TETHYS OIL

Annual Report 2018

Contents

The Sustainability Report has been moved to a separate document, available on www.tethysoil.com.

Annual General Meeting

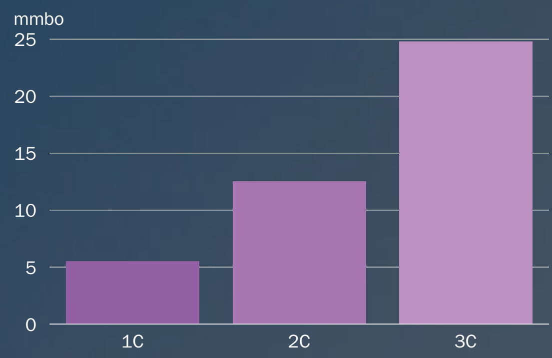
The Annual General Meeting will be held on 15 May 2019, 3:00 p.m. at Grand Hôtel, Södra Blasieholmshamnen 8, in Stockholm. To attend the AGM, please visit Tethys Oil's website, www.tethysoil.com, for more information.

Another successful year for Tethys Oil

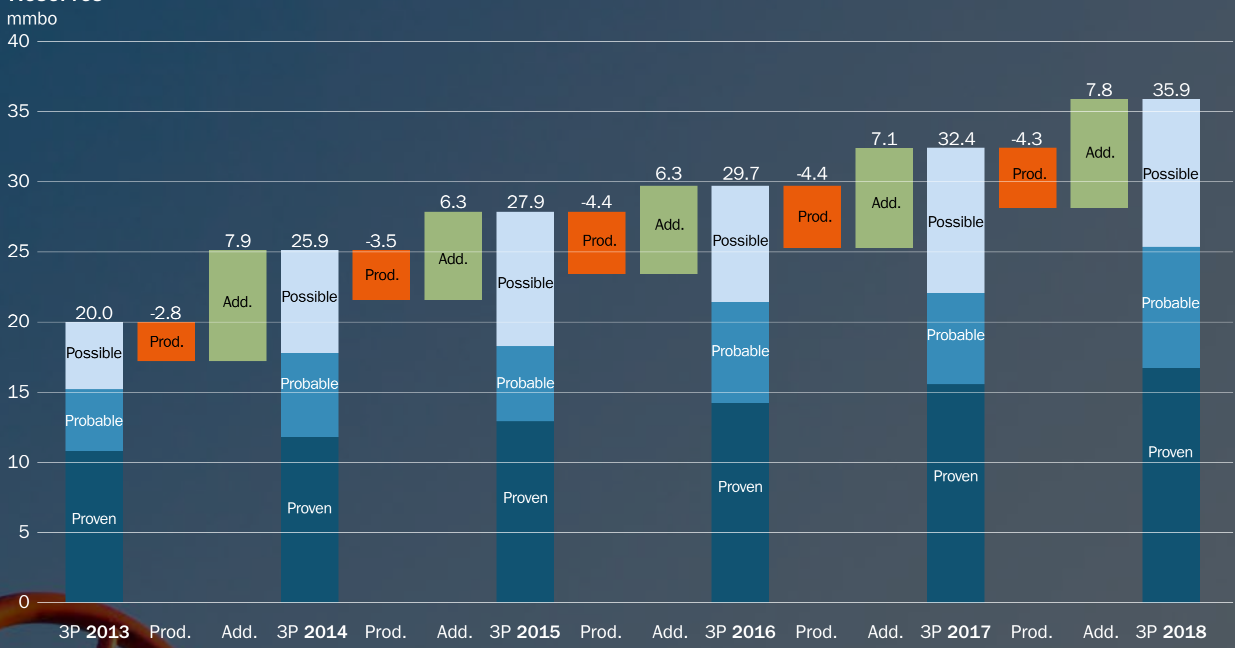
- **Record financial results in 2018 with a record distribution proposal to shareholders**

- **Successful appraisal of Tethys Oil's contingent resources**

Contingent resources
Total 31 December 2018



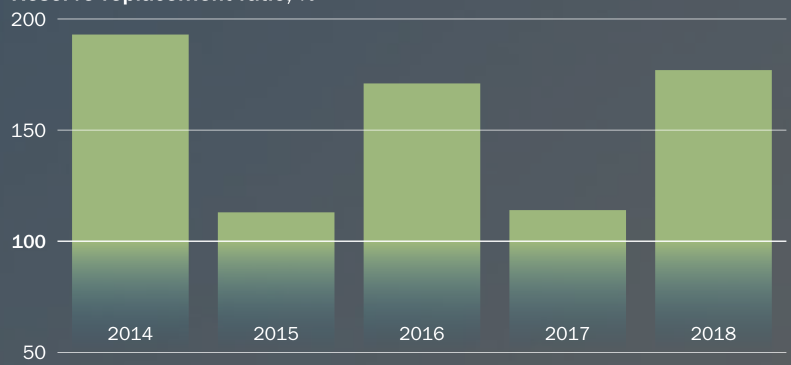
Reserves



Prod.= Production Add. = Additions

- **Excellent continuation of the 2P reserves replacement ratio – 177 percent in 2018. Seventh consecutive year of increasing 2P reserves**

Reserve replacement ratio, %



Operational and financial summary

MUSD[1] (unless specifically stated)	2018	2017	2016	2015	2014
Average daily production, before government take, Oman Blocks 3&4, bbl	**11,767**	12,162	12,121	9,698	7,577
Average selling price per barrel, USD	**70.5**	51.8	40.5	58.1	103.9
Revenue and other income	**157.3**	119.3	87.1	107.0	149.3
EBITDA	**106.6**	78.2	44.1	58.6	108.0
Net cash	**73.1**	42.0	39.0	51.2	47.8
Investments in oil and gas properties	**55.8**	40.4	48.5	40.8	39.3
Dividend, SEK per share	**2**	1	1	1	–
Extraordinary distribution to shareholders, SEK per share	**4**	–	3	2	–
Market capitalization at the end of the period, MSEK	**2,325**	2,337	2,799	2,044	2,168
2P Reserves in Oman (million barrels of oil)	**25.4**	22.0	21.4	18.2	17.80
2C Contingent resources in Oman (million bbl)	**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 2014–2015 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 interest, initiated oil production on the blocks three years later. From August 2010 through to year-end 2018, Tethys Oil's net production from Blocks 3&4, before government take, has amounted to about 23 million barrels, while annually increasing reserves. This has been achieved due to the skills and hard work of all the staff of Tethys Oil and the partner group, contractors and suppliers. The oil produced on Blocks 3&4 has created significant value for the shareholders of Tethys Oil and the other stakeholders in the licence interest, and the people of Oman, including locally generated employment.

Work on new exploration Block 49 is gearing up

In late 2017, Tethys Oil's operations in Oman were expanded when Tethys Oil was awarded a licence as operator for the exploration Block 49. In 2018, Tethys Oil conducted a seismic campaign, whereby 253 km² of 3D and 299 km of 2D seismic data were acquired in the north-eastern part of the license area. The purpose of the seismic campaign is to further define possible oil traps and to enhance the understanding of the deeper parts of the block in general.

Photo by Ronan Shenhav

Letter to the shareholders

Dear friends and investors,

We are delighted to report record financial results for the full year 2018. Our revenues and other income increased 32 percent to MUSD 157.3 and our EBITDA increased 36 percent and amounted to MUSD 106.6. We are equally delighted to report a 2P reserve replacement ratio of 177 percent for 2018 – the highest for three years and the seventh consecutive year of increasing our 2P reserves. So our main asset, Blocks 3&4 onshore Oman certainly continues to confirm its growth potential!

We generated a substantial amount of cash last year enabling us to increase our distribution to shareholders to about MUSD 30. Cash generation remains strong and our balance sheet continues to be among the strongest of comparable companies. With no debt and still a substantial amount of cash, we are in strong position to expand our project portfolio.

An important part of the 2018 work programme on Blocks 3&4 has been the appraisal and development of the significant three discoveries that were made in 2017. The Ulfa, Erfan and Samha fields, as the discoveries now are called, have contributed materially to our reserves and production.

Production in 2018 was very stable and averaged 11,767 bopd. For 2019 we expect average production to increase and have guided for an average between 12–13 000 bopd for the year. Our average selling price continued to increase throughout the year, and averaged at USD 70.5 per barrel in 2018, a level we haven't seen since 2014.

In 2018, we produced 4.3 million barrels and we added 7.6 million barrels of 2P reserves. The additions and revisions include maturation of contingent resources to reserves and upside revisions of the Farha South, Shahd and Erfan fields.

Appraisal and development of the Ulfa, Samha and Erfan fields will continue in 2019 and with a remaining resource base of 2C contingent resources of 12.5 million barrels, we are in a good position to continue to replace and increase our reserves in 2019.

Seismic surveys

A significant amount of new seismic data was acquired in 2018 – 2,750 km² 3D seismic on Blocks 3&4 and 253 km² of 3D and 299 km of 2D on Block 49. All new seismic data will guide our exploration drilling on our blocks in the years to come. So 2019 looks like it could be quite an active year from the exploration perspective.

Block 49

We have reprocessed some 1,500 km of vintage 2D seismic data, and a number of seismic anomalies were identified. This could be possible – primarily stratigraphic – oil traps. After integration of all available data in Tethys Oil's geological model, the presence of source rock as well as potential reservoir rocks have also been confirmed. Processing of the seismic data acquired late in 2018 is ongoing and the data will be ready for interpretation and mapping during 2019.

New ventures

In December 2018, we attempted to increase our presence in Oman further by entering into an agreement to acquire a two percent interest in the Mukhaizna field. Unfortunately, Tethys Oil was informed by the seller that partner pre-emption rights had been exercised, preventing us from completing the transaction. This slight setback does not, however, diminish our ambition to grow in Oman and elsewhere.

Continued distribution to our shareholders

Reflecting the strong operational and financial position of Tethys Oil, the board of directors is proposing an ordinary dividend of SEK 2.00 per share. Further, in line with Tethys Oil's long-term capital structure target, the board of directors is proposing an extraordinary distribution of SEK 6.00 per share.

Looking forward

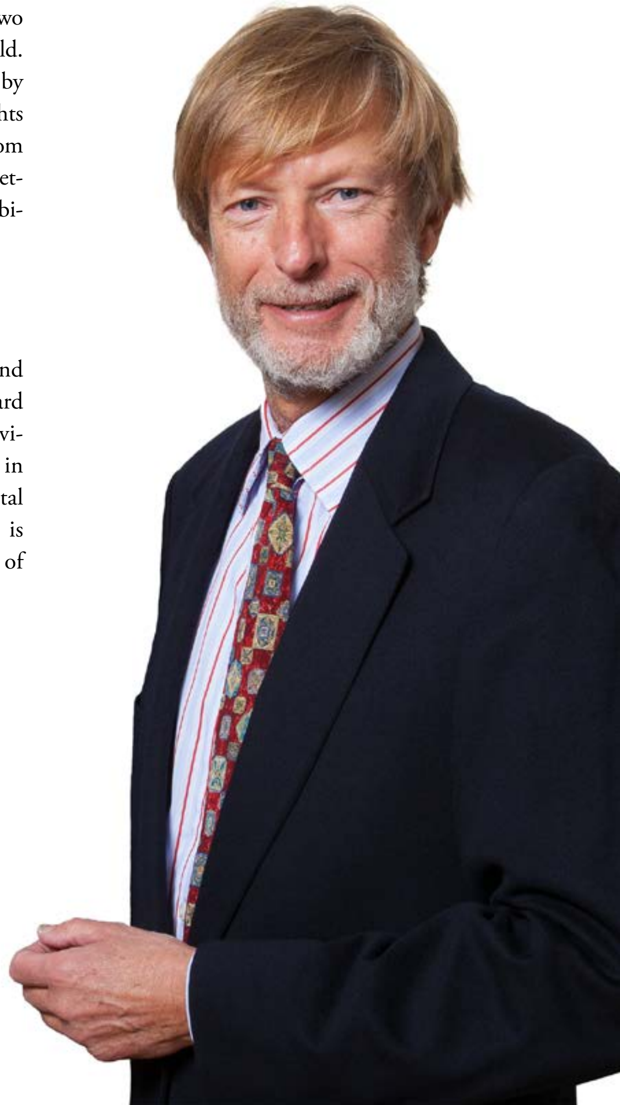
We continue to see large possibilities for organic growth on Blocks 3&4. We will continue our appraisal programme on the 2017 discoveries. We still have over 12 million barrels of contingent resources to mature to reserves. We expect the results of three to five exploration wells on Blocks 3&4 and prospect maturation on Block 49 will get seriously under way. Not to mention anything else that may come our way.

We expect our investments in Oman to amount to MUSD 50–55 in 2019, the bulk of which will be spent on Blocks 3&4.

So stay with us – it will be an exciting year 2019!

