

# TETHYS OIL

Third quarter and  
nine months report 2016



# Third quarter and nine months report ending 30 September 2016<sup>1</sup>

## Third quarter 2016

- Production amounted to 12,297 barrels per day, up 1 per cent compared to second quarter 2016
- Revenue amounted to MUSD 26, up 26 per cent compared to second quarter 2016
- EBITDA amounted to MUSD 16, up 86 per cent compared to second quarter 2016
- Net result amounted to MUSD 6, compared with MUSD -3 in the second quarter 2016
- Earnings per share amounted to USD 0.19 during third quarter 2016
- EGM held 25 October 2016 resolved to distribute SEK 3.00 per share through a redemption programme. The share redemption will be completed by the end of November and total distributed amount will be approximately MUSD 12

Third quarter 2015	Second quarter 2016	Third quarter 2016	MUSD (unless specifically stated)	Nine months 2016	Nine months 2015
10,087	12,164	<b>12,297</b>	Net daily production before government take (bbl)	<b>12,224</b>	9,417
584,399	740,844	<b>501,167</b>	Net barrels sold, after government take (bbl)	<b>1,773,929</b>	1,438,310
61.8	35.9	<b>45.8</b>	Average selling price per barrel, USD	<b>38.6</b>	60.7
30	21	<b>26</b>	Revenue	<b>66</b>	81
18	8	<b>16</b>	EBITDA	<b>34</b>	45
8	-3	<b>4</b>	Operating result	<b>1</b>	19
8	-3	<b>6</b>	Result for the period	<b>1</b>	20
59	41	<b>48</b>	Net cash	<b>48</b>	59
13	9	<b>9</b>	Investments in oil and gas properties	<b>34</b>	35
0.23	-0.09	<b>0.19</b>	Earnings per share, USD	<b>0.03</b>	0.58

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

# Dear friends and investors,

One of the most important parameters for our business – the oil price – stabilised further during the third quarter as demand continued to increase and more importantly producers sent clear signals that 'ever lower prices' is not a viable long term option. This strengthened our view that long term prices below USD 40–45 per barrel are highly unlikely. Sustainable prices above USD 55 per barrel are also unlikely for the near term. Until more clarity is reached in understanding what the real marginal cost for US shale oil producers actually is, and how easy access to new capital such producers have, forecasts for price increases will remain speculative.

## **Oil production**

Another vital parameter is the production, and in 2016 Tethys Oil is pumping more oil than ever before. The average daily production amounted to 12,297 barrels of oil per day, the highest in the company's history. Our production has grown over 20 per cent per compared with the third quarter 2015.

## **Opex**

A third important parameter is the operating expenses, and Tethys Oil's operating expenses per barrel are substantially lower in 2016 than in last year as a result of general cost reductions and higher production. From the range USD 10.3 to 14.4 per barrel in 2015, the operating expenses per barrel have in 2016 been reduced to the range USD 7.3 to 9.3.

## **Solid financial results**

Following higher achieved oil prices, higher production and lower operating expenses per barrel, Tethys Oil returned to profitability during the third quarter and

we report a net result of MUSD 6. Our revenue increased 26 per cent quarter on quarter to MUSD 26 and our EBITDA increased 86 per cent to MUSD 16. Our investments in oil and gas assets continued at unchanged level and amounted to MUSD 9. Our cash flow, which has remained positive throughout the year, strengthened further and the operating cash flow after investments in oil and gas assets amounted to MUSD 6. Tethys Oil's cash position increased further during the quarter and amounted to MUSD 48 at the end of September.

## **Distribution to shareholders**

Since our project in Oman has proven to be as robust as we believed it would be, and based on our strong financial position and on our continued ability to generate free cash even at prices below USD 40 per barrel, we got the confidence to revisit the issue of cash distribution to shareholders. As a result, an EGM in late October resolved on an additional distribution to shareholders of 3.00 SEK per share in a redemption procedure. After completing the redemption procedure in November and also including the share repurchase programme during the year, we will in total have distributed around MUSD 18 (MSEK 151) to shareholders during 2016, undisputedly a sign of significant financial strength.

