Depreciation, depletion and amortisation	-34.6	-	-	-	<b>-34.7</b>
Exploration costs	-	-	-	-0.1	<b>-0.1</b>	Exploration costs	-1.0	-	-	-	<b>-1.0</b>
Other income	-	-	-	-	<b>-</b>	Other income	-	-	-	-	<b>-</b>
Net profit/loss from associates	-	-0.7	-	-	<b>-0.7</b>	Net profit/loss from associates	-	-0.4	-	-	<b>-0.4</b>
Administrative expenses	-1.7	-	-3.6	-0.4	<b>-5.8</b>	Administrative expenses	-1.7	-	-3.4	-0.1	<b>-5.2</b>
<b>Operating result</b>	<b>4.5</b>	<b>-0.7</b>	<b>-3.6</b>	<b>-0.5</b>	<b>-0.5</b>	<b>Operating result</b>	<b>26.8</b>	<b>-0.4</b>	<b>-3.4</b>	<b>-0.1</b>	<b>23.0</b>
Total financial items					3.1	Total financial items					0.5
<b>Result before tax</b>					<b>2.7</b>	<b>Result before tax</b>					<b>23.5</b>
Income tax					-	Income tax					<b>-0.1</b>
<b>Result for the period</b>					<b>2.7</b>	<b>Result for the period</b>					<b>23.4</b>

## Note 3, Revenue

MUSD	Fourth quarter 2016	Third quarter 2016	Fourth quarter 2015	Twelve months 2016	Twelve months 2015
Net sales,	26.9	22.9	17.6	95.4	104.9
Underlift (overlift)	-0.3	3.1	8.4	-8.3	2.2
Overlift adjustment Export Reporting Error	-5.9	-	-	-	-
<b>Revenue</b>	<b>20.7</b>	<b>26.1</b>	<b>26.0</b>	<b>87.1</b>	<b>107.0</b>

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. The selling price is the monthly average of the two month future price for Oman blend.

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

## Note 4, Net financial result

MUSD	Fourth quarter 2016	Third quarter 2016	Fourth quarter 2015	Twelve months 2016	Twelve months 2015
<i>Financial income:</i>					
Interest income	-	-	-	-	-
Gain on currency exchange rates	3.5	3.4	1.8	9.1	6.7
Other financial income	-	0.3	0.2	0.3	0.2
<i>Financial expenses:</i>					
Interest expenses	-0.1	-0.1	-0.2	-0.6	-1.0
Currency exchange losses	-	-1.4	-1.8	-3.8	-4.2
Other financial expenses	-0.3	-0.2	-0.2	-1.8	-1.2
<b>Net financial result</b>	<b>3.2</b>	<b>1.9</b>	<b>-0.3</b>	<b>3.1</b>	<b>0.5</b>

## Note 5, Oil and gas properties

Country	Licence name	Phase	Tethys Oil, %	Total area, km <sup>2</sup>	Partners (operator in bold)	Book value 31 Dec 2016	Book value 31 Dec 2015	Investments Jan-Dec 2016
Oman	Blocks 3&4	Production	30%	29,130	<b>CCED</b> , Mitsui	190.8	189.1	48.2
Lithuania	Gargzdai	Production	25%	884	Odin, GeoNafta	–	–	–
Lithuania	Rietavas	Exploration	30%	1,594	Odin, private investors	–	–	–
Lithuania	Raseiniai	Exploration	30%	1,535	Odin, private investors	–	–	–
France	Alès	Exploration	37.5	215	MouvOil	–	–	–
France	Attila	Exploration	40%	1,986	<b>Galli Coz</b>	–	–	–
<b>New ventures</b>						0.3	–	0.3
<b>Total</b>						<b>191.1</b>	<b>189.1</b>	<b>48.5</b>

## Note 6, Loan facility

Tethys Oil has a four-year, at year-end 2016 up to MUSD 38, senior revolving reserve based lending facility. The original facility amount was up to MUSD 100 and the maximum facility amount is being reduced in accordance with the loan life. Security for the facility is the interest in the Blocks 3&4 licence. The interest rate of the credit facility is floating between LIBOR + 3.75 percent to LIBOR + 4.00 percent per annum, depending on the level of utilization of the facility. As per 31 December 2016, there is no outstanding interest bearing debt from the credit facility.