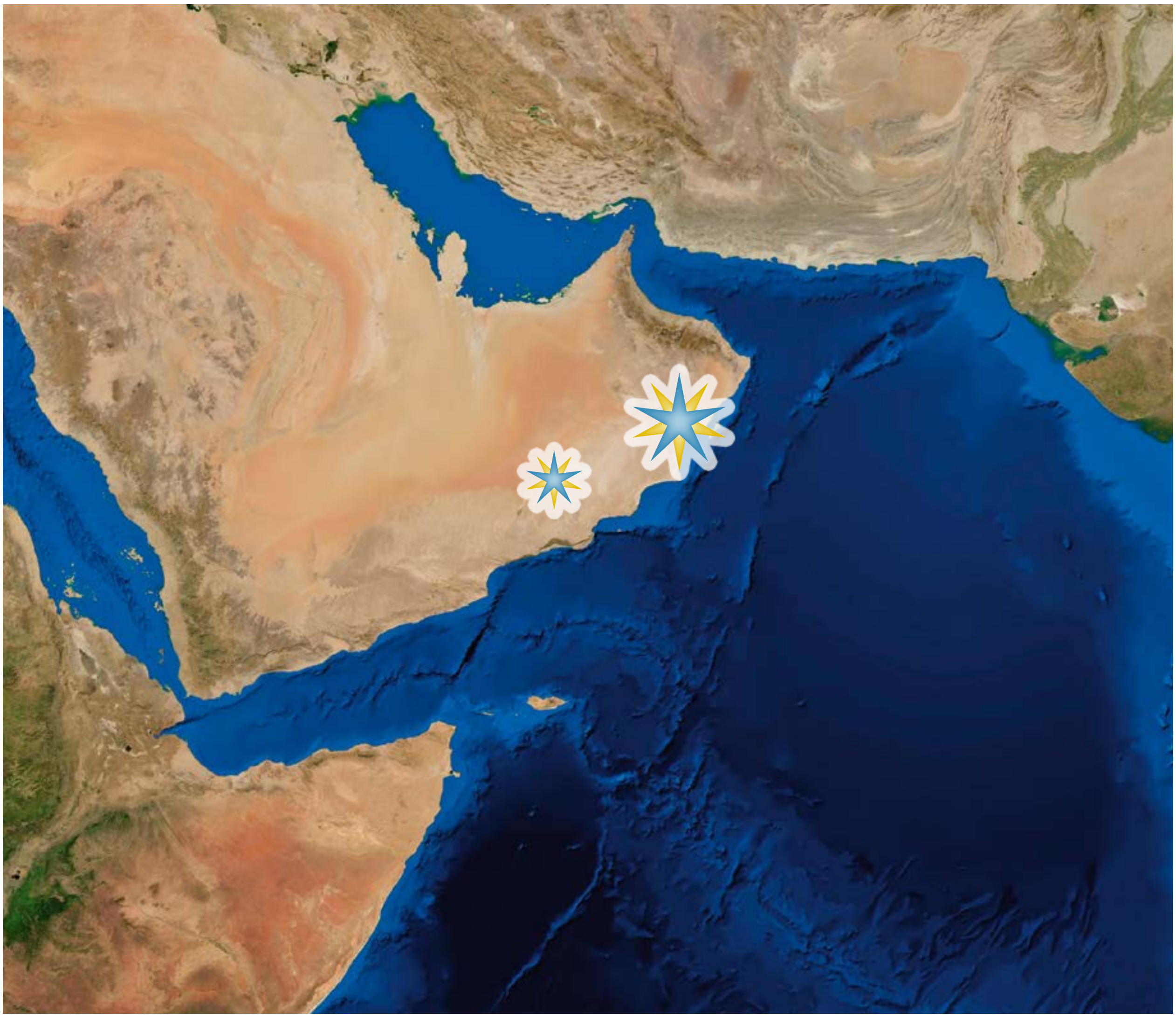
Stockholm in April 2019

Magnus Nordin
Managing Director



Tethys Oil

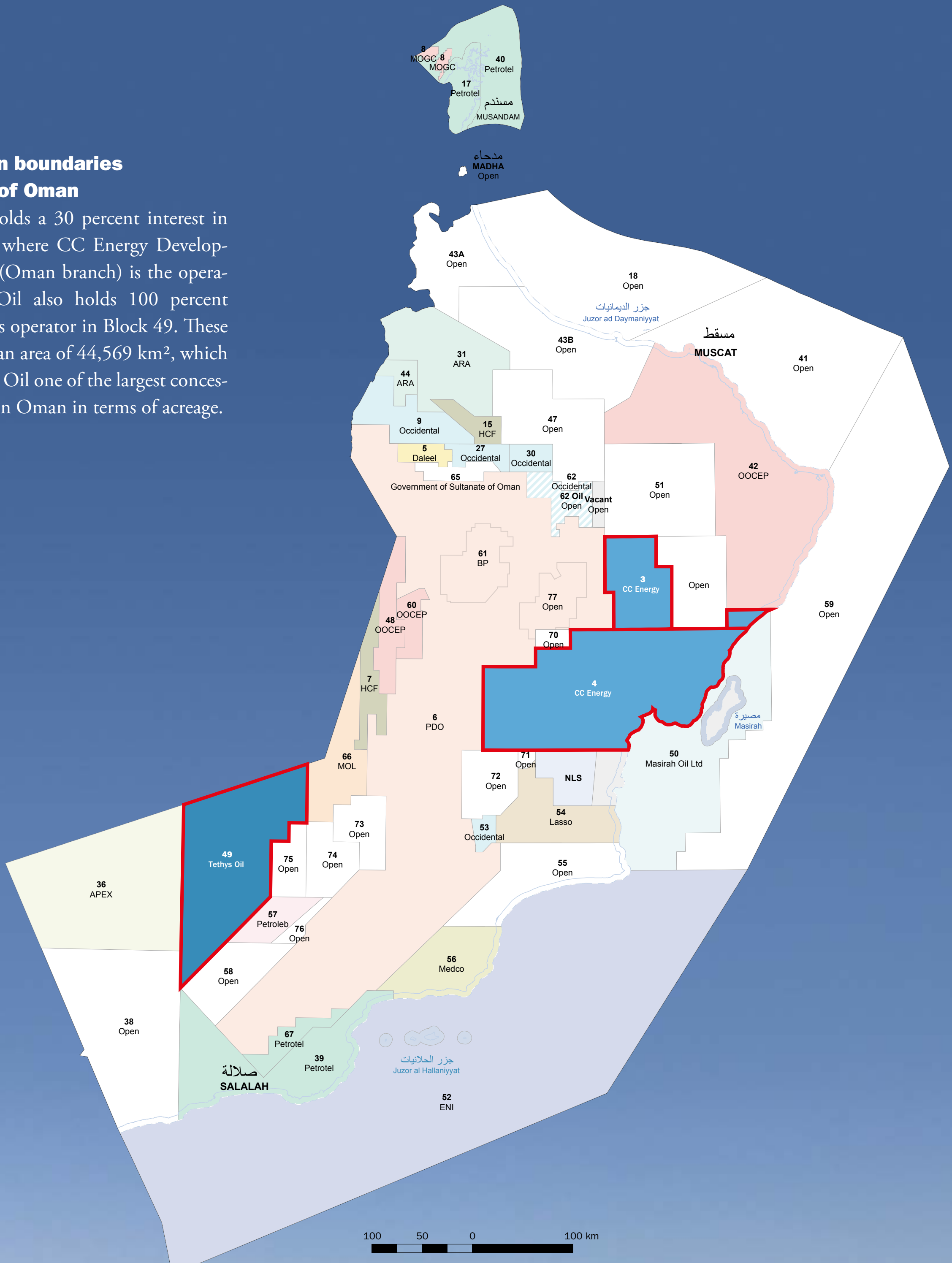
Tethys Oil is a Swedish oil company with focus on onshore areas with known oil discoveries. Tethys Oil's core area is Oman, where the Company holds interests in Blocks 3&4 and Block 49. The reserve and resource base on Blocks 3&4 amounts to 25.4 mmbo of 2P reserves and 12.5 mmbo of 2C contingent resources. The average oil production in 2018 from Blocks 3&4 amounted to 11,767 bopd (Tethys Oil's share of gross production, before government take). Tethys Oil also has onshore exploration licences in Lithuania and France and limited production in Lithuania. 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 2018 (bbl)
Blocks 3&4	29,130	30%	Production/ exploration	25.4	12.5	11,767
Block 49	15,439	100%	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 also holds 100 percent interest and is operator in Block 49. These blocks cover an area of 44,569 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 in tune 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 emanate 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 Company 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 Company 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.

Expanding reserve and resource base

Tethys Oil's net working interest Reserves in Blocks 3&4 Oman as per 31 December 2018 amount to 25,357 thousand barrels of oil ("mbo") of proven and probable Reserves (2P). The 2P reserve replacement ratio amounts to 177 percent. In addition, Tethys Oil's net working interest resources oil base in Oman amounts to 12,533 mbo of 2C contingent resources. The Company's 2018 and 2017 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 2017	15,559	22,044	32,414
Production 2018	-4,295	-4,295	-4,295
Additions and revisions	5,471	7,608	7,765
Total 31 December 2018	**16,735**	**25,357**	**35,884**
Reserve replacement ratio, %	127	177	181

Additions and revisions include maturation of over 4 mmbo of contingent resources to Reserves from the ongoing appraisal program of the 2017 discoveries as well as upside revisions of the Reserves on the Farha South, Shahd and Erfan fields and a small amount of Reserves attributable to the Tibyan discovery, the exploration well drilled in 2018.

Based on ERCE's model, Tethys Oil's net entitlement Reserves (Reserves after government take) amount to 7,781 mbo of 1P, 10,477 mbo of 2P and 13,824 mbo of 3P.

In addition to Reserves, Tethys Oil also announces contingent resources. The estimated contingent resources are contained in the discoveries made in 2017. Development of the contingent resources is contingent on the results of the on-going appraisal programme and also a work programme and budget to access these resources.

Contingent resources, Blocks 3&4 (Audited)

mbo	**1C**	**2C**	**3C**
Total 31 December 2018	**5,472**	**12,533**	**24,767**

The audit of the Reserves in Oman have 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).

Operations

Tethys Oil's core area Oman

Oman – part of the oil fairway

The Sultanate of Oman, strategically located in the southeastern 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 2018). Oman's crude oil and condensate production amounted in 2017 to almost 1 mmbo per day.

The largest producer in Oman is PDO, who holds Block 6. Block 6 covers an area of 90,874 km² in north, central and south Oman. In 2018, 665,000 barrels of oil and condensate per day were produced by PDO, corresponding to close to 70 percent of the total production in Oman. PDO is owned by the Omani government (60 percent), Shell (34 percent), Total (four percent), and Partex (two percent). Occidental Petroleum (Oxy), is the second-largest producer in Oman, and produced about 200,000 bopd in 2018. Oxy is producing from Blocks 9, 27 and 62 in northern Oman and the Mukhaizna field in Block 53 in the south.

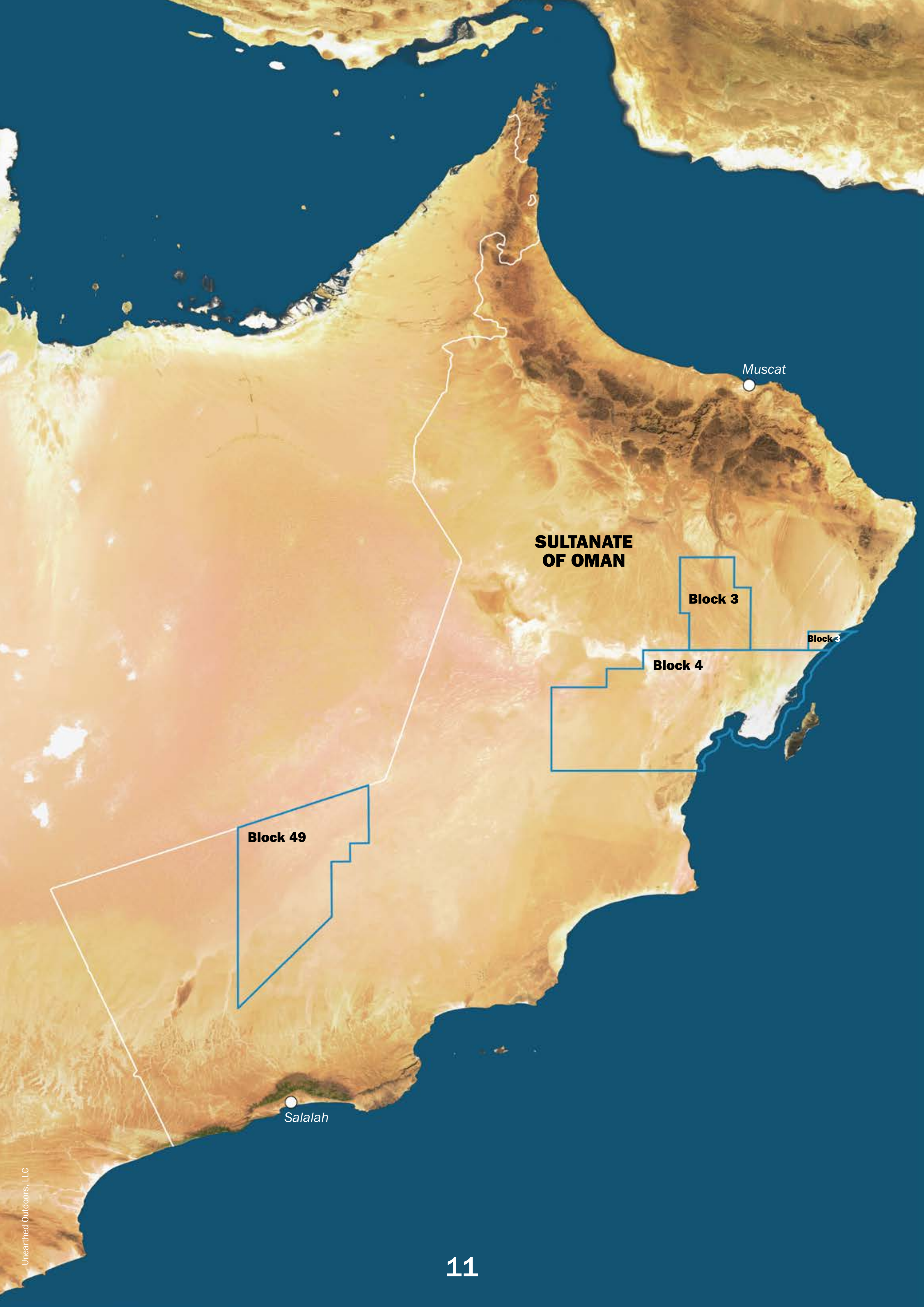
Tethys Oil in Oman

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

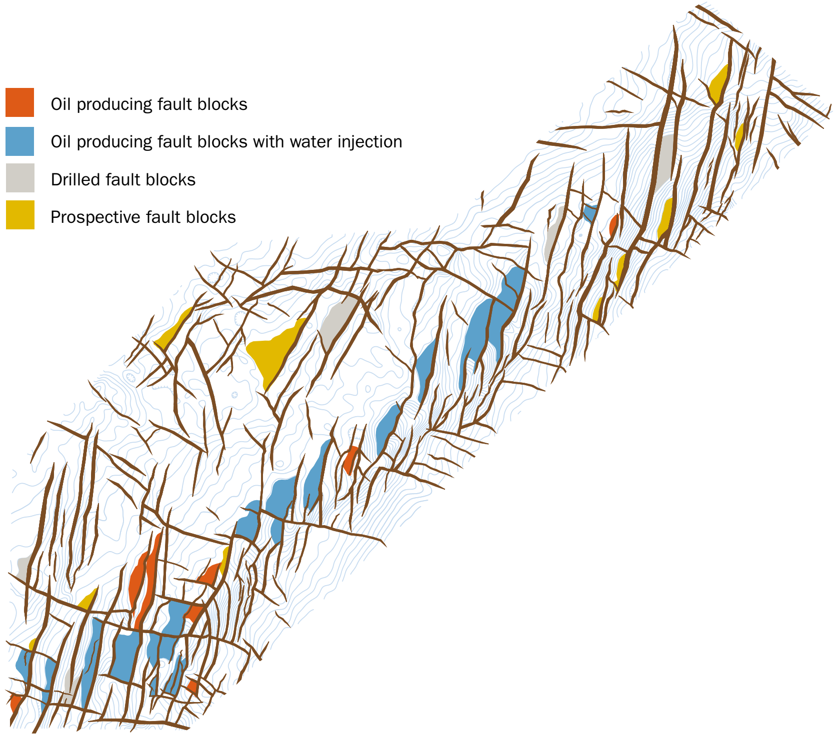
The partner group on Blocks 3&4 produced 39,200 bopd in 2018, corresponding to about four percent of Oman's total production. The produced oil is lifted at the Mina Al Fahal Terminal in Muscat, on the Sea of Oman, and it therefore never needs to pass through the Strait of Hormuz.

Photo by Ronan Shenhav



Unearthed Outdoors, LLC

The successful exploration and development of Blocks 3&4



In 2009, the first commercial oil well was drilled on Block 3&4. The year after, in 2010, an early production system was launched and the oil production on Blocks 3&4 was launched. In 2012, the Field Development Plan was approved and the exploration and production terms for the licence were extended until 2040. Since 2010, Tethys Oil net production, before government take, from Blocks 3&4 has amounted to 23 million barrels of oil.

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 the Farha South-3 well, the Farha South oil field was discovered, which has been the star performer on the blocks ever since.

Oil on Farha South was originally discovered in 1986 by a previous operator, when the Lower Al Bashir sandstone layer flowed oil. With Farha South-3, oil was again found in the Lower Al Bashir layer, but a long-term production test revealed a tight reservoir. The Barik sandstone, at an average depth of 1,600 metres and overlaying the Lower Al Bashir, also had excellent oil shows in the Farha South-3 well. The well was put on long-term production test where the Barik sandstone proved itself to be a reliable producer.

The oil of the Farha South is not trapped in one large continuous reservoir. It is instead trapped in a large number of smaller, usually adjacent fault blocks. The low content of gas combined with the absence of a water drive in the Barik layer make pumps and water injection necessary. Water is injected into the reservoir via injection wells in order to increase the pressure and thereby stimulate production. Almost 30 fault blocks have been drilled and put in production. The major part of the field has been developed with water injection. The oil from the Barik layer is of high quality, more than 40 degrees API, and contains very limited sulphur.

Second early discovery

Shortly after the Farha South-3 well, the Saiwan East-2 was drilled, marking another successful well. At the Saiwan 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

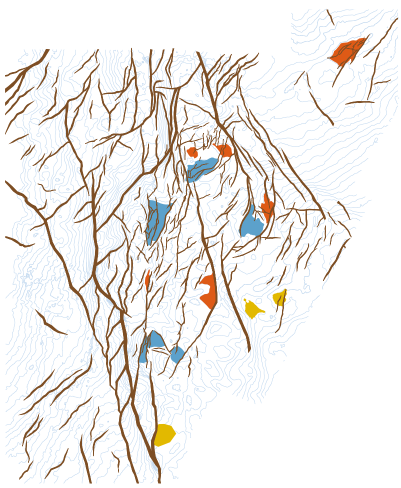
The Shahd field was discovered in 2013 in a previously unexplored area through exploration on the Shahd B structure. At the Shahd area, oil is mainly extracted from the Lower Buah carbonate at 2,000 metres but also from the Khufai carbonate and the Lower al Bashir sandstone.

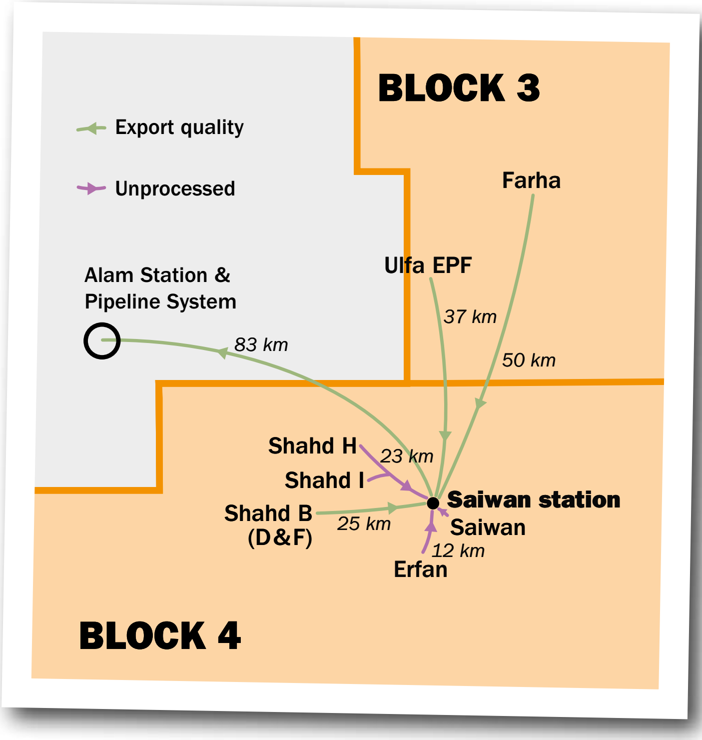
The oil from the Lower Buah layer holds a quality of approximately 38 degrees API. Like the Farha South field, this area is also highly faulted and the Lower Buah layer in the field is not one large continuous reservoir. The oil is instead trapped in separate structures. Eight structures have been put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

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 being 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, different pumps and other necessary infrastructure, including field camps for the oil field workers.

In addition, early production facilities (EPF) has been constructed on Shahd and on Ulfa fields. An EPF is a smaller production facility, which, to some extent rely on the infrastructure on the Farha South and Saiwan East fields. However, also at an EPF, the oil can be processed to be ready for export.





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.

The new 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 significant amounts of oil in three new structures near the existing producing areas on Blocks 3&4 – the Erfan, Ulfa and Samha discoveries.

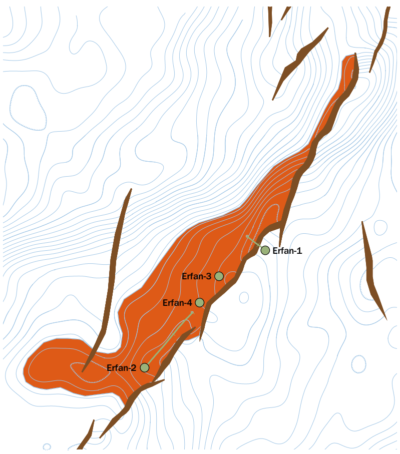
The Erfan field was discovered in the first quarter 2017. It was drilled some 6 km southwest of the Saiwan East field on Block 4 and flowed oil to surface from the Khufai formation. The discovery has been further appraised by two successful appraisal wells in 2017 and one in 2018. Erfan is producing from the Khufai carbonate formation, at depths ranging from 1,700 to 2,400 metres, which is the same producing formation as in neighbouring Saiwan East field.