## **Outlook**

Although we are happy over our numbers for the third quarter, we aim higher. We are hopeful that the drilling program for the fourth quarter will increase our production and result in another volume record by year end.



The fourth quarter will also see some interesting exploration activity particularly in the area between the Shahd and Farha South oil fields. Depending on the outcome of this exploration activity, we may be able to establish an overlap between the fields in the three main producing reservoirs – Buah, Khufai and Barik. And in addition to our organic growth, our new venture screening activity remains high.

So stay with us, exciting times continue!

Stockholm in November 2016

Magnus Nordin  
*Managing director*

# Financial and operational review<sup>2</sup>

## Production

Tethys Oil's core area is onshore the Sultanate of Oman, where the company holds a 30 per cent interest in Blocks 3 and 4. Tethys Oil also has interests in three licences onshore Lithuania<sup>3</sup> and in two dormant licences onshore France. The primary production comes from the three fields; Farha South, Shahd and Saiwan East in Oman. The strong production development during the last years has mainly been driven by the on-going implementation of the

water injection programme on the Farha South oil field on Block 3 and from the successful exploration and appraisal results from the Shahd oil field on Block 4. Planned maintenance work in March and the second quarter 2016 on Blocks 3 and 4 fields effected the production negatively. The production is up 1 per cent quarter on quarter and 22 per cent year on year. Tethys Oil has additional production in Lithuania.

<b>Tethys Oil's share of quarterly volumes, before government take<sup>4</sup></b>	<b>Q3 2016</b>	<b>Q2 2016</b>	<b>Q1 2016</b>	<b>Q4 2015</b>	<b>Q3 2015</b>
<b>Oman, Blocks 3 and 4</b>					
Production	1,120,764	1,096,416	1,101,031	997,904	918,474
Average daily production	12,182	12,049	12,099	10,847	9,983
<b>Lithuania, Gargzdai</b>					
Production	10,518	10,466	10,306	10,007	9,573
Average daily production	114	115	113	109	104
<b>Total production</b>	<b>1,131,282</b>	<b>1,106,882</b>	<b>1,111,336</b>	<b>1,007,782</b>	<b>928,047</b>
<b>Total average daily production</b>	<b>12,297</b>	<b>12,164</b>	<b>12,212</b>	<b>10,956</b>	<b>10,087</b>

## Revenue

	<b>Q3 2016</b>	<b>Q2 2016</b>	<b>Q1 2016</b>	<b>Q4 2015</b>	<b>Q3 2015</b>
Barrels sold, bbl	<b>501,167</b>	740,844	531,918	366,746	584,399
Underlift (overlift) movement, bbl	<b>81,630</b>	(170 708)	40,618	152,164	(106,792)
Oil price, USD/bbl	<b>45.8</b>	35.9	35.7	47.9	61.8
Net sales, MUSD	<b>23</b>	27	19	18	36
Underlift (overlift) adjustments, MUSD	<b>3</b>	(6)	1	8	(6)
<b>Revenue, MUSD</b>	<b>26</b>	<b>21</b>	<b>20</b>	<b>26</b>	<b>30</b>

During the third quarter 2016, Tethys Oil sold 501,167 barrels of oil from Blocks 3 and 4 in Oman, representing 32 per cent decrease in comparison with the second quarter of 2016 when 740,844 barrels of oil were sold. The lower sales volumes in the third quarter compared with the second quarter 2016 have resulted in a reduction of the overlift position during the quarter. Adjustment for the reduction of the overlift position amounted to MUSD 3, which together with Net sales adds up to Revenue of MUSD 26. Third quarter 2016 revenue is up 26 per cent compared to second quarter 2016 revenue.

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. The company has reduced the overlift position during the third quarter, which as per 30 September 2016 amount to 25,735 barrels.

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

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

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

4 Tethys Oil's share of production from Blocks 3 and 4 Oman is currently 52 per cent after government take of total net production. The basis of production sharing is further explained in the Annual Report 2015.

and 4 Oman and are made on a monthly basis. The selling price is the monthly average of the two month future price for Oman blend.