## Note 7, Provision

Tethys Oil has a non current provision of MUSD 8.8, which includes a provision for site restoration on Blocks 3&4 of MUSD 4.8 (MUSD 4.0) and MUSD 4.0 from the estimated total error amount of MUSD 5.9 from the Export Reporting Error. Tethys Oil also has a current provision of MUSD 1.9 related to the Export Reporting Error.

## Note 8, Export Reporting Error

Tethys Oil's share of the error amount has been estimated at MUSD 5.9.

Non current provisions include MUSD 4.0 of the error amount.

Current provisions include MUSD 1.9 of the error amount.

The error amount of MUSD 5.9 is a non-cash transaction during 2016, which is reflected in the cash flow statement.

## Note 9, Incentive programme

Tethys Oil has an incentive programme as part of the remuneration package to employees. Warrants were issued 2015 and 2016 following a decision by the respective AGM.

	2015/2018 Warrants	2016/2019 Warrants
Number of warrants issued	356,000	350,000
Number of shares each warrant entitles to subscribe for	1.08	1.05
Subscription price, SEK	76.80	62.60
Exercise period	23 May – 5 Oct, 2018	28 May – 4 Oct, 2019

As the subscription price is below the share price as per 31 December 2016, the warrants are included in the diluted number of shares which amount to 36,232,460 on the balance day and in the diluted average number of shares in circulation during the fourth quarter ending 31 December 2016 of 34,405,662.

## Note 10, Pledged assets

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

Pledged assets in the parent company amounts to MSEK 0.5 (0.5) and relate to a pledge in relation to office rental.

## Note 11, Contingent liabilities

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

### Relevant reconciliations of alternative performance measures

Besides the definitions below, definitions of the alternative performance measures below can be found in the Annual Report 2015.

MUSD (unless specifically stated)	Fourth quarter 2016	Third quarter 2016	Fourth quarter 2015	Twelve months 2016	Twelve months 2015
Operating result	-1.7	4.4	3.5	-0.5	23.0
Depreciation, depletion and amortization	11.2	11.3	9.8	44.4	34.7
Exploration costs	0.1	-	-	0.1	1.0
<b>EBITDA</b>	<b>9.6</b>	<b>15.7</b>	<b>13.3</b>	<b>44.1</b>	<b>58.6</b>
Cash and bank	39.0	48.2	51.2	39.0	51.2
Interest bearing debt	-	-	-	-	-
<b>Net cash</b>	<b>39.0</b>	<b>48.2</b>	<b>51.2</b>	<b>39.0</b>	<b>51.2</b>
Cash flow from operations	16.2	15.5	2.6	52.7	59.1
Investment in oil and gas properties	-15.0	-9.3	-7.0	-48.5	-40.8
<b>Cash flow from operations after investments</b>	<b>1.2</b>	<b>6.2</b>	<b>-4.4</b>	<b>4.2</b>	<b>18.3</b>

# Financial calendar

Annual report 2016 is expected to be available during the last week of April 2017

Report for first quarter 2017 (January – March 2017) on 2 May 2017

Annual meeting 2017 is planned to be held in Stockholm on 17 May 2017

Report for second quarter 2017 (January – June 2017) on 15 August 2017

Report for third quarter 2017 (January – September 2017) on 7 November 2017

Report for fourth quarter 2017 (January – December 2017) on 13 February 2018

Tethys Oil will, in addition to the above reports, continue to provide production updates on a monthly basis. The Financial update prior to the quarterly report will no longer be reported.

Stockholm, 14 February 2017

Tethys Oil AB (publ)

Org. No. 556615-8266

The Board of Directors

*This report has not been subject to review by the auditors of the Company.*

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*This information is information that Tethys Oil AB is obliged to make public pursuant to the EU Market Abuse Regulation. The information was submitted for publication, through the agency of the contact persons set out above, at 07.30 CET on 14 February 2017.*