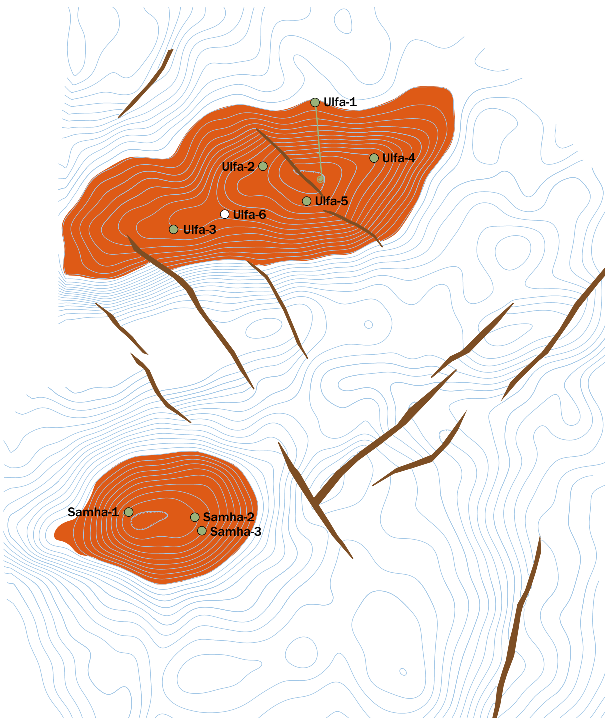
The Ulfa field was discovered in the second quarter 2017. Ulfa-1 was drilled on a structure located on trend with the Farha South field on Block 3 and flowed oil to surface from the Khufai formation. The appraisal of the field started in 2018, and five appraisal wells were drilled and completed by year-end. Both the Buah and the Khufai reservoir sections are being appraised, although the main present producer in the field is the Khufai carbonate formation.

The Samha field was discovered in the fourth quarter 2017. Samha-1 was drilled on a structure located five km south of the Ulfa discovery on Block 3 and flowed oil to surface from the Khufai and Buah formations. The Samha field has been appraised by two further wells in 2018.

Some oil from these discoveries was added to the reserves in the 2017 year-end reserve report, but most of the oil was added to contingent resources. The appraisal of these discoveries has been a major part of the 2018 work programme, and will continue to be so in 2019 with the aim to continue to mature the resources into reserves.

Late in 2018, the construction of the Ulfa EPF was finalised and the facility was in full production towards the very end of the year. The EPF includes separators, heater treaters and pipelines. Following the commissioning of the EPF, wells on Ulfa and Samha were connected to Ulfa EPF and put into production. The Erfan, Ulfa and Samha discoveries are all undergoing long-term production tests.





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 large 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 successful. 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.

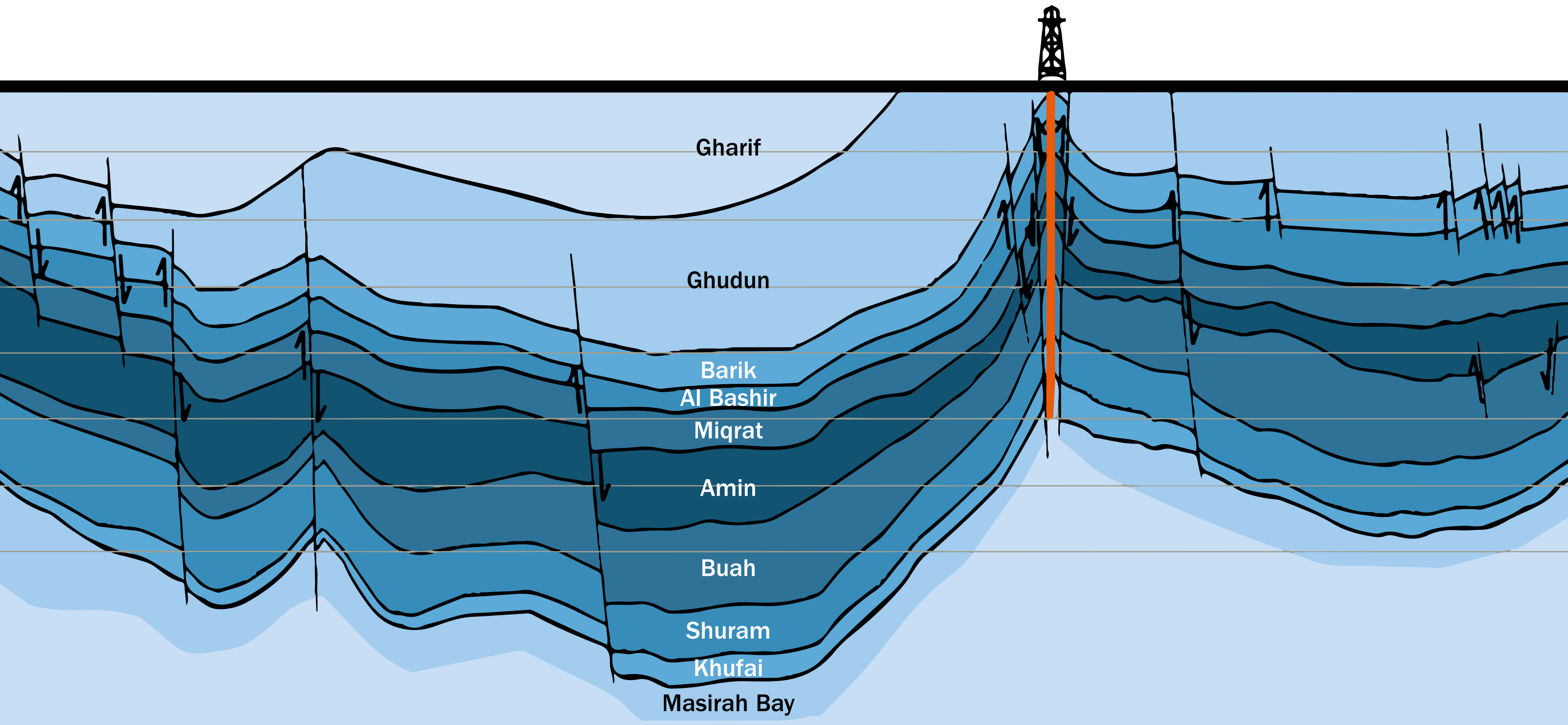
3D seismic surveys have been a key factor to the development of the blocks. Seismic data have revealed that many of the non-commercial wells drilled by previous operators would not have been drilled if 3D data had been available prior to drilling.

Despite intense exploration and development activity for over ten years, large areas on the blocks have yet to be explored. Out of the total area of the blocks of 29,130 km², some 9,000 km² of seismic data have been acquired so far, whereof 2,750 km² were acquired in late 2017 and 2018.

Tethys Oil is convinced that there is significant remaining potential on Blocks 3&4. In the beginning of 2019, Tethys Oil mapped some 25 leads and prospects. Some of these will disappear, but new prospects will also be added as new seismic is interpreted and mapped. The leads and prospects are located from the very south of the blocks to the north.

In 2018, the Luja-1 exploration well, drilled in the southern end of Block 4, was tested. Although the well did not flow oil to surface, it encountered oil and oil samples were taken. The results are positive and confirm a live petroleum system in the area. A comprehensive post drilling analysis will be conducted in order to assess the other leads identified in the southern part of Block 4.

In the northern part of the blocks, northwest of the Farha South field and east of the Ulfa field, some 2,000 km² new 3D seismic was acquired in 2018. In the central part, 750 km² 3D seismic was acquired south of the Shahd field. All new seismic data will guide Tethys Oil and partners' exploration drilling on the blocks in the years to come.



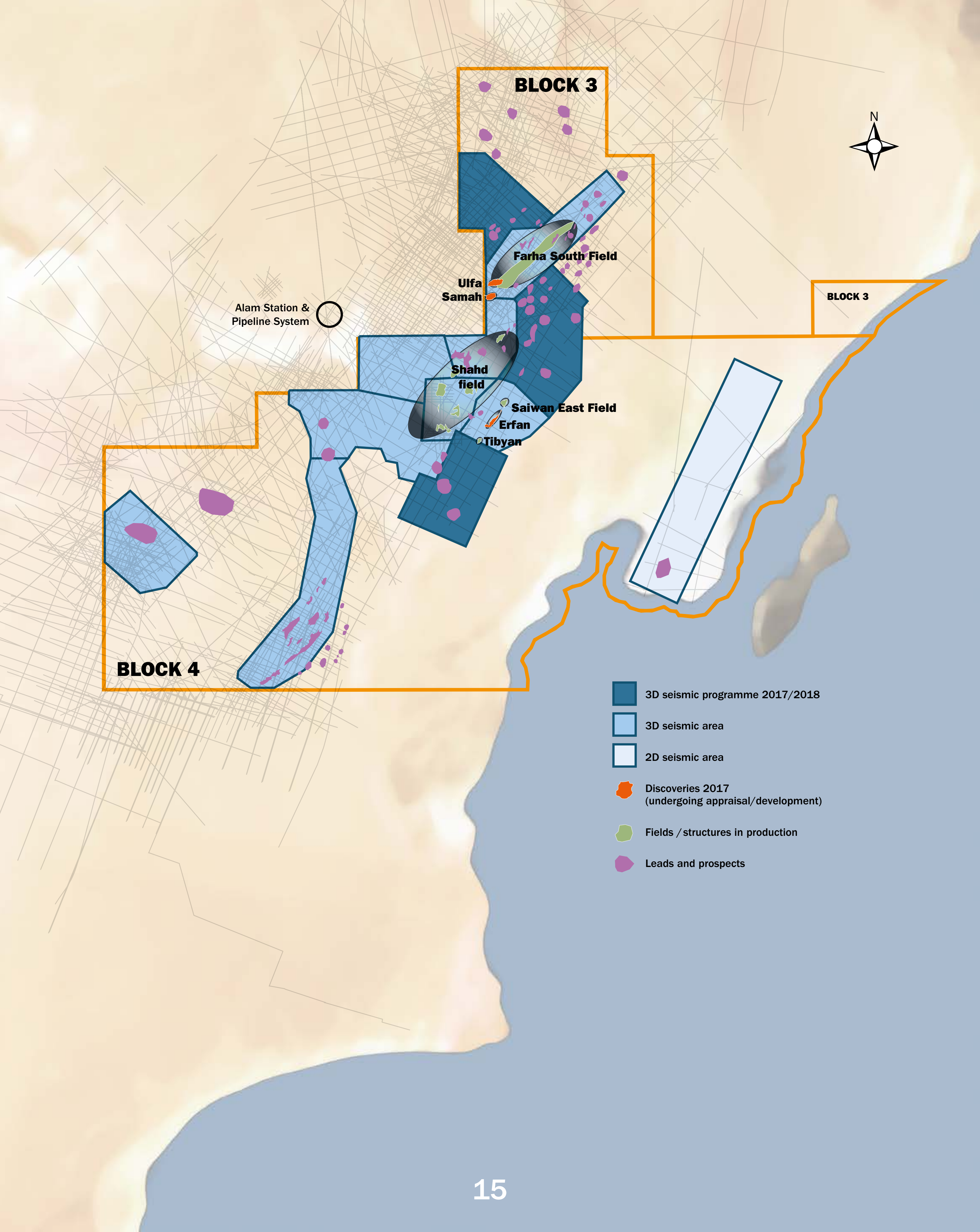
Formations

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.

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



Exploration gears up on Block 49

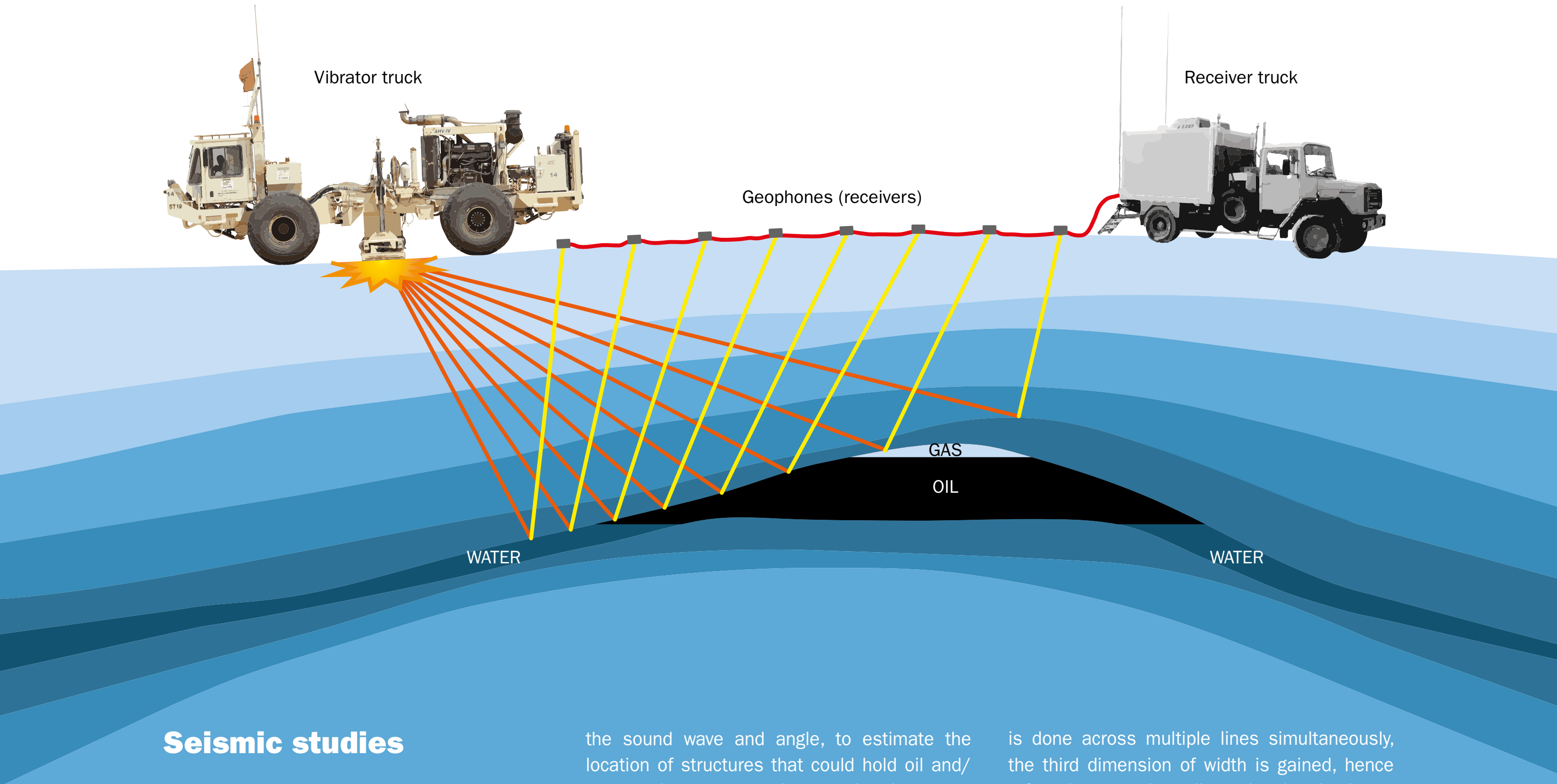
Tethys Oil was awarded a new exploration license by the Government of Sultanate of Oman in the fourth quarter 2017. Block 49, Montasar, is an onshore block that covers a prospective but still rather unexplored area in the Governorate of Dhofar in the south-west of Oman bordering Saudi Arabia. Tethys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

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

Through the reprocessing of some 1,464 km of older 2D seismic data, acquired by previous operators, a number of seismic anomalies have been 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. After integration of all available data in Tethys Oil's geological model, the presence of source rock as well as potential reservoir rocks have also been confirmed.

In the fourth quarter 2018, Tethys Oil launched and completed 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 license area. The purpose of the seismic campaign is to further define possible oil traps and to enhance the understanding of the deeper parts of the block in general. The data is being processed and will, when interpreted, guide the continued work on Block 49.