The average selling price amounted to USD 45.8 per barrel during the third quarter 2016, compared to USD 35.9 during the second quarter 2016. The average price for Dated Brent oil for the period amounted to USD 45.8 per barrel.

This resulted in net sales during the third quarter 2016 of MUSD 23 compared to MUSD 27 during the second quarter 2016.

#### Operating expenses

	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
Production costs, MUSD	8	9	7	10	10
Well workovers, MUSD	1	1	1	2	1
<b>Total operating expenses, MUSD</b>	<b>9</b>	<b>10</b>	<b>8</b>	<b>12</b>	<b>11</b>
Operating expenses per barrel, USD	<b>8.1</b>	9.3	7.3	11.9	12.1

Operating expenses during the third quarter 2016 amounted to MUSD 9 compared to MUSD 10 during the second quarter 2016. Operating expenses are related to oil and gas production on Blocks 3 and 4 in Oman, and comprise expenses for field staff, expenses related to maintenance, well workovers and interventions and administration.

Operating expenses per barrel during the last five quarters have been in the range USD 7–12 per barrel. During 2016 operating expenses per barrel has been significantly reduced compared with 2015. A reduction in operating expenditures per barrel has been anticipated and it is the result from general cost reductions and higher production. The operating expenses will for individual quarters fluctuate, but are expected, on average over 2016, to continue to be lower in comparison to operating expenses in 2015. Of these costs, around 50–60 per cent is field related production costs, i.e. excluding costs for work over rigs, office costs etc.

#### Depletion, depreciation and amortisation

	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
DD&A, MUSD	<b>11</b>	11	11	10	9
DD&A per barrel, USD	<b>10.0</b>	10.0	10.0	9.8	9.8

Depletion, depreciation and amortisation (“DD&A”) for the third quarter 2016 amounted to MUSD 11 which is in line with the second quarter 2016. The DD&A charge relates to Blocks 3 and 4 Oman.

#### Net back

USD/bbl	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
Oil price achieved (sales barrels)	45.8	35.9	35.7	47.9	61.8
Revenue (after government take)	23.8	18.7	18.6	24.9	32.1
Operating expenses	8.1	9.3	7.3	11.9	12.1
<b>Net back</b>	<b>15.7</b>	<b>9.4</b>	<b>11.2</b>	<b>13.0</b>	<b>20.0</b>

The increase in net back during the third quarter 2016 is related to lower operating expenses per barrel during higher oil price compared to the second quarter 2016.

#### Net result from associated companies

Tethys Oil holds indirect interest in the three Lithuanian licences; Gargzdai, Rietavas and Raseiniai, through associated companies Jylland Olie and Odin Energi. The result from Tethys Oil’s share in these associated companies during the third quarter 2016 amounted to MUSD -0 compared to MUSD -0 during the second quarter 2016.

#### Administrative expenses

Administrative expenses amounted to MUSD -1 for the third quarter 2016 compared to MUSD -2 during the second quarter 2016. Administrative expenses are mainly salaries, rents, listing costs and external services. Administrative expenses have been relatively stable between the quarters. The higher administrative expenses during the second quarter are related to cost associated with the incentive programme for employees.

#### Tax

In Oman, Tethys Oil’s oil and gas operations are governed by an Exploration and Production Sharing Agreement (EPSA) whereby Tethys Oil receives its share of oil after government take. Under the terms of the EPSA, Tethys Oil is subject to Omani income taxes and royalties which are paid in full, on behalf of Tethys Oil, from the government share of oil. These taxes are not presented in the income statement.

#### Net financial result

The net financial result for the third quarter 2016 is related to currency exchange effects. The net financial result amounted during the third quarter to MUSD 2 compared to MUSD 0 during the second quarter. Currency exchange differences recorded on loans between the parent company and subsidiaries are non-cash related items. Interest and fees related to the credit facility amounted to MUSD -0 and other financial expenditures amounted to MUSD -0. The stronger USD compared to SEK is the main reason behind the currency exchange effect.

## Result

Tethys Oil reports a net result after tax for the third quarter 2016 of MUSD 6, representing earnings per share of USD 0.19. The result for the third quarter 2016 is up compared to the second quarter 2016 where the net result amounted to MUSD -3.

