Note: This interim report is presented in USD. *

First quarter report 2016

- **Production amounted to 12,212 barrels per day, up 11 per cent compared to the fourth quarter 2015**
- **Revenue amounted to MUSD 20, down 24 per cent compared to fourth quarter 2015**
- **EBITDA amounted to MUSD 10, down 25 per cent compared to fourth quarter 2015**
- **Net result amounted to MUSD -2, down from fourth quarter 2015 net result of MUSD 3**
- **Earnings per share amounted to USD -0.07 during first quarter 2016**
- **Nine new wells completed during the quarter on Blocks 3 and 4 Oman. One new structure successfully drilled in the Shahd area and put in production**

MUSD (unless specifically stated)	**First quarter 2016**	Fourth quarter 2015	First quarter 2015
Net daily production before government take (bbl)	**12,212**	10,956	8,714
Net barrels sold, after government take (bbl)	**531,918**	366,746	308,892
Average selling price per barrel, USD	**35.70**	47.90	63.80
Revenue	**20**	26	25
EBITDA	**10**	13	13
Operating result	**-1**	3	5
Result for the period	**-2**	3	8
Net cash	**45**	51	46
Investments in oil and gas properties	**15**	7	16
Earnings per share, USD	**-0.07**	0.09	0.22

** Starting 1 January 2016, the Tethys Oil group will present the financial reports in USD. Please note that all comparative financials have been restated. For further information, please see Accounting principles on page 15.*

Letter to shareholders

Dear friends and investors

Are oil prices approaching a 'new normal' within the oil industry? Possibly. Almost two years into the most dramatic price disruption we have seen in a generation, signs are that the forces of supply and demand eventually can make a mark also in this highly political industry. I have always maintained that the price of oil, the most analysed commodity in the world, is impossible to predict in the short term. Anything can happen both on the upside and the down side. But in the longer run market forces will prevail and an equilibrium will arise where supply and demand meet and a new balance is established.

And the forces at work are not that difficult to identify. Demand comes first. Are there signs that demand for oil will remain steady or will it even grow higher? Then supply. First and foremost – is there oil available to produce? Are there willing suppliers who have access to capital to make the necessary investments to bring the oil into production? What is their cost of production? With a view on these questions, a price model is not that difficult to put in place.

In the first years of this century a vast miscalculation of demand (China rising), led to under investment and a subsequent substantial price increase. From a low of under USD 10 per barrel in 1999 to a top of close to USD 150 per barrel seven years later. Not surprisingly capital rushed in to support new investments and production increased. And for a good eight years (with a brief drop in the aftermath of the financial crises in 2008), prices above USD 100 per barrel became a 'new normal'.

But at this price, the other side of the equation got out of whack. The high profit margins led to over investments. At the same time costs increased as the oil service industry (rigs, seismic companies, mud loggers, frackers etc) could all increase their share of the pie and make substantial profits. And suddenly a classic case of over supply was a fact.

The trigger for the price drop turned out to be political at first. Low cost producers saw their market share being threatened by high cost producers, and made the (logical) calculation that if they increase production above current demand prices would fall and high cost producers would have to go out of business. Thus, production would fall, prices stabilise and lower cost producers would prevail.

From a Tethys Oil point of view, we do not mind this scenario as we belong to the low cost producers. And trying to look at the data in a reasonably sober way, rebalancing seems under way. Among the production with the highest costs is the American shale production, which is reliant on hydro fracking and other specialised techniques. And from Houston the message is clear, rig utilisation has been falling month by month and capital is drying up and long term projects are being delayed or scrapped. High cost producers are producing what they can from existing wells to meet interest payments on loan. And eventually, natural decline will dry out these high cost reservoirs. Over the last months, the shale production in USA is finally falling.

So the signs are definitely there. For healthy projects, costs are coming down as service companies cut prices. The markets are rebalancing and prices show signs of stabilising at levels which make it possibly for companies like Tethys Oil to plan ahead and focus on growth.

Even in the first quarter 2016, when the oil price reached a low below USD 30 per barrel, Tethys Oil continued to stay cash flow positive with a cash flow from operations of MUSD 10. Our average selling price fell 25 per cent quarter on quarter down to USD 35.7 per barrel. We report revenues of MUSD 20. Our EBITDA for the quarter amounted to MUSD 10, and our net result for the period amounted to MUSD -2. Our net cash was MUSD 45 as per 31 March 2016.

Outlook

Our investments continue and we see substantial growth opportunities with good profit margins in our core Omani asset. We have intensified our efforts to assess the remaining potential of these prolific blocks. We have mapped more than ten undrilled structures in the areas covered by 3D seismic surrounding the producing fields. All potentially oil bearing. Some of these prospective structures are larger than others. The key to understanding these blocks is the realisation that the producing areas are separate reservoirs, not connected and relatively small.

But there are many of them! About 25 of them are so far in production. Our in-house prospect inventory, now also taking in leads emerging in the south central part of Block 4, is rapidly approaching 30 and of course work continues.

What this implies for Tethys Oil, is that if the new normal turns out to be USD 40 or 50 per barrel of oil for the foreseeable future, we see costs come down, margins remain healthy and primarily we see ample organic growth in our core asset. New projects may or may not materialise. Efforts to add to our portfolio continue. But our core focus remains on Blocks 3 and 4 onshore Oman.

So stay with us, we are far from done!

Stockholm in May 2016

Magnus Nordin
Managing director

Conference call
Date: 2016-05-03
Time: 10.00 CET

To participate in the conference call you may choose one of the following options:

To participate via phone, please call:
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To participate via web:
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