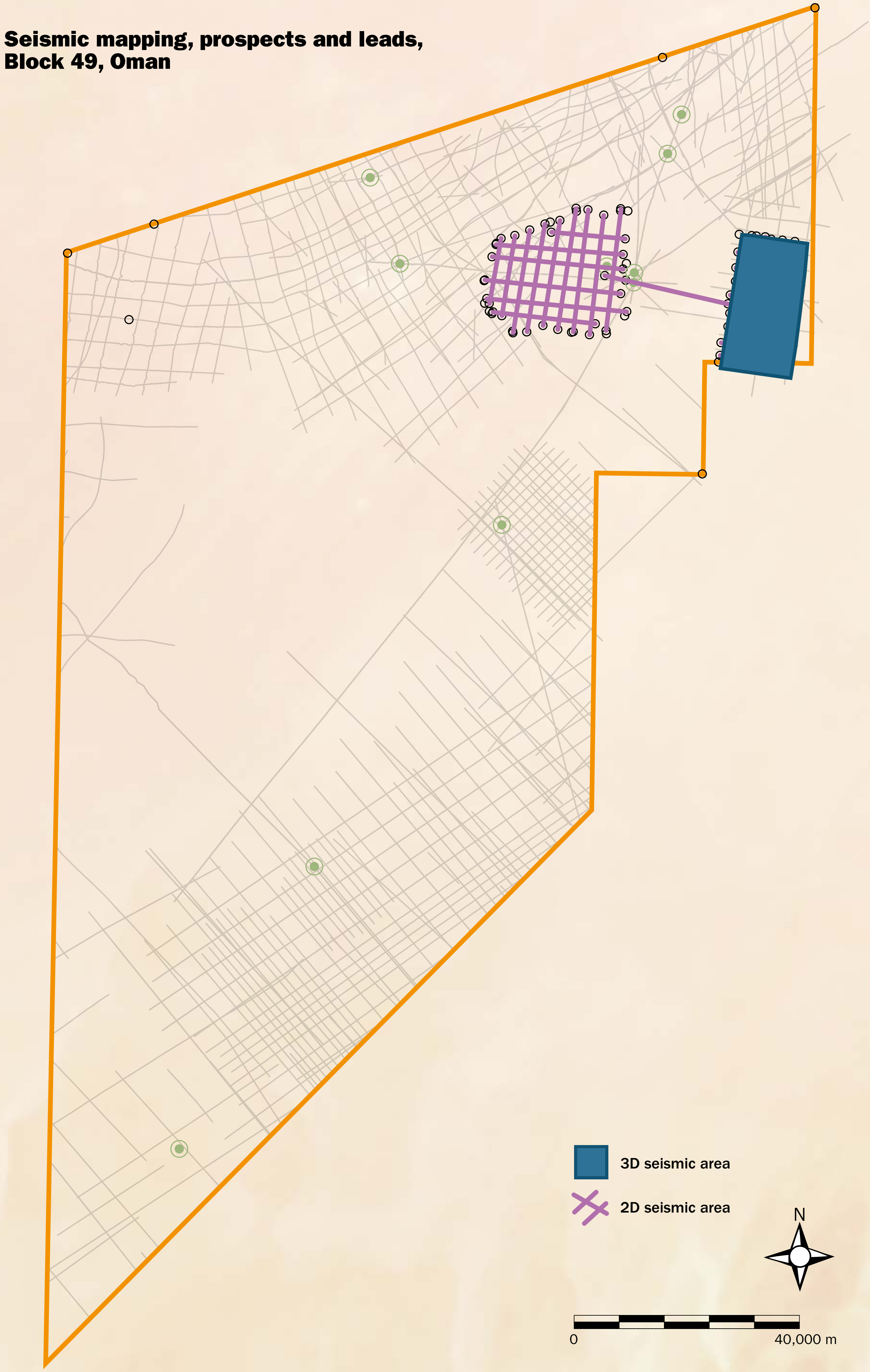
The EPSA for Block 49 covers an initial exploration period of three years with an optional extension period of another three years. In the event of Declaration of Commerciality the term of the agreement shall be extended for a period of 15 years which can be extended for another five years. In case of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



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
3D seismic area
2D seismic area
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40,000 m

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 two-month future contract of Oman blend as traded on the Dubai Mercantile Exchange, including trading and quality adjustments.

Office and staff

Tethys Oil's staff consist of 20 highly motivated individuals from seven different nationalities, ranging in age from early twenties to mid seventies and with a balanced gender representation (35 percent female and 65 percent male). A majority of the staff have graduated from universities and colleges, primarily with geosciences, engineering or business administration.

Muscat Office

A team of highly trained 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 CTO.

Stockholm Office

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

Operational areas outside Oman

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

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

Tethys Oil's Lithuanian licences cover an area of some 4,000 km². The Gargzdai licence is in production with 85 bopd net to Tethys Oil in 2018. The oil produced at the Gargzdai licence has an API of about 42 degrees and is normally sold on a weekly basis to a nearby refinery.

The Rietavas and the Raseiniai licences are exploration licences. Since the acquisition of the licence interests in 2012, several exploration wells have been drilled, which have confirmed the presence of oil in the area, and seismic studies been conducted.

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

Corporate Governance Report 2018

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 2018 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 2018. 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 accounting act, Swedish Annual Accounts Act and IFRS)
- Nasdaq Stockholm's rule book for issuers
- Swedish Code of Corporate Governance

Internal:

- Articles of Association
- Board instructions, rules of procedures
- Internal control framework with Code of Conduct, polices etc.

Shareholders

Tethys Oil's shares are traded on Nasdaq Stockholm. At year end 2018 the share capital amounted to SEK 5,984,402, represented by 35,896,310 shares, each with a par value of SEK 0.17. All shares represent one vote each. At 31 December 2018, the number of shareholders was 6,602 (5,043). Of the total number of shares, foreign shareholders accounted for approximately 68 percent. Lansdowne Partners LLP is the only shareholder with a holding in excess of 10 percent of shares and votes, with a holding of 3,593,699 shares representing 10.1 percent of shares and votes. Tethys Oil's holding of its own shares amounted to 1,644,163 (4.6 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 9 May 2018. 158 shareholders were represented at the AGM, representing 42 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 2017 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. Geoffrey Turbott was elected chairman of the Board;
- 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 300,000 (excluding the); (ii) annual fees of the chairman of the Board of Directors of SEK 630,000; (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;
- Incentive programme as part of the remuneration package to employees. Issuance of 350,000 warrants where each warrant entitled to subscription to one new share in Tethys Oil during the period 1 June 2021 up to an including 2 October 2021. Subscription price for the warrants is SEK 89.00 per share;
- Authorisation for the Board to resolve on repurchasing own shares up to 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, 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.tethys-oil.com.

Nomination process

In accordance with the nomination committee process approved by the AGM 2018, the nomination committee for the AGM 2019 consists of members appointed by three of the largest shareholders of the Company based on shareholdings as per 30 September 2018 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 14 November 2018, i.e. six months before the AGM as prescribed by the Code.

The nomination committee for the AGM 2019 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 2019, 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 2020.

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 2019 consisted of the following members:

- Viktor Modigh, chairman of the nomination committee, representing Magnus Nordin;
- Mikael Petersson, representing Lansdowne Investment Company Limited and Coeli Asset Management AB;
- Johan Strandberg, representing SEB Investment Management AB; and
- Geoffrey Turbott, chairman of Tethys Oil

The Board and its work

Board composition

The Articles of Association stipulate that the Board of Directors of Tethys Oil shall consist of no less than three and no more than ten Board members with no more than three deputy Board members. Board members are elected for a maximum of one year at a time. The Board of Directors of Tethys Oil since the AGM 2018 has consisted of five members and no deputies. Geoffrey Turbott has been chairman of the Board. Four Board members are independent from the Company and the Company's management, and five Board members are independent from larger shareholders.

For further information on the Board members, please see pages 26–27.

Board of Directors elected at the AGM 2018

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
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

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 seven ordinary meetings during a calendar year.

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

Assessment of the board's work

The chairman of the Board is responsible for assessing the Board's work including the performance of individual Board members. This is done on an annual basis through a questionnaire which is anonymous for the 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 2018

During 2018, the Board held 15 meetings of which eight were ordinary and seven extraordinary, in person, via telephone and per capsulam meetings. Attendance at the meetings are shown in the table below. Board secretary was CFO Jesper Alm. Prior to each meeting, Board members were provided with an agenda and written information on the matters to be covered. Each meeting has included the possibility to discuss without management representatives being present.

Board of Directors and committee attendance in 2018

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)	–	–	15/15	6/6	–	3/4
Robert Andersson	Member	–	–	Yes (Chairman)	15/15	–	–	6/6
Alexandra Herger	Member	–	Yes	Yes	15/15	–	2/2	5/5
Magnus Nordin	Member	–	–	–	15/15	–	–	–
Per Seime	Member	Yes	Yes (Chairman)	–	15/15	6/6	4/4	–
Stepped down at or prior to AGM 2018								
Dennis Harlin	Chairman	–	Yes	–	3/5	–	1/2	–
Per Brilioth	Member	–	–	–	2/5	–	–	–
Katherine Støvring	Member	Yes	Yes	–	0/2	0/1	0/1	–

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 2019, consisting of Geoffrey Turbott as chairman and Per Seime as a member of the committee. The Audit Committee convened six times in 2018. 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 auditor as part of the annual audit process and reviews the audit fees and the auditor's independence and impartiality. The Audit Committee reports to the Board, normally in conjunction with the following Board meeting. Members of the committee during 2018 prior to AGM 2018 consisted of Geoffrey Turbott (chairman), Per Seime and Katherine Støvring.

Remuneration Committee

The Board has established a Remuneration Committee for the period up to and including the AGM 2019, consisting of Per Seime as chairman and Alexandra Herger as a member of the committee. The Remuneration Committee convened four times in 2018. 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. Members of the committee during 2018 prior to AGM 2018 consisted of Per Seime (chairman), Dennis Harlin and Katherine Støvring.

Technical Committee

The Board has established a Technical Committee for the period up to and including the AGM 2019, consisting of Robert Anderson as chairman and Alexandra Herger as a member of the committee. The Technical Committee convened six times in 2018. 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 2018 prior to AGM 2018 consisted of Robert Anderson (chairman), Alexandra Herger and Geoffrey Turbott.

External auditors of the Company

Statutory auditor

Pursuant to its Articles of Association, Tethys Oil must have one or two auditors, and no more than two deputies. A registered firm of auditors may be appointed as the Company's auditor. Tethys Oil's auditor is PricewaterhouseCoopers AB with Ulrika Ramsvik as lead partner and Bo Hjalmarsson as co-signing auditor. PricewaterhouseCoopers AB was elected as the Company's auditor at the AGM 2018.

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 2018, remuneration to PricewaterhouseCoopers AB amounted to MUSD 0.1 (MUSD 0.2). 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 2018 report was ERC Equipoise Limited ("ERCE"), that also audited the 2017 report. For further information, see Reserves on page 9.

Managing Director and executive management

The executive management in Tethys Oil throughout 2018 has consisted of the Managing Director (Magnus Nordin), CFO (Jesper Alm) 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 programs.

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 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 2018
(TSEK)

	Basic salary	Pension arrangements	Variable salary	Share based long-term incentive	Other benefits	Total 2018	Total 2017
Managing Director	2,842	729	536	1,120	25	5,252	4,704
Other executive management	3,671	377	991	1,025	428	6,491	6,155
Total	**6,513**	**1,106**	**1,526**	**2,145**	**453**	**11,743**	**10,860**

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

Remuneration to the Board 2018

Remuneration to be paid to the Board of Directors for the period between the AGMs of 2018 and 2019 amounts to a total of TSEK 1,830, allocated among the Board members in the way shown in the below table. The annual general meeting 2018 resolved that remuneration of the chairman of the Board of Directors shall be TSEK 630 per annum and of the other members TSEK 300 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 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 2018 and 2019 (in their capacity as board members)
(TSEK)

Member	Board of directors	Audit Committee	Technical Committee	Remuneration Committee	Total
Geoffrey Turbott	630	65	–	–	695
Robert Anderson	300	–	65	–	365
Alexandra Herger	300	–	35	35	370
Magnus Nordin	–	–	–	–	–
Per Seime	300	35	–	65	400
Total	**1,530**	**100**	**100**	**100**	**1,830**

Financial reporting and control

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

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

Internal control

Tethys Oil continually works on improving the financial reporting through evaluating the risk of errors in the financial reporting and related control activities. Control activities include following up on instructions and the application of accounting principles. The Board of Directors is responsible for and monitors the control activities, which involve all levels of the organisation. The activities limit the identified risks and ensure correct and reliable financial reporting. The Company's central financial department analyses and follows up on budget deviations, draws up forecasts, follows up on significant variations between periods and reports to the Board of Directors, which 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, 3 April 2019

Tethys Oil AB (publ)
The Board of Directors

This is a literal translation of the Swedish original report

Auditor's report on the Corporate Governance Statement

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

Engagement and responsibility

It is the Board of Directors who is responsible for the corporate governance statement for the year 2018 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.

Opinion

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, 3 April 2019
PricewaterhouseCoopers AB

Ulrika Ramsvik
Authorized Public Accountant
Lead Partner

Bo Hjalmarsson
Authorized Public Accountant

Board of Directors

Member	Geoffrey Turbott	Rob Anderson	Alexandra Herger
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 Remuneration and Technical Committees
Elected	2015	2017	2017
Year of birth	1963	1953	1957
Nationality	New Zealand	United Kingdom	United States
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 Geology, Ohio Wesleyan University and Master studies Geology, University of Houston
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	VP Global Exploration at Marathon Oil, executive positions at Shell and Enterprise Oil
Other board duties	Board member: Tetbury Forestry Ltd. And Progress Land Ltd.	–	Board member: Panoro Energy ASA and Tortoise Capital Advisors Member: Women's Leadership Committee, Oil Council and Leadership Texas, Foundation for women's resources
Shares in Tethys Oil (per 31 December 2018)[1]	31,700	–	–
Warrants in Tethys Oil (per 31 December 2018)[1]	–	–	–
Board and committe remuneration (TSEK)[2]	695	365	370
Independent in relation to the Company	Yes	Yes	Yes
Independent in relation to the Company's larger shareholders	Yes	Yes	Yes

1 Privately, via company and insurance policy
2 Resolved upon at the AGM 2018

Member	**Magnus Nordin**	**Per Seime**
Function	Board member and Managing Director	Board member, chairman of the Remuneration Committee and member of the Audit Committee
Elected	2001	2017
Year of birth	1956	1946
Nationality	Sweden	Norway
Education/background	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	Several executive positions in different oil companies	Oil and gas lawyer with experience from the Norwegian Continental Shelf and internationally. 17 years as head of the oil and gas group in the law firm Simonsen Vogt Wiig, Oslo. Counsel/ General Counsel for Mobil Oil in Norway, USA and Indonesia. Board chairman for Premier Oil Norge (2004–2013) and Nexen Exploration Norge (2005–2014). General Counsel in Kongsberg Gruppen for nine years.
Other board duties	Board member: Minotaurus AB, including subsidiaries, and Minotaurus Energi AS	–
Shares in Tethys Oil (per 31 December 2018)[1]	1,464,127	5,000
Warrants in Tethys Oil (per 31 December 2018)[1]	2016/19: 70,000 2017/20: 75,000 2018/21: 75,000	–
Board and committe remuneration (TSEK)[2]	–	400
Independent in relation to the Company	No	Yes
Independent in relation to the Company's larger shareholders	Yes	Yes

1 Privately, via company and insurance policy
2 Resolved upon at the AGM 2018

Executive management

Magnus Nordin	Jesper Alm	Fredrik Robelius
Board member and Managing Director	Chief Financial Officer and secretary to the board	Chief Technical Officer
Employed since 2004	Employed since 2014	Employed since 2011
Education: Bachelor of Arts, University of Lund and Master of Arts, University of California Los Angeles	Education: M.Sc. Business Administration, University of Lund	Education: PhD Engineering Physics, Uppsala University; Postgraduate Diploma Petroleum Engineering, Heriot-Watt University
Born 1956	Born 1975	Born 1973
Sweden	Sweden	Sweden
Experience: several executive positions in different oil companies	Experience: various positions in Corporate Finance at Pareto Securities and E. Öhman J:or Fondkommission	Experience: energy engineering positions in Fortum, petroleum engineering related positions in Tanganyika Oil and Sinopec
Shares[1]: 1,464,127	Shares[1]: 7,000	Shares[1]: 8,500
Warrants[1] 2016/19: 70,000 Warrants[1] 2017/20: 75,000 Warrants[1] 2018/21: 75,000	Warrants[1] 2016/19: 47,000 Warrants[1] 2017/20: 48,000 Warrants[1] 2018/21: 48,000	Warrants[1] 2016/19: 45,000 Warrants[1] 2017/20: 48,000 Warrants[1] 2018/21: 48,000

1 in Tethys Oil (per 31 December 2018), 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 assigned Pareto Securities AB to act as a liquidity provider for the shares of the Company.

Shares outstanding

Tethys Oil's registered share capital at 31 December 2018 amounts to SEK 5,984,402 represented by 35,896,310 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 2018, 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 2018, Tethys Oil held 1,644,163 (4.6 percent) of its own shares which were purchased during 2014 to 2017 at an average price of SEK 58.12. The share repurchase programme is based on a mandate from the respective AGM and repurchased shares are still part of the total number of outstanding shares, however not included in the number of shares in circulation, which amounts to 34,252,147.

Tethys Oil has a warrant programme as part of the remuneration package to employees. Warrants currently outstanding have been issued following the AGMs in 2016, 2017 and 2018. 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
2016/19	350,000	335,000	59.90	1.10
2017/20	350,000	324,000	51.80	1.04
2018/21	350,000	329,000	89.00	1.00

Share capital development

Since the company's inception in September 2001 and up to 31 December 2018, 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

Capital structure target and dividend policy

Tethys Oil's primary objective is to create shareholder value and in so doing 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 2019 a total distribution of SEK 8.00 per share, corresponding to MSEK 274.0 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 6.00 per share by a mandatory share redemption programme. (AGM 2018 resolved on a total distribution of SEK 6.00 per share, of which SEK 2.00 per share as cash dividend and SEK 4.00 per share by a mandatory share redemption programme, equal to MSEK 203.4).

Share ownership structure

The 15 largest shareholders in Tethys Oil as per 28 February 2019.

Name	Number of shares	Share of capital and votes
Lansdowne Partners	3,593,699	10.1%
Franklin Templeton	1,757,924	4.9%
SEB Funds	1,520,205	4.2%
Magnus Nordin	1,467,127	4.1%
Grandeur Peak Global Advisors, LLC	1,134,748	3.2%
Liontrust	1,052,328	2.9%
JP Morgan Asset Management	866,644	2.4%
Carl Erik Norman	585,000	1.6%
Avanza Pension	524,238	1.5%
Russell Investments	480,276	1.3%
Schroders	431,216	1.2%
Peder Månsson	402,974	1.1%
Treasurer of the State of North Carolina	385,410	1.1%
AXA	360,000	1.0%
Wealins S.A.	350,000	1.0%
Total, 15 largest shareholders	**14,911,789**	**41.5%**
Summary, others appr. 7,200 shareholders	19,340,358	53.9%
Outstanding shares	**34,252,147**	**95.4%**
Tethys Oil AB	1,644,163	4.6%
Total number of shares (incl. treasury shares)	**35,896,310**	**100.0%**

Source: Modular Finance, 28 Feb 2019

Distribution of shareholdings

Distribution of shareholdings per 28 February 2019.

Holding	Number of shares	Percentage of shares	Number of shareholders	Percentage of shareholders
1 – 500	540,115	1,5%	5,741	79.7%
501 – 1,000	525,730	1,5%	637	8.8%
1,001 – 5,000	1,276,841	3,6%	540	7.5%
5,001 – 10,000	626,751	1,8%	86	1.2%
10,001 – 15,000	488,465	1,4%	38	0.5%
15,001 – 20,000	379,860	1,1%	21	0.3%
20,001 –	32,058,548	89,3%	141	2.0%
Total	**35,896,310**	**100,0%**	**7,204**	**100.0%**

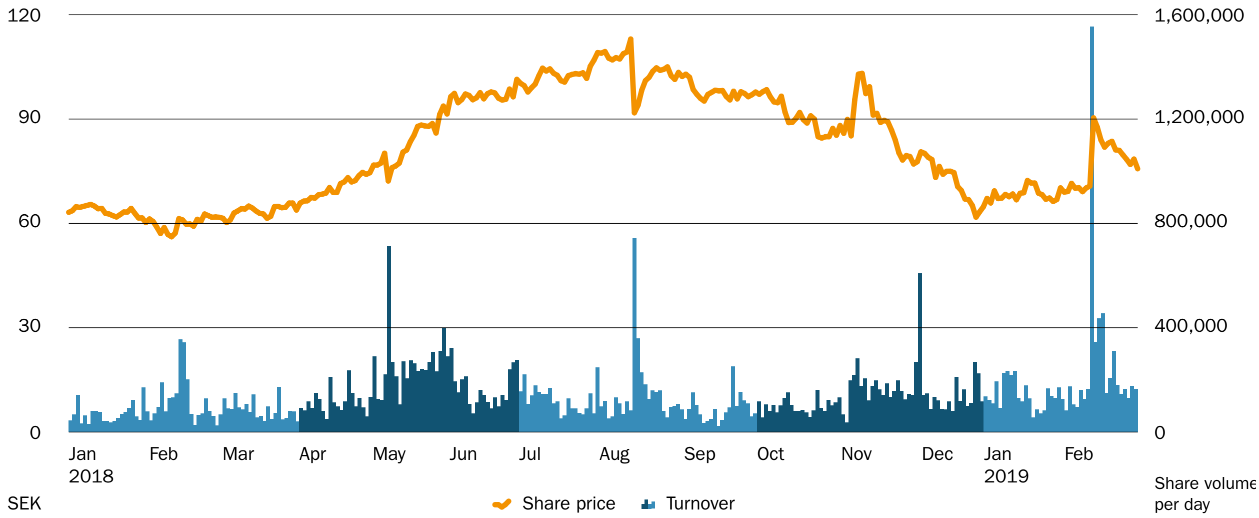
Source: Euroclear, 28 Feb 2019

Share statistics 2018

The final transaction price in 2018 was SEK 64.77 corresponding to a total market capitalization of MSEK 2,325. During the year the price of Tethys Oil's share decreased by 1.5 percent.

Based on data from NASDAQ Stockholm, the highest transaction price in 2018 was SEK 113.00 on 13 August and the lowest was SEK 58.80 on 9 February. The turnover velocity (annual turnover/ outstanding shares) was 97 percent on Nasdaq Stockholm.

Share price development and turnover 2018



Payments to authorities 2018

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 2018 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				
Blocks 3&4	2,062	144,873	–	144,873
Block 49	–	–	250	250
Total Oman	**2,062**	**144,873**	**250**	**145,123**
Total	**2,062**	**144,873**	**250**	**145,123**

Per Authority

	Production sharing		License costs	Total
	Barrels ('000)	USD ('000)	USD ('000)	USD ('000)
Sultanate of Oman – Ministry of Oil & Gas	2,062	144,873	100	144,973
Sultanate of Oman – Ministry of Finance	–	–	150	150
Total Oman	**2,062**	**144,873**	**250**	**145,123**
Total	**2,062**	**144,873**	**250**	**145,123**

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.

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

Key financial data

Group	2018	2017	2016	2015	2014
Operational items					
Production before government take, Oman Blocks 3&4, bbl	4,294,852	4,439,119	4,436,438	3,539,632	2,765,653
Production per day, Oman Blocks 3&4, bbl	11,767	12,162	12,121	9,698	7,577
Net sales after government take, bbl	2,163,148	2,316,404	2,357,701	1,805,056	1,464,228
Achieved oil price, USD/bbl	70.5	51.8	40.5	58.1	103.9
Revenue, MUSD	157.3	119.3	87.1	107.0	149.3
EBITDA, MUSD	106.6	78.2	44.0	58.6	108.0
EBITDA-margin, %	68%	66%	51%	55%	72%
Operating result, MUSD	60.7	38.4	-0.5	23.0	57.1
Operating margin, %	39%	32%	-1%	21%	38%
Net result, MUSD	62.2	33.1	2.7	23.4	49.4
Net margin, %	40%	28%	3%	22%	33%
Cash and cash equivalents, MUSD	73.1	42.0	39.0	51.2	47.8
Shareholders' equity, MUSD	267.6	228.5	196.9	217.2	214.3
Balance sheet total, MUSD	291.4	244.7	239.0	253.6	233.5
Capital structure					
Equity ratio, %	92%	93%	82%	86%	92%
Leverage ratio, %	neg.	neg.	neg.	neg.	neg.
Investments, MUSD	55.8	40.4	48.5	40.8	39.3
Net cash, MUSD	73.1	42.0	39.0	51.2	47.8
Profitability					
Return on shareholders' equity, %	25.09%	15.56%	1.29%	10.85%	25.82%
Return on capital employed, %	26.66%	18.97%	4.20%	13.59%	30.87%
Other					
Average number of full time employees	20	19	19	17	18
Distribution per share, SEK	6.00	1.00	4.00	3.00	n.a.
Cash flow from operations per share, USD	2.97	1.46	1.53	1.69	2.89
Number of shares at year end, thousands	35,896	35,544	35,544	35,544	35,544
Of which repurchased shares at period end, thousands	1,644	1,644	1,329	1,084	298
Number of shares at year end (excluding repurchased shares), thousands	34,252	33,900	34,215	34,460	35,246
Shareholders' equity per share, USD	7.45	6.43	5.54	6.11	6.03
Weighted number of shares (before dilution) for the year, thousands	34,011	34,170	34,324	34,964	35,524
Weighted number of shares (after dilution) for the year, thousands	34,140	34,385	34,372	34,964	35,524
Earnings per share before dilution, USD	1.83	0.97	0.08	0.67	1.39
Earnings per share after dilution, USD	1.82	0.96	0.08	0.67	1.39

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	2018	2017	2016	2015	2014
Operating result	60.7	38.4	-0.5	23.0	57.1
Add: Depreciation, depletion and amortization	45.9	39.5	44.4	34.7	31.1
Add: Exploration costs	–	0.3	0.1	1.0	19.8
EBITDA	**106.6**	**78.2**	**44.0**	**58.6**	**108.0**
Cash and bank	73.1	42.0	39.0	51.2	47.8
Less: Interest bearing debt	–	–	–	–	–
Net cash	**73.1**	**42.0**	**39.0**	**51.2**	**47.8**

Margins

Operating margin
Operating result as a percentage of yearly turnover.

Net margin
Net result as a percentage of yearly turnover.

EBITDA-margin
EBITDA as a percentage of yearly turnover.

Capital structure

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

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

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

Investments
Total investments during the year.

Profitability

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

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

Other

Number of employees
Average number of employees full-time.

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

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

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

n.a. Not applicable.

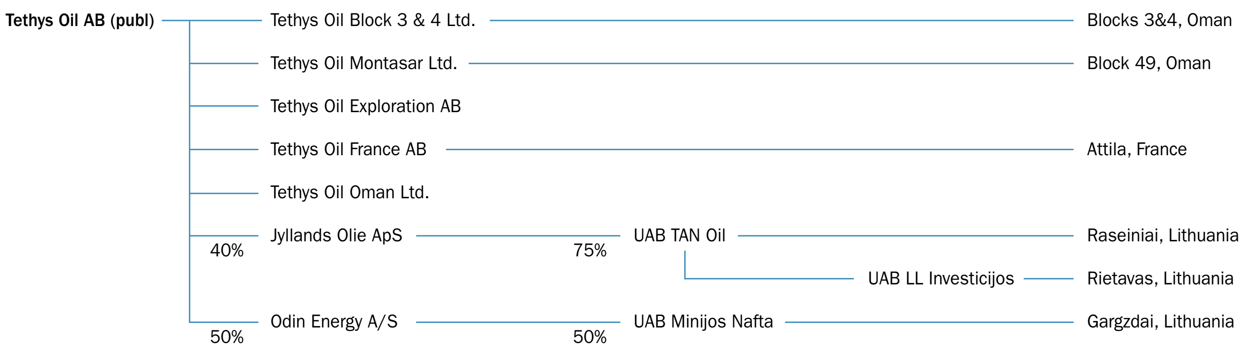
n.m. Not meaningful.

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, Barrel Volume measurement.
bopd	Barrels of Oil per Day
mbo	Thousand Barrels
mmbo	Million Barrels

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 ending on 31 December 2018. 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 mid-sized Swedish oil company with focus on onshore areas with known oil discoveries. Tethys Oil's core area is Oman, where the Group holds interests in Blocks 3&4 and Block 49. The reserve and resource base on Blocks 3&4 amounts to 25.4 mmbo of 2P reserves and the 12.5 mmbo of 2C contingent resources. The average oil production from Blocks 3&4 in 2018 amounted to 11,767 barrels per day. With a cash flow driven development approach, Tethys Oil's main operational target is incremental increases of production and reserves from the Omani blocks. Tethys Oil also has onshore exploration licences in Lithuania and France and some production in Lithuania.

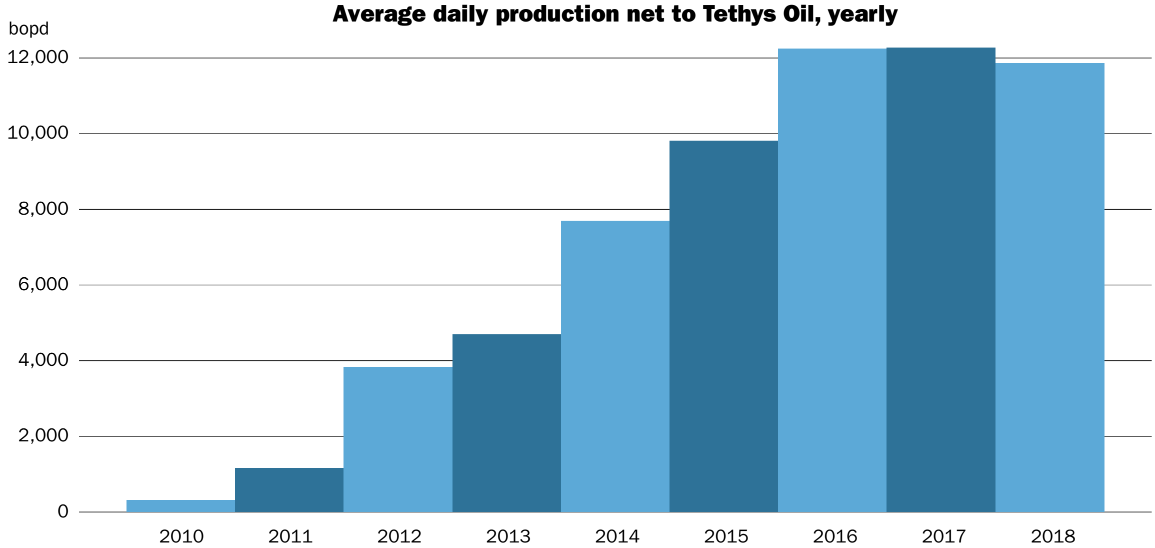
Production

Tethys Oil's core area is onshore Oman, where Tethys Oil holds a 30 percent non-operated interest in exploration and production licence Blocks 3&4 and a 100 percent operated interest in exploration licence Block 49. Tethys Oil also has non-operated interests in three licenses onshore Lithuania via associated companies and in one license onshore France. The primary production comes from Blocks 3&4. The production on Blocks 3&4 in 2018 was in line with the production in 2017 and amounted to 4.3 million barrels (4.4 million barrels). The existing production areas Farha South, Shahd and Saiwan East are either at peak production or in decline. New production from the discoveries made in 2017, the Erfan, Ulfa and Samha areas, is expected to contribute an increasing share of overall production. Tethys Oil has additional production in Lithuania.

The terms of the Exploration and Production Sharing Agreement ("EPSA") on Blocks 3&4 allows the joint operations partners to recover their costs from up to 40 percent of the value of total oil production, this is referred to as 'cost oil'. After deducting any allowance for cost oil, the remaining production is split 80/20 between the government and the joint operations partners. If there are no costs to be recovered the joint operations partners receive after government take 20 percent of the oil produced. The terms of the EPSA thus result in the joint operations partners' share of production after government take in the range 20–52 percent, depending on available recoverable cost. To date 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 venture partners have continued to invest on Blocks 3&4. The estimated recoverable costs as at 31 December 2018, net to Tethys Oil, amounts to MUSD 14.7 (MUSD 44.2). Based on the expected investment in 2019 and under market conditions as at 11 February 2019, Tethys Oil expects no change to its entitlement of oil production during 2019.

Tethys Oil's share of volumes, before government take	**2018**	**2017**	**2016**	**2015**	**2014**
Tethys Oil's share of annual production, bbl					
Oman, Blocks 3&4					
Production	4,294,852	4,439,118	4,436,438	3,539,631	2,765,654
Average daily production, bopd	11,767	12,162	12,121	9,698	7,577

Average daily production net to Tethys Oil, yearly



Reserves and contingent resources

Oman, Blocks 3&4

Tethys Oil's net working interest Reserves in Blocks 3&4 Oman as at 31 December 2018 amount to 25,357 thousand barrels of oil ("mbo") of proven and probable Reserves (2P). The 2P reserve replacement ratio amounts to 177 percent. In addition, Tethys Oil's net working interest resources oil base in Oman amounts to 12,533 mbo of 2C contingent resources. The Company's 2018 and 2017 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 2017	15,559	22,044	32,414
Production 2018	-4,295	-4,295	-4,295
Additions and revisions	5,471	7,608	7,765
Total 31 December 2018	**16,735**	**25,357**	**35,884**
Reserve replacement ratio, %	127	177	181

Additions and revisions include maturation of over 4 mmbo of contingent resources to Reserves from the ongoing appraisal program of the 2017 discoveries as well as upside revisions of the Reserves on the Farha South, Shahd and Erfan fields and a small amount of Reserves attributable to the Tibyan discovery, the exploration well drilled in 2018.

Based on ERCE's model, Tethys Oil's net entitlement Reserves (Reserves after government take) amount to 7,781 mbo of 1P, 10,477 mbo of 2P and 13,824 mbo of 3P.

In addition to Reserves, Tethys Oil also announces contingent resources. The estimated contingent resources are contained in the discoveries made in 2017. Development of the contingent resources is contingent on the results of the on-going appraisal programme and also a work programme and budget to access these resources.

Contingent resources Blocks 3&4 (audited)

mbo	1C	2C	3C
Total 31 December 2018	**5,472**	**12,533**	**24,767**

The audit of the Reserves in Oman have 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	2018	2017	2016	2015	2014
Oil sold, bbl	**2,163,148**	2,316,404	2,357,701	1,805,056	1,464,228
Underlift (overlift) movement, bbl	**70,174**	-8,062	-50,754	35,552	-26,088
Net barrels produced, after government take, bbl	**2,233,323**	**2,308,342**	**2,306,947**	**1,840,608**	**1,438,140**
Oil price, USD/bbl	**70.5**	51.8	40.5	58.1	103.9
Revenue, MUSD	**152.6**	119.9	95.4	104.9	152.1
Underlift (overlift) adjustments, MUSD	**4.7**	(0.6)	(2.4)	2.2	(2.8)
Overlift adjustment reporting error, MUSD	**–**	–	(5.9)	–	–
Revenue and other income, MUSD	**157.3**	**119.3**	**87.1**	**107.0**	**149.3**

Revenue and other income for 2018 is up 32 percent compared to 2017 and the main reason is the increase in the oil price which is up 36 percent between the years. There has been a change from overlift to underlift position from 2017 to 2018.

During 2018, Tethys Oil sold 2,163,148 barrels of oil from Blocks 3&4, representing a seven percent decrease in comparison with 2017 when 2,316,404 barrels of oil were sold. This resulted in revenue during 2018 of MUSD 152.6 compared to MUSD 119.9 during 2017. In addition to revenue, there has been an adjustment for underlift amounting to MUSD 4.7 which together with revenue adds up to revenue and other income of MUSD 157.3 in 2018.

The average selling price amounted to USD 70.5 per barrel during 2018, 36 percent higher compared to 2017.

Sale quantities for oil sales are nominated two months in advance and are not based upon the actual production in a month; as a result, sales quantities can be above or below production quantities. Where the sales quantity exceeds the quantity of barrels produced an overlift position occurs and where it is less, an underlift position occurs. There was a movement from overlift to underlift between year-end 2018 and 2017. The total underlift position as per 31 December 2018 is 34,083 barrels. The valuation of both over and underlift is based on market price.

Tethys Oil sells all of its oil through Mitsui Energy Trading Singapore, which is part of Mitsui & Co Ltd. All oil sales originate from Blocks 3&4 and are made on a monthly basis. The 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.

Operating expenses

Operating expenses, Blocks 3&4	**2018**	**2017**	**2016**	**2015**	**2014**
Production costs, MUSD	**42.6**	32.6	33.5	38.4	32.7
Well workovers, MUSD	**3.4**	2.3	3.1	4.5	4.4
Total operating expenses, MUSD	**45.9**	**34.9**	**36.5**	**42.9**	**37.2**
Operating expenses per barrel, USD	**10.7**	7.9	8.2	12.1	13.4

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.

Production costs and well workover together make up operating expenses, amounting to MUSD 45.9 in 2018, which were higher than MUSD 34.9 during 2017. The majority of production comes from mature fields where many wells have higher production costs, compared to new production wells, due to increased maintenance, water handling and energy requirements to maintain production. The cost for rented equipment also increased in 2018.

Depletion, depreciation and amortisation

DD&A, Blocks 3&4	**2018**	**2017**	**2016**	**2015**	**2014**
DD&A, MUSD	**45.9**	39.5	44.4	34.6	31.0
DD&A per barrel, USD	**10.7**	8.9	10.0	9.8	11.2

Depletion, depreciation and amortisation ("DD&A") for 2018 amounted to MUSD 45.9, which is higher than 2017 and attributable to an increased DD&A rate per barrel. The DD&A charge relates to Blocks 3&4.

Netback

Netback, Blocks 3&4, USD/bbl	**2018**	**2017**	**2016**	**2015**	**2014**
Oil price achieved (sales barrels)	**70.5**	51.8	40.5	58.1	103.9
Revenue (after government take)	**36.7**	27.0	21.0	30.2	54.0
Operating expenses	**10.7**	7.9	8.2	12.1	13.4
Netback	**26.0**	**19.1**	**12.8**	**18.1**	**40.6**

The increase in netback per barrel during 2018 has mainly been driven by the oil price development.

Administrative expenses

Administrative expenses amounted to MUSD 5.7 for 2018 compared to MUSD 5.9 during 2017. Administrative expenses are mainly salaries, rents, listing costs and external services. Administrative expenses have been stable between years 2018 and 2017.

Net financial result

The net financial result for 2018 of MUSD 1.5 (MUSD -5.3) has been impacted by gains and losses due to changes in foreign exchange rates due to the USD strengthening against the SEK, net MUSD 1.6, as well as interest income of MUSD 0.3 and other financial expenses of MUSD -0.4. Currency translation differences recorded on loans between the parent company and subsidiaries are non-cash related items. Interest and fees related to the credit facility, which expired during the first quarter 2018, amounted to MUSD 0.0.

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 2018 of MUSD 62.2, representing earnings per share of USD 1.82. The result for 2018 is up compared to 2017. Net result is mainly up due to the higher oil prices.

Investments and work programme

Summary of oil and gas interests (MUSD):

Country/Asset	Book value 31 Dec 2018	Investments Jan–Dec 2018	Book value 31 Dec 2017	Investments Jan–Dec 2017
Oman Blocks 3&4	194.0	50.4	189.1	39.9
Oman Block 49	5.7	5.3	0.4	0.4
Lithuania	–	–	–	–
France	–	–	–	–
New ventures	0.3	0.1	0.2	0.1
Total	**200.0**	**55.8**	**189.7**	**40.4**

During 2018, total investments amounted to MUSD 55.8, of which 50.4 relate to Blocks 3&4. Investments during the year have been higher than investments in 2017 primarily due to more activity within geology and geophysics on Blocks 3&4 as well as the seismic acquisition on Block 49.

Blocks 3&4

Investments Blocks 3&4, MUSD	2018	2017	2016	2015	2014
Drilling	**25.5**	26.6	30.3	20.5	19.8
G&G	**11.2**	4.2	4.5	8.9	6.6
Facilities	**13.7**	9.1	13.4	11.3	11.9
Total investments Blocks 3&4	**50.4**	**39.9**	**48.2**	**40.7**	**38.3**

Three rigs and one workover unit have been operating and a total of 44 wells were completed on Blocks 3&4 during 2018.

Wells completed 2018 (primary purpose)	Discoveries made in 2017	Farha South Field	Shahd and Saiwan East Fields	Near and far field exploration	Total
Appraisal/ Production	7	17	1	–	**25**
Water injection	–	15	1	–	**16**
Water source	–	–	1	–	**1**
Exploration	–	–	–	2	**2**
Total	**7**	**32**	**3**	**2**	**44**

Discoveries made in 2017

The appraisal programme of the Ulfa and Samha discoveries has been one of the central components of the investments during 2018. It was initiated in the first quarter 2018 with the objective to mature contingent resources into reserves and to optimise plans for future production by gathering data on volumes, reservoir quality and continuity, fluid levels and productivity. Both the Buah and the Khufai reservoir sections are being appraised. Cores are taken for analysis and advanced logging is being conducted.

In 2018, four appraisal wells were drilled on the Ulfa field. Ulfa-2 and Ulfa-3 were completed in the second quarter 2018. Ulfa-2 was drilled in the western part of Ulfa discovery and Ulfa-3 was drilled even farther west to appraise the western flank in order to define the reservoir's extent/boundary and oil/water contact. Both Ulfa-2 and Ulfa-3 were completed as producers from the Khufai layer. Ulfa-4 and Ulfa-5 were successfully drilled in the fourth quarter 2018 and encountered oil as expected. Ulfa-4 was drilled to appraise and produce the eastern part of Ulfa discovery and Ulfa-5 was drilled south of the discovery well in the central part in order to produce from the Buah formation. One well was completed as producer in the Khufai and one in the Buah reservoirs. The drilling of appraisal well Ulfa-6 also commenced in the fourth quarter 2018.

Two new appraisal wells were drilled on Samha in 2018. The Samha-2 well was successfully drilled in the third quarter 2018 and encountered oil as expected. The well was drilled to appraise the southeastern part of Samha discovery. The Samha-3 well was successfully drilled in the fourth quarter 2018 and encountered oil as expected. The Samha-3 well was drilled south of the Samha-2 well and was completed as producers in the Khufai reservoir.

The construction of the Ulfa EPF was finalized in the fourth quarter and the facility was in full 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. Following the commissioning of the EPF, wells on Ulfa and Samha were connected to Ulfa EPF and put into production. Some of the new wells at Ulfa and Samha had previously been temporary connected to the Farha South production facility. The commissioning of the EPF has released capacity at the Farha South production facility.

The majority of the information gathered in 2018 from the appraisal wells on Ulfa and Samha were as, or slightly better than, expected. However, the revised time plan for the Ulfa EPF resulted in a delay of the part of the appraisal programme that relates to pressure data and production levels. This affected the proportion of the contingent resources converted into reserves by year-end. More comprehensive data is being gathered as the Ulfa EPF has come on stream, which is important to continue the maturation process.

The Erfan discovery was appraised by two wells in addition to the discovery well already in 2017. A further appraisal well, Erfan-4, was drilled during the second quarter 2018. Erfan-4 was drilled centrally on the structure in order to drain and evaluate an area between Erfan-2 and Erfan-3. The well encountered oil and was connected to the Saiwan East production facilities.

Block 3: Farha South Field

Nine appraisal/production wells were drilled in previously undrilled fault blocks on the Farha South oil field. All wells were drilled vertically down to the targeted Barik sandstone. Four wells encountered oil and were connected to the Farha South production facility. Eight production wells were also drilled on producing fault blocks on Farha South. The wells have been connected to the Farha South production facility. In addition, 15 water injection wells were drilled on the field.

Block 4: Shahd and Saiwan East oil fields

One production well was drilled on the Shahd oil field in 2018. The well encountered oil and was connected to the production system. One side track was also drilled in an old well on the Shahd field. In addition, one water injection well and one water source well was drilled.

Exploration on Blocks 3&4

The testing of the exploration well Luja-1, that was drilled in the southern part of Block 4 in the first quarter 2018, has been finalised. Luja-1 was drilled about 110 km southwest of the Shahd field. The well reached a total depth (TVD) of 3,609 m. Since the well is located far from the infrastructure facilities on the producing fields, a supporting field camp was required in order to enable comprehensive testing operations. Oil was encountered and oil samples were taken from both the AbuMahara group and the Khufai formation. However, the well did not flow oil to surface during testing. The well has been plugged. The results are positive and confirm a live petroleum system in the area. A comprehensive post drilling analysis will be conducted in order to assess the other leads identified in the Southern part of Block 4.

The exploration well Tibyan-1 was spudded and completed in the first quarter. Tibyan-1 is located about nine km southwest of the Erfan-1 discovery. The target of the well was the Khufai formation which resulted in a new smaller oil discovery. The well was connected to the production system during the second quarter 2018.

The drilling of two exploration wells commenced in the fourth quarter 2018. One well is located about 11 km east of the Farha South infrastructure to explore deeper sections of Block 3. The second well, a near field Ulfa/Samha analogy well, is located about 10 km northeast of the Ulfa discovery.

Seismic acquisition

A seismic acquisition programme on Blocks 3&4 was launched in the fourth quarter 2017. The programme covered three areas on Blocks 3&4. On the first two areas, 1,200 km² area east of the Ulfa discovery and 800 km² area north-west of the Farha South field, seismic acquisition and processing were completed in the first half of 2018. Interpretation and mapping of the processed data continues. The exploration well that was spudded in late 2018 east of Farha South infrastructure is within this 3D seismic area and the location is a result of the interpretation of the new seismic. The seismic acquisition on the third area, 750 km² south of the Shahd field, was completed in September 2018 and the data is being processed.

Block 49

Investments on Block 49 during 2018 amounted to MUSD 5.3, compared to MUSD 0.4 during 2017. The investments primarily relate to the seismic campaign that was launched and completed during the fourth quarter 2018.

Tethys Oil was awarded the exploration license for Block 49 in the fourth quarter 2017. Block 49 covers an area of 15,439 km² in the south-west of Oman. More than 11,000 km of 2D seismic acquired by previous operators has been made available to Tethys Oil. Nine wells have been drilled within the block boundaries, several of which are reported to have encountered oil shows.

In the fourth quarter 2018, Tethys Oil launched a seismic campaign on Block 49, whereby 253 km² of 3D and 299 km of 2D seismic data were acquired in the north-eastern part of the license area. The purpose of the seismic campaign is to further define possible oil traps and to enhance the understanding of the deeper parts of the block in general. The data is being processed and will, when interpreted, guide the continued work on Block 49.

Through the reprocessing of some 1,464 km of older 2D seismic data, acquired by previous operators, a number of seismic anomalies have been 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. After integration of all available data in Tethys Oil's geological model, the presence of source rock as well as potential reservoir rocks have also been confirmed.

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 in 2018 and several continue to be evaluated.

Associated companies

Lithuania

The interest in the three Lithuanian licences is held indirectly 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 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 2018, the value of the shareholding in the two associated Danish companies holding the interests in Lithuanian licenses, amounted to MUSD 0.0 compared to MUSD 0.0 at the end of 2017. Share of net profit/loss from associated companies amounted to MUSD 0.9 following receipt of dividends during 2018 (-0.3). The book value related to Minijos Nafta (Gargzdai) is zero and as there are no formal or informal obligations related to Minijos Nafta, Tethys Oil does not recognize any negative net result from Minijos Nafta.

Production on the Gargzdai licence has decreased following natural decline of the wells. During 2018, an average of 15 wells were in production on the license. A 100 km 2D seismic acquisition was conducted during 2018 on Gargzdai licence in order to further delineate the Kintai structure. The seismic data has been processed and is being interpreted.

Tethys Oil's share of volumes, before government take	2018	2017	2016	2015	2014
Tethys Oil's share of annual production, bbl					
Lithuania, Gargzdai					
Production	31,149	36,196	41,684	38,857	42,000
Average daily production	85	99	114	106	115

Liquidity and financing

Cash and bank and Net cash as per 31 December 2018 amounted to MUSD 73.1 compared to MUSD 42.0 as per 31 December 2017.

In May and November 2018 a dividend of SEK 1.00 per share was paid to shareholders, which in total amounted to MUSD 7.5. Furthermore, MUSD 15.1 was distributed to shareholders in a share redemption programme.

During the twelve months ending 31 December 2018, the cash flow from operations amounted to MUSD 105.4 and cash flow used in investments in oil and gas amounted to MUSD 55.8. For the twelve months of 2018 the cash flow from operations after investments in oil and gas amounted to MUSD 49.6.

Tethys Oil's operations on Blocks 3&4 and Block 49, including investment programme, are expected to be funded from cash flow from operations and from available funds.

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

Parent company

The parent company reports a net result after tax for 2018 amounting to MSEK 244.4 compared to MSEK 85.0 for 2017. Administrative expenses amounted to MSEK 32.8 for 2018 compared to MSEK 31.2 for 2017. Net financial result amounted to MSEK 259.5 during 2018 compared to MSEK 108.1 for 2017. Dividends from subsidiaries amounting to MSEK 230.1 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 natural gas operations, there are two main categories of agreements: one that governs the relationship with the host country, and one that governs the relationship with partners.

The agreements that govern the relationship with host countries are referred to as licences or Exploration and Production Sharing Agreements (EPSA or PSA). Tethys Oil holds its 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 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 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 9 May 2018 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. 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 15 meetings during 2018. The five members of the board have consisted of four 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 20 (19). Of these, 7 (7) were women. In addition, contractors and consultants are engaged in Tethys Oil's operations.

The environment

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

Sustainability report

In accordance with the Swedish Annual Accounts Act (ÅRL chapter 6 11§) Tethys Oil has opted to issue the sustainability report as a document separate from the Annual Report.

Group structure
Tethys Oil AB (publ), with organizational number 556615-8266, is the parent company in the Tethys Oil Group. Material subsidiaries include Tethys Oil Block 3&4 Limited and Tethys Oil Montasar 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 2018, the number of outstanding shares in Tethys Oil amount to 35,896,310, with a quota value of SEK 0.17. All shares represent one vote each. The number of shares has increased by 352,560 during 2018. Tethys Oil has a warrant based incentive programme for employees which may increase the number of share depending on the share price during the exercise periods, for further information please see note 20.

As at 31 December 2018, Tethys Oil held 1,644,163 of its own shares which have been purchased since commencement of the programme during the fourth quarter 2014. The purpose of the repurchasing program is to 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. No shares were purchased during 2018. 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 2018 before dilution is 34,010,616 and after dilution 34,140,318. After 31 December 2018 and up to the date of publication for this report, Tethys Oil has not acquired any further shares.

Seasonal effects
Tethys Oil has no significant seasonal variations.

Transactions with related parties
See note 23.

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 2018: SEK 2.00) equal to MSEK 68.5 (MSEK 67.8). The Board of Directors proposes that the dividend is to be paid in two equal instalments of SEK 1.00 per share each, payable in May and November 2019. Proposed record dates are 17 May 2019 and 18 November 2019. The Board of Directors proposes an extraordinary distribution of SEK 6.00 per share (AGM 2018: SEK 4.00) by way of a mandatory share redemption programme following the AGM 2019 equal to MSEK 205.5 (135.6). It is also proposed that the balance of retained earnings after the dividend be retained in the business as described below.

MSEK	2018	2017
Retained earnings	128.9	218.1
Profit for the year	244.4	85.0
	373.3	**303.1**
The Board of Directors proposes that these earnings be appropriated as follows:		
To the shareholders, a distribution of SEK 2.00 per share (AGM 2018: SEK 2.00)	68.5	67.8
To the shareholders, an extraordinary distribution of SEK 6.00 per share (AGM 2018: SEK 4.00)	205.5	135.6
To be retained in the business	99.3	99.7
	373.3	**303.1**

Cash dividend
The Board of Directors' proposal consists of a cash dividend of SEK 2.00 per share amounting to SEK 68,504,294 at the current number of shares and an extraordinary distribution of SEK 6.00 per share amounting to SEK 205,512,882. The dividend and extraordinary distribution are subject to approval at the AGM 2019. The preliminary record day for the dividend is May 17, 2019 and November 18, 2019. As per 31 December 2018, the Group's and the parent company's equity ratio amounted to 91.8 percent and 96.5 percent, respectively. After the distribution, the Group's and the parent company's equity ratio will amount to 90.9 percent and 91.6 percent, respectively. Tethys Oil has generated significant cash flows in recent years and the Group's financial position is strong. The board has considered the parent company and the Group's consolidation needs through a comprehensive valuation of the parent company and the Group's financial position and the parent company and the Group's possibilities to fulfil their commitments in the long term. The parent company and the Group's financial position does not give rise to any other conclusion than that the parent company and the Group can continue its operations and meet its obligations in the short and long term and make the necessary investments. The board believes that the size of the equity, even after the proposed dividend, is in reasonable proportion to the scale of the parent company and the Group's business as well as the risks associated with conducting the business. With reference to the above and what has come to the board's attention, it is the board's assessment that the parent company's and the Group's financial position implies that the proposed dividend is justifiable pursuant to Chapter 17, Section 3 second and third paragraph of the Swedish Companies Act, i.e. with reference to the requirements that the nature, scope and risks of business put on the size of the parent company's and the Group's equity as well as the parent company's and the Group's need to strengthen its balance sheet, liquidity and financial position.

Financial statements
The result of the Group's and parent company's operations and the financial position at the end of the financial year is shown in the following income statements, balance sheets, cash flow statements, statements of changes in equity and related notes. Balance sheets and income statements will be resolved at the AGM, 15 May 2019.

Consolidated statement of comprehensive income

1 January – 31 December, MUSD	**Note**	**2018**	**2017**
Revenue	3, 4	152.6	119.9
Underlift/overlift adjustments		4.7	-0.6
Revenue and other income		**157.3**	**119.3**
Operating expenses	9	-45.9	-34.9
Gross profit		**111.4**	**84.4**
Depletion, depreciation and amortisation	3, 8	-45.9	-39.5
Exploration costs	8	–	-0.3
Share of net profit/loss from associates	6	0.9	-0.3
Administrative expenses	10–12, 20	-5.7	-5.9
Operating result		**60.7**	**38.4**
Financial income and similar items	13	4.5	3.0
Financial expenses and similar items	14	-3.0	-8.3
Net financial result		**1.5**	**-5.3**
Result before tax		**62.2**	**33.1**
Income tax	15	–	–
Result for the period		**62.2**	**33.1**
Other comprehensive result			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences		-3.7	4.5
Other comprehensive result for the period		**-3.7**	**4.5**
Total comprehensive result for the period		**58.4**	**37.6**
Attributable to:			
Shareholders in the parent company		58.4	37.6
Non controlling interest			–
Number of shares outstanding	17	35,896,310	35,543,750
Number of shares outstanding (after dilution)	17	35,912,250	35,895,500
Weighted average number of shares (before dilution)	17	34,010,616	34,170,474
Weighted average number of shares (after dilution)	17	34,140,318	34,385,463
Earnings per share (before dilution), USD	17	1.83	0.97
Earnings per share (after dilution), USD	17	1.82	0.96

Consolidated balance sheet

As at 31 December, MUSD	**Note**	**2018**	**2017**
ASSETS			
Non current assets			
Oil and gas properties	8	200.0	189.7
Office equipment		0.1	0.0
Investment in associates	6	–	0.0
		200.1	**189.7**
Current assets			
Other receivables	16	17.9	12.7
Prepaid expenses		0.3	0.3
Cash and cash equivalents	1	73.1	42.0
		91.3	**55.0**
TOTAL ASSETS		**291.4**	**244.7**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	17		
Share capital		0.8	0.8
Additional paid in capital		74.0	71.0
Reserves		-0.3	3.4
Retained earnings		193.1	153.3
Total shareholders' equity		**267.6**	**228.5**
Non current liabilities			
Non current provisions	7	8.9	9.1
		8.9	**9.1**
Current liabilities			
Current provisions	7	1.0	1.0
Accounts payable and other current liabilities	18	13.9	6.1
Loan facility		–	–
		14.9	**7.1**
Total liabilities		**23.8**	**16.2**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**291.4**	**244.7**

Consolidated statement of changes in equity

	Attributable to shareholders of the parent company				
MUSD	**Share capital**	**Paid in capital**	**Other reserves**	**Retained earnings**	**Total equity**
Opening balance 1 January 2017	**0.8**	**71.0**	**-1.1**	**126.2**	**196.9**
Comprehensive income					
Result for the year 2017	–	–	–	33.1	**33.1**
Currency exchange differences for the year 2017	–	–	4.5	–	**4.5**
Total comprehensive income	**–**	**–**	**4.5**	**33.1**	**37.6**
Transactions with owners					
Purchase of own shares	–	–	–	-2.3	**-2.3**
Dividends paid	–	–	–	-3.9	**-3.9**
Incentive programme	–	–	–	0.3	**0.3**
Total transactions with owners	**–**	**–**	**–**	**-5.9**	**-5.9**
Closing balance 31 December 2017	**0.8**	**71.0**	**3.4**	**153.3**	**228.5**
Opening balance 1 January 2018	**0.8**	**71.0**	**3.4**	**153.3**	**228.5**
Comprehensive income					
Result for the year 2018	–	–	–	62.2	**62.2**
Currency exchange differences for the year 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**
Dividends paid	–	–	–	-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**

Consolidated cash flow statement

1 January – 31 December, MUSD	**Note**	**2018**	**2017**
Cash flow from operations			
Operating result		60.7	38.4
Interest received	13	0.3	–
Interest paid	14	0.0	-0.2
Adjustment for exploration costs	8	–	0.3
Adjustment for depletion, depreciation and other non-cash related items	8	41.7	38.2
Total cash flow from operations before change in working capital		**102.7**	**76.7**
Change in receivables		-7.2	-5.4
Change in liabilities		9.9	-21.2
Cash flow from operations		**105.4**	**50.1**
Investment activity			
Investment in oil and gas properties	8	-55.8	-40.4
Investment in office equipment		-0.1	–
Cash from associated companies, net		0.9	–
Cash flow from investment activity		**-55.0**	**-40.4**
Financing activity			
Purchase of own shares	17	–	-2.3
Share redemption		-15.1	–
Dividend		-7.5	-3.9
Proceeds from share issue		2.9	–
Cash flow from financing activity		**-19.7**	**-6.2**
Period cash flow		**30.7**	**3.5**
Cash and cash equivalents at the beginning of the period		42.0	39.0
Exchange gains/losses on cash and cash equivalents		0.5	-0.5
Cash and cash equivalents at the end of the period		73.1	42.0

Parent company income statement

1 January – 31 December, MSEK	**Note**	**2018**	**2017**
Other income	5	9.7	10.9
Share of net profit/loss from associates	6	8.0	-2.8
Administrative expenses	10–12, 20	-32.8	-31.2
Operating result		**-15.1**	**-23.1**
Financial income and similar items	13	282.7	164.6
Financial expenses and similar items	14	-23.2	-53.6
Write down of shares in subsidiaries	19	-0.0	-2.9
Net financial result		**259.5**	**108.1**
Result before tax		**244.4**	**85.0**
Income tax	15	–	–
Result for the year[1]		**244.4**	**85.0**

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**	**2018**	**2017**
ASSETS			
Non-current assets			
Other fixed assets		0.0	0.1
Shares in subsidiaries	19	1.0	0.9
Long term receivables from subsidiaries		222.0	355.6
Investment in associates	6	–	0.0
		223.0	**356.6**
Current assets			
Other receivables	16	2.3	5.5
Prepaid expenses		0.9	0.7
Cash and cash equivalents	1	240.2	58.2
		243.4	**64.4**
TOTAL ASSETS		**466.5**	**421.0**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	17		
Restricted equity:			
Share capital		5.9	5.9
Statutory reserve		71.1	71.1
Unrestricted equity:			
Share premium reserve		481.0	481.0
Retained earnings		-352.1	-262.9
Result for the year		244.4	85.0
Total shareholders' equity		**450.3**	**380.1**
Current liabilities			
Accounts payable and other current liabilities	18	3.9	5.7
Other current liabilities to subsidiaries		12.2	35.2
Total liabilities		**16.2**	**40.9**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**466.5**	**421.0**

Parent company statement of changes in equity

MSEK	Restricted equity: Share capital	Restricted equity: Statutory reserve	Unrestricted equity: Share premium reserve	Unrestricted equity: Retained earnings	Unrestricted equity: Net result	Total equity
Opening balance 1 January 2017	**5.9**	**71.1**	**481.0**	**-235.2**	**23.4**	**346.2**
Transfer of prior year net result	–	–	–	23.4	-23.4	**–**
Comprehensive income						
Result for the year 2017	–	–	–	–	85.0	**85.0**
Period result	**–**	**–**	**–**	**–**	**85.0**	**85.0**
Total comprehensive income	**–**	**–**	**–**	**–**	**85.0**	**85.0**
Transactions with owners						
Purchase of own shares	–	–	–	-19.3	–	**-19.3**
Dividends paid	–	–	–	-34.2	–	**-34.2**
Incentive programme	–	–	–	2.4	–	**2.4**
Total transactions with owners	**–**	**–**	**–**	**-51.1**	**–**	**-51.1**
Closing balance 31 December 2017	**5.9**	**71.1**	**481.0**	**-262.9**	**85.0**	**380.1**
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						
Result for the year 2018	–	–	–	–	244.4	**244.4**
Period result	**–**	**–**	**–**	**–**	**244.4**	**244.4**
Total comprehensive income	**–**	**–**	**–**	**–**	**244.4**	**244.4**
Transactions with owners						
Impacting share issue	0.0	–	–	25.9	–	**25.9**
Dividends paid	–	–	–	-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**	**245.9**	**450.3**

Parent company cash flow statement

1 January – 31 December, MSEK	**Note**	**2018**	**2017**
Cash flow from operations			
Operating result		-15.1	-23.1
Interest received	13	0.2	0.0
Interest paid	14	0.0	0.0
Adjustment for non cash related items		-3.0	-3.1
Total cash flow from operations before change in working capital		**-17.9**	**-26.2**
Change in receivables		3.0	-2.7
Change in liabilities		-4.4	-0.2
Cash flow from operations		**-19.3**	**-29.1**
Investment activity			
Dividend from subsidiaries		210.0	–
Investment in long term receivables		164.0	43.4
Cash flow from investment activity		**374.0**	**43.4**
Financing activity			
Purchase of own shares	17	–	-19.3
Issuance of shares	17	25.9	–
Dividends paid		-68.1	-34.2
Share redemption		-135.6	–
Cash flow from financing activity		**-177.8**	**-53.5**
Cash flow for the year		**176.9**	**-39.2**
Cash and cash equivalents at the beginning of the year		58.2	104.6
Exchange gains on cash and cash equivalents		5.1	-7.2
Cash and cash equivalents at the end of the year		240.2	58.2

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 financial statements have been approved for issue by the Board of Directors on 3 April 2019.

Basis of preparation

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

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

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

Accounting principles

The accounting principles applied in the preparation of these consolidated financial statements are set out below. The same accounting principles were used in the 2017 Annual report, save for the implementation of IFRS 9 and 15 which came into effect on 1 January 2018, 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 2018

IFRS 9 has come into effect with effective date 1 January 2018. IFRS 9 Financial instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities, introduced new rules for hedge accounting and a new impairment model for financial assets. IFRS 9 has not had any material effect on the financial reporting. IFRS 15 has come into effect with effective date 1 January 2018. IFRS 15 Revenue from contract with customers addresses revenue recognition and established principles for reporting useful information to users of financial statements. Based on this standard, certain transactions are no longer reported as revenue but as other income instead. IFRS 15 has not had any material effect on the financial reporting apart from changes in presentation.

New standards and interpretations not yet adopted

IFRS 16 Leases. In January 2016, IASB issued a new lease standard that will replace IAS 17 Leases and the related interpretations IFRIC 4, SIC-15 and SIC-27. The standard requires assets and liabilities arising from all leases, with some exceptions, to be recognised on the balance sheet. This model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. The accounting for lessors will in all material aspects be unchanged. The standard is effective for annual periods beginning on or after 1 January 2019.

Tethys Oil has chosen the modified retrospective method, applying the short-term lease and the asset of low value exceptions. The standard will primarily impact the accounting of the group's operational leases. The current 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. Considering the few leases in the group, the preliminary assessment is that the standard will have no material impact on the Group.

MUSD	Closing balance 31 Dec 2018 before transition to IFRS 16 Leases	Estimated reclassifications due to transition to IFRS 16 Leases	Estimated adjustment due to transition IFRS 16 Leases	Estimated adjusted opening balance 1 Jan 2019
Right-of-use assets	–	–	0.7	0.7
Lease liabilities, interest bearing	–	–	0.7	0.7

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

Principles of consolidation

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

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

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

Joint arrangements

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

Joint operations

Tethys Oil recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings. The Group conducts oil- and gas operations as a joint operation that does not have a separate legal entity status through licenses which are held jointly with other companies. The Groups financial statements reflect the 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 recognised at cost. The difference between the acquisition cost of shares in an associated company and the net fair value of the assets, liabilities and contingent liabilities of the associated company recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. The Group's share in the post-acquisition results of the associated company is recognised in the income statement and the Group's share in post-acquisition movements in other comprehensive income of the associated company is recognised directly in other comprehensive income of the Group. When the Group's accumulated share of losses in an associated company equals or exceeds its interest in the associated company, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. 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".

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

Foreign currencies

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

Transactions and balances

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

Presentation currency

The balance sheets and income statements of foreign 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 2018		31 December 2017	
Currency	**2018 Average**	**2018 Period end**	**2017 Average**	**2017 Period end**
SEK/USD	8.75	9.14	8.67	9.42
SEK/EUR	10.32	10.42	9.73	9.80

Segment reporting

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

Classification of assets and liabilities

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

Oil and gas properties

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

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

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

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

Depreciation, depletion and amortisation

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

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

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

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

Exploration costs

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

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

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

Impairment
Tethys Oil continuously assesses its producing oil and gas properties for any need for impairment. 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 2018.

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

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

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

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

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

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

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

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

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

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

Retained earnings contain the accumulated results attributable to the shareholders of the parent company.

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

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

Revenue

Revenues from the sale of oil and gas are recognised in the income statement net of royalties in kind or in cash (government take). Revenues associated with the sale of crude oil are 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.

Underlift and overlift

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

Profit oil and cost recovery

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

Other

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

Income taxes

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

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

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

Employee benefits

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

Pension obligations

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

Share based incentive programme

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

Severance pay

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

Related party transactions

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

Parent company accounting principles

The parent company has prepared its Annual Report in compliance with Swedish Annual Accounts Act and recommendation RFR 2, Accounting for Legal Entities of the Swedish Financial Reporting Board. The implementation of IFRS 9 Financial assets and IFRS 15 Revenue from contracts with customers had only limited impact of the accounting of the parent company. The effects are considered immaterial and there has not been a transition impact to the opening balances for 2018. See Note "New accounting principles for 2018" for more information.

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

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

Oil price

The oil price is of significant importance to Tethys Oil in all parts of operations as income and profitability is and will be dependent on prices prevailing from time to time. Significantly lower oil prices will reduce current and expected profitability in projects and can make projects sub economic. Lower oil prices could also decrease the industry interest in Tethys Oil's projects regarding farmout or sale of assets. There were no oil price hedges in place as at 31 December 2018.

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

Net result in financial statements (MUSD)	62.2	62.2
Shift in oil price (USD/barrel)	+5	-5
Total effect on net result (MUSD)	**10.9**	**-10.9**

Access to equipment

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

Political risk

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

Environment

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

Key personnel

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

Licenses

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

Financial risk management

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

Foreign currency risk

The Group is exposed to fluctuations in the foreign exchange markets as fluctuations in exchange rates can negatively affect the result, cash flow and equity. The major proportion of the Group´s assets relate to international oil and gas discoveries valued in USD and which generate revenues in USD. During 2018, 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:

	2018	**2017**
Revenue	100% in USD	100% in USD
Investments	99,8% in USD	99,9% 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 held in USD, with the exception of the relatively minor amounts in SEK held in the Parent company, in order to reduce the 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 is affected and when net assets are translated into USD which can negatively affect the Group's operating profit and statement of financial position. The parent company has issued loans to its subsidiaries denominated in USD and exchange rate changes impact the income statement of the parent company. The Group does not hedge its translation exposure and fluctuating currency rates might negatively affect the operating profit and financial position of the Group.

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 2018**		**31 December 2017**	
MUSD	**<1 year**	**1–3 year**	**<1 year**	**1–3 year**
Accounts payables and other liabilities	13.9	–	6.1	–
Total	**13.9**	**–**	**6.1**	**–**

Credit risk
Tethys Oil's policy is to limit credit risk by limiting the counter-parties to major banks and oil trading companies. Tethys Oil is selling all of its oil through Mitsui Energy Trading Singapore which is part of Mitsui & Co. Ltd. As at 31 December 2018 the Group's receivables on oil sales amounted to MUSD 14.9 (MUSD 12.1), this also represents the maximal 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 2018		
MUSD	**Financial assets and liabilities at fair value through profit or loss**	**Financial assets at amortised cost**	**Financial liabilities at amortised cost**
Other receivables	–	17.9	
Cash and bank	–	73.1	
Accounts payable and other current liabilities	–		13.9

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

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

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

Note 2, Critical accounting estimates and judgements

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

Estimates in oil and gas reserves and resources

The business of the Group is the exploration for, development of and production of oil and gas reserves. Estimates of oil and gas reserves and resources are used in the calculations for impairment tests, in-house modeling and accounting for depletion and site restoration. Changes in estimates in oil and gas reserves and resources, resulting in different future production profiles, will affect the discounted cash flows used in impairment testing, the anticipated date of site decommissioning and restoration and the depletion charges in accordance with the unit of production method. 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 2018				
MUSD	Oman	Lithuania	Sweden	Other	Total
Revenue	157.3	–	–	–	**157.3**
Operating expenses	-45.9	–	–	–	**-45.9**
Depreciation, depletion and amortisation	-45.9	–	–	–	**-45.9**
Exploration costs	–	–	–	–	**0.0**
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					**–**
Result for the period					**62.2**

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

Oman is Tethys Oil's only oil producing area from which revenue is recorded as at 31 December 2018 (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	2018	2017
Revenue	152.6	119.9
Underlift/overlift adjustments	4.7	-0.6
Revenue and other income	**157.3**	**119.3**

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 2018 amounted to MSEK 9.7 compared to MSEK 10.9 in 2017. 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 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 2018 operator in Block 49, Oman and hold 100% of the license interest.

Note 6, Associated companies

Tethys Oil holds an indirect interest of three Lithuanian companies holding three licences; Gargzdai, Rietavas and Raseiniai licences. The interest is held through two Danish private companies which are part of the Odin Group of companies, Odin Energi and Jylland Olie. The table below presents the ownership and the result from associates for the full year 2018.

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

MUSD	2018	2017
Tethys Oil's share of net profit from associated companies	0.9	-0.3

Note 7, Provisions

Tethys Oil estimates that Tethys Oil's share of site restoration regarding Blocks 3&4 at year end 2018 amounts to MUSD 6.9 (6.1). As a consequence of this provision, oil and gas properties have increased with an equal amount. The change in provision follows an annual review of the site restoration calculation where the number of wells drilled is one of the main components that affect the provision's net present value.

Tethys Oil has a non-current provision of MUSD 2.0 (3.0) from of the estimated total error amount of MUSD 5.9 from the Export Reporting Error on Blocks 3&4. Tethys Oil also has a current provision of 1.0 (1.0) MUSD related to the Export Reporting Error.

MUSD	Abandonment provision	Other provisions	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**

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

Note 8, Oil and gas properties

The agreements that govern the relationship with host countries are referred to as licences or Exploration and Production Sharing Agreements (EPSA or PSA). Tethys Oil holds its interest directly through aforementioned agreements in Oman and France. The agreements with host countries have a time limit and are normally divided into periods. Financial commitments and or work commitments normally relates to the different periods. Tethys Oil has fulfilled its commitments on Blocks 3&4. In Block 49 the initial work commitments during the first period include geological studies, seismic acquisition and processing and exploratory drilling. In the other areas of operations the commitments are either fulfilled or there are no commitments of which Tethys Oil can be held liable for. In some of Tethys Oil's areas of interest there are requirements of work to be done or minimum expenditures in order to retain the licences, but no commitments of which Tethys Oil can be held liable for.

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

MUSD	31 Dec 2018	31 Dec 2017
Producing cost pools	194.0	189.1
Non-producing cost pools	6.0	0.6
Total oil and gas properties	**200.0**	**189.7**

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

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

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

MUSD Country	Asset type	Book value 31 Dec 2018	Other non-cash adjustments 1 Jan–31 Dec 2018	DD&A 1 Jan–31 Dec 2018	Exploration costs 1 Jan–31 Dec 2018	Investments 1 Jan–31 Dec 2018	Book value 1 Jan 2018
Oman Blocks 3&4	Producing	194.0	0.4	-45.9	–	50.4	189.1
Oman Block 49	Non-producing	5.7	–	–	–	5.3	0.4
France Attila	Non-producing	0.0	–	–	–	–	–
New ventures	Non-producing	0.3	–	–	–	0.1	0.2
Total		**200.0**	**0.4**	**-45.9**	**–**	**55.8**	**189.7**

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

MUSD **Depletion**	**Oman Blocks 3&4**	**Total**
1 January 2018	-178.4	-178.4
Depletion charge for the year	-45.9	-45.9
31 December 2018	**-224.3**	**-224.3**

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

Impairment testing
In Tethys Oil's assessment of the need for impairment testing, the Company uses its best efforts to estimate production profiles, general cost and development environment. To calculate future free cash flows, the forward oil price as traded in the market as per 31 December 2018 was used. There has been no impairment of assets during 2018 or 2017.

Exploration costs during 2018 amounted to MUSD 0.0 (MUSD 0.3).

MUSD **Investments Block 3&4** **Categories**	**2018**	**2017**
Drilling	25.5	26.6
G&G	11.2	4.2
Facilities	13.7	9.1
Total	**50.4**	**39.9**

MUSD **Oil & gas properties Block 3&4** **Categories**	**31 Dec 2018**	**31 Dec 2017**
Drilling	101.1	98.9
G&G	27.3	24.4
Facilities	65.7	65.8
Total	**194.1**	**189.1**

Note 9, Operating expenditures

	Group MUSD		**Parent** MSEK	
Operating expenditures	**2018**	**2017**	**2018**	**2017**
Production costs	-42.6	-32.6	–	–
Well workovers	-3.4	-2.3	–	–
Total	**-45.9**	**-34.9**	**–**	**–**

Note 10, Remuneration to Company auditor

	Group MUSD		**Parent** MSEK	
Remuneration to company auditor include:	**2018**	**2017**	**2018**	**2017**
PwC:				
Audit fee	-0.1	-0.2	-1.0	-1.0
Audit-related fees	-0.0	-0.0	-0.0	-0.0
Tax consultation	–	–	–	–
Other	–	–	–	–
Total	**-0.1**	**-0.2**	**-1.0**	**-1.0**

Of the Group total during 2018, MUSD 0.1 (MUSD 0.2) has been in relation to PwC Sweden.

Note 11, Administrative expenses

	Group MUSD		**Parent** MSEK	
Administrative expenses	**2018**	**2017**	**2018**	**2017**
Personnel costs	-3.1	-3.6	-16.5	-16.5
Rent	-0.5	-0.4	-1.9	-1.9
Other office costs	-0.1	-0.1	-0.6	-0.3
Listing costs	-0.1	-0.1	-1.1	-0.7
Costs of external communication	-0.2	-0.2	-1.3	-1.4
Other costs	-1.7	-1.5	-11.4	-10.4
Total	**-5.7**	**-5.9**	**-32.8**	**-31.2**

Note 12, Employees

Average number of full time employees per country	2018		2017	
	Total	Total men	Total	Total men
Parent company				
Sweden	7	4	7	4
Total parent company	**7**	**4**	**7**	**4**
Subsidiary companies in Sweden	**–**	**–**	**–**	**–**
Subsidiary companies foreign				
Oman	12	9	11	8
United Arab Emirates	1	0	1	0
Total subsidiary companies foreign	**13**	**9**	**12**	**8**
Total group	**20**	**13**	**19**	**12**

MUSD	2018		2017	
Salaries, other remuneration and social costs	**Salaries, other remune-ration**	**Social costs**	**Salaries, other remune-ration**	**Social costs**
Parent company				
Sweden	-1.4	-0.5	-1.4	-0.5
Total parent company	**-1.4**	**-0.5**	**-1.4**	**-0.5**
Subsidiary companies in Sweden	**–**	**–**	**–**	**–**
Subsidiary companies foreign				
Oman	-1.6	–	-1.5	–
United Arab Emirates	-0.2	–	-0.2	–
Total subsidiary companies foreign	**-1.8**	**–**	**-1.7**	**–**
Total group	**-3.2**	**-0.5**	**-3.1**	**-0.5**

MUSD	2018		2017	
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	-0.6	-0.8	-0.5	-0.9
Total parent company	**-0.6**	**-0.8**	**-0.5**	**-0.9**
Subsidiary companies in Sweden	**–**	**–**	**–**	**–**
Subsidiary companies foreign				
Oman	–	-1.6	–	-1.5
United Arab Emirates	–	-0.2	–	-0.2
Total subsidiary companies foreign	**–**	**-1.8**	**–**	**-1.7**
Total group	**-0.6**	**-2.6**	**-0.5**	**-2.6**

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

During 2018, one woman has been members of the Board of Directors, compared to two in 2017. No women have been members of the executive management. At the AGM of shareholders on 9 May 2018 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 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 management	3.847	0.377	0.875	1.164	0.156	6.420
Total	**6.689**	**1.106**	**1.411**	**2.284**	**0.181**	**11.672**

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

1 The Managing director received 75,000 (75,000) and Other executive management received 96,000 (96,000) warrants in the 2018 incentive programme, totalling 171,000 (171,000) warrants.

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 to board members AGM 2017 to AGM 2018	MSEK
Dennis Harlin	0.630
Robert Anderson	0.330
Per Brilioth	0.265
Alexandra Herger	0.300
Magnus Nordin	–
Per Seime	0.365
Katherine Støvring	0.335
Geoffrey Turbott	0.390
Total	**2.615**

Remuneration policy to executive management

Remuneration policy to the executive management includes five elements:

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

The Board 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 programs.

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 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.

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

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

Severance arrangements
A 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	
	2018	**2017**	**2018**	**2017**
Interest income	0.3	–	15.8	15.0
Gain on currency exchange rates	4.2	3.0	36.9	23.1
Dividend from subsidiaries	–	–	230.1	126.5
Total	**4.5**	**3.0**	**282.8**	**164.6**

Note 14, Financial expenses and similar items

	Group MUSD		**Parent** MSEK	
	2018	**2017**	**2018**	**2017**
Interest expenses	0.0	-0.2	-0.2	–
Currency exchange losses	-2.6	-6.9	-23.1	-53.6
Other financial expenses	-0.4	-1.2	0.0	–
Total	**-3.0**	**-8.3**	**-23.3**	**-53.6**

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 236.3 (MSEK 242.8). 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)	**2018**	**2017**
Result before tax	244.4	85.0
Tax at applicable tax rate 22%	-53.8	-18.7
Non-deductible expenses	-0.1	-1.4
Non-taxable income	52.4	27.8
Utilized (+) / Built up (–) tax loss carry forwards previously not recorded as deferred tax assets	1.5	-7.7
Tax expense	**0.0**	**0.0**

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.

Note 16, Other receivables

	Group MUSD		**Parent** MSEK	
Other receivables	**2018**	**2017**	**2018**	**2017**
VAT	0.3	0.6	2.3	5.4
Receivables Oil sales	17.6	12.1	–	–
Other	–	–	0.0	0.1
Total	**17.9**	**12.7**	**2.3**	**5.5**

Note 17, Shareholders' equity

As at 31 December 2018, the number of outstanding shares in Tethys Oil amount to 35,896,310, with a quota value of SEK 0.17. All shares represent one vote each. During 2018, the number of outstanding shares increased by 352,560 share, from 35,543,750 to 35,896,310. Tethys Oil has a warrant based incentive programme for employees, for further information please see note 20. As the average subscription price for three tranches of the incentive programme were partly below the average share price during 2018, dilution effects of the warrants are included in the weighted average number of shares after dilution, which amounted to 34,140 thousand during 2018.If the subscription prices have been below the share price during the reporting period, the dilution effects have been included in the weighted average number of shares in circulation after dilution.

As at 31 December 2018, Tethys Oil held 1,644,163 of its own shares which have been purchased since commencement of the programme during the fourth quarter 2014. The purpose of the repurchasing program is to optimize the capital structure and to enable any repurchased shares to be used as payment in connection with, or financing of, acquisitions of companies or businesses. No shares were purchased during 2018 (314,939). 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 2018 before dilution is 34,010,616 and after dilution 34,140,318.

After 31 December 2018 and up to the date of publication for this report, Tethys Oil has not acquired any further shares.

Earnings per share

Earnings per share before dilution are calculated by dividing profit for the year attributable to ordinary shareholders of the parent company by weighted average number of ordinary shares outstanding and in circulation during the year. Total repurchased shares amounting to 1,644,163 have been excluded from shares in circulation.

Earnings per share after dilution are calculated by dividing profit for the year attributable to ordinary shareholders of the parent company by weighted average number of ordinary shares outstanding and in circulation during the year while also including the effect of warrants where the subscription price is below the share price.

Appropriation of profit

The Board of Directors proposes a dividend of SEK 2.00 per share (AGM 2018: SEK 2.00). The Board of Directors proposes that the dividend is to be paid in two equal instalments of SEK 1.00 per share each, payable in May and November 2019. Proposed record dates are 17 May 2019 and 18 November 2019.

The Board of Directors proposes an extraordinary distribution of SEK 6.00 per share by way of a mandatory share redemption programme following the AGM 2019 (AGM 2018: SEK 4.00). Further details to follow in the proposal to the 2019 AGM.

Note 18, Accounts payable and other current liabilities

	Group MUSD		**Parent** MSEK	
Accounts payable and other current liabilities	**2018**	**2017**	**2018**	**2017**
Accounts payable	0.1	0.1	1.1	0.5
Overlift position	–	2.0	–	–
Operator balance, Blocks 3&4 Oman	9.9	3.2	–	–
Other current liabilities	3.9	0.8	2.8	5.2
Total	**13.9**	**6.1**	**3.9**	**5.7**

Note 19, 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 Turkey AB	556658-1913	Sweden	1,000	100%	SEK 100
Tethys Oil Exploration AB	556658-1483	Sweden	1,000	100%	SEK 100
Tethys Oil France AB	556658-1491	Sweden	1,000	100%	SEK 100
Tethys Oil Oman Ltd	95212	Gibraltar	100	100%	GBP 1
Tethys Oil Block 3&4 Ltd	101981	Gibraltar	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
Windsor Petroleum (Spain) Inc.	549 282	British Virgin Islands	1	100%	USD 1

On 25 October 2018 Tethys Oil Denmark AB (556658-1467) was merged with the parent company. Tethys Oil Denmark AB had no operations at the time of the merger. The effect on the parent company's financial statements and position resulting from the merger are immaterial.

MSEK	**Parent**	**Parent**
Shares in subsidiaries	**31 December 2018**	**31 December 2017**
1 January 2018	0.9	1.0
Acquisitions/Relinquishments	0.0	-0.1
Shareholder's contribution	–	2.9
Merger, net	0.1	–
Write down of shares in subsidiaries	–	-2.9
31 December 2018	**1.0**	**0.9**

Note 20, 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 2018 and 2017 following a decision by the respective AGM. The number of issued warrants during 2018 was 350,000 (350,000) and the number of warrants allocated during 2018 was 329,000. Issued but not allocated warrants are held by the Company. Warrants exercised during the year were 312,000 and expired 44,000.

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	0	-312,000	-44,000	0
2016 incentive programme	28 May – 4 Oct, 2019	59.90	1.10	350,000	0	0	0	350,000
2017 incentive programme	30 May – 2 Oct, 2020	81.80	1.04	350,000	0	0	0	350,000
2018 incentive programme	1 Jun – 2 Oct, 2021	89.00	1.00		350,000	0	0	350,000
Total				**1,056,000**	**350,000**	**-312,000**	**-44,000**	**1,050,000**

Warrant incentive programme	Exercise period	Subscription price, SEK	Shares per warrant	Number of warrants				
				1 Jan 2017	Issued 2017	Exercised 2017	Expired 2017	31 Dec 2017
2015 incentive programme	23 May – 5 Oct, 2018	76.80	1.08	356,000	0	0	0	356,000
2016 incentive programme	28 May – 4 Oct, 2019	62.60	1.05	350,000	0	0	0	350,000
2017 incentive programme	30 May – 2 Oct, 2020	85.50	1.00	0	350,000	0	0	350,000
Total				**706,000**	**350,000**	**0**	**0**	**1,056,000**

	Group MUSD		**Parent** MSEK	
Warrant incentive programme	**2018**	**2017**	**2018**	**2017**
Incentive programme cost	-0.5	-0.5	-2.1	-3.6
Total	**-0.5**	**-0.5**	**-2.1**	**-3.6**

As the average subscription price for three tranches of the incentive programme were partly below the average share price during 2018, dilution effects of the warrants are included in the weighted average number of shares after dilution, which amounted to 34,140 thousand during 2018. 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 21, Pledged assets

As at 31 December 2018, pledged assets amounted to MUSD 0.1 related to a pledge in relation to office rental in the parent company (214.9). In 2017 all shares in the subsidiary Tethys Oil Block 3&4 Ltd was included related to a credit facility.

Note 22, Contingent liabilities

There are no outstanding contingent liabilities as at 31 December 2018, nor for the comparative period.

Note 23, 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 and Tethys Oil Montasar Limited

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

Transactions with subsidiaries, MSEK	**2018**	**2017**
Interest income	15.6	15.0
Other income	9.7	10.9
Dividends received	230.1	126.5
Group contributions	–	–
Shareholder contributions	-0.0	-2.9
Total	**255.4**	**149.5**

Balance with related parties, MSEK	**2018**	**2017**
Receivable from subsidiaries	222.0	355.6
Total	**222.0**	**355.6**

Balance with related parties, MSEK	**2018**	**2017**
Payable to subsidiaries	12.2	35.2
Total	**12.2**	**35.2**

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, 24 Subsequent events

Tethys Oil's share of the production, before government take, from Blocks 3&4 amounted during January and February 2019 to 380,340 and 326,656 barrels of oil, respectively, corresponding to 12,269 and 11,666 barrels of oil per day, respectively.

Tethys Oil announced on 23 December 2018 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, for a cash consideration of MUSD 32 with an effective date of 1 January 2018 with customary cash adjustment to be made at closing. The closing of the acquisition was subject to government approval and the waiver of partner pre-emption rights. Tethys Oil announced on 25 January 2019 that partner pre-emption rights had been exercised, and as a result, Tethys Oil will not be able to complete the transaction.

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, 3 April 2019

Geoffrey Turbott
Chairman of the board

Rob Anderson
Director

Alexandra Herger
Director

Magnus Nordin
Managing Director

Per Seime
Director

Auditor's endorsement

Our audit report was submitted on 3 April 2019.
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 2018. The annual accounts and consolidated accounts of the company are included on pages 35–63 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 2018 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 2018 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 2018 and 69% of the group's assets as per 31 December 2018. 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 nine months period ended 30 September, 2018 and after the year-end audit of the financial year 2018.

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 $200.0 million as per 31 December 2018 and the major part represented by the producing assets in Blocks 3&4 in Oman. The oil and gas properties relating to Blocks 3&4 in Oman amounted to $194.0 million by 31 December 2018.

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 in the Directors' report, page 51 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 2018 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 9 maj 2018 and has been the company's auditor since the 2001. The company has been listed at NasdaqOMX since the 2 May 2013.

Stockholm, 3 April 2019

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:

Three month report 2019 (January – March 2019) on 7 May 2019
Six month report 2019 (January – June 2019) on 13 August 2019
Nine month report 2019 (January – September 2019) on 5 November 2019
Year-end report 2019 (January – December 2019) on 11 February 2020

TETHYS OIL

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