## Investments and work programme

Summary of oil and gas properties (MUSD):

Country	Book value 30 Sep 2016	Book value 31 Dec 2015	Investments Jan-Sep 2016
Oman	186	189	34
Lithuania	-	-	-
France	-	-	-
New ventures	0	0	0
<b>Total</b>	<b>187</b>	<b>189</b>	<b>34</b>

### Blocks 3 and 4 Oman

During the third quarter 2016, total investments amounted to MUSD 9 of which almost all relate to Blocks 3 and 4. Investments, as charged from the field operator on Blocks 3 and 4 Oman, were higher during the first quarter 2016 compared to the second and third quarter 2016. There was a similar effect during the first quarter 2015.

Investments Block 3 and 4, MUSD	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
Drilling – Exploration/ Appraisal	0	1	1	0	1
Drilling – Development	6	5	7	4	5
G&G	1	1	1	0	2
Facilities	2	2	4	2	3
Pipeline	0	0	1	0	1
Other capex	0	0	1	1	1
<b>Total investments Blocks 3 and 4</b>	<b>9</b>	<b>9</b>	<b>15</b>	<b>7</b>	<b>13</b>

A total of nine wells were completed on Blocks 3 and 4 during the third quarter. The main focus continued to be on the Shahd oil field, but one rig also returned to the Farha South field in the third quarter and drilled one deviated production well in the Barik layer. The well, FS-123, is the second oil producer in fault block Z. Basic logging program was conducted and the well was completed with an electrical submersible pump (ESP) and is connected to the production system.

Six production wells were drilled on three different structures on the Shahd field, two in each structure. Three of the production wells were completed with a horizontal section in the Khufai layer and one with a horizontal section in the Lower Buah layer. The F24 well was the first well on the F structure to be completed in the Khufai layer.

All production wells encountered oil and six of them have been put into production and the seventh well, a deviated well on the Shahd B structure, has been shut in for pressure build up. One new injection well and one water source well were added to the water injection programme on the Shahd field. In addition, one old well at the Saiwan East field has been deepened and converted to a water disposal well.

Work over has been conducted on 10 wells during the quarter.

A total of five rigs including a work over rig are in operations on the blocks.

The process for adding new separators with a total capacity of 8,000 barrels of oil per day on the Saiwan East field has started. The work is expected to be completed in the fourth quarter.

## Associated companies

### Lithuania

As per 30 September 2016, the value of the shareholding in the two associated Danish companies holding the interest in Lithuanian licences, amounted to MUSD 1 (MUSD 2). The reduction in book value is explained by a received dividend from associated companies of MUSD 1. For more information regarding the ownership structure, please refer to Annual report 2015. The book value related to Minijos Nafta (Gargzdai) is zero and as there are no liabilities related to Minijos Nafta Tethys Oil does not recognize any negative net result.

Production continues in the Gargzdai licence and cost cutting measures are being implemented.

Tethys Oil has received the data from a 50 kilometres 2D survey over the Nemunas area in the south of the Raseiniai licence. The long term production test on Tidikas-1 was also terminated in August 2016.

## Liquidity and financing

Cash and bank and Net cash as per 30 September 2016 amounted to MUSD 48 compared to MUSD 41 as per 30 June 2016.

In May 2016 a dividend of SEK 1 per share was paid to shareholders, which in total amounted to MUSD 4. Furthermore MUSD 2 was used to repurchase 245,555 shares during the nine months ending 30 September 2016.

An extra general meeting ('EGM') of shareholders was held 25 October 2016 in Stockholm. The EGM resolved to distribute SEK 3 per share through a redemption programme. The total value of the distribution amounts to approximately MUSD 12. The redemption programme will be completed by the end of November. There is more information regarding the redemption programme on Tethys Oil's website, [www.tethysoil.com](http://www.tethysoil.com).

During the first nine months 2016, the cash flow from operations amounted to MUSD 37 and investments in oil and gas amounted to MUSD 34. For the first nine months 2016 the cash flow from operations after investments in oil and gas amounted to MUSD 3.

The Blocks 3 and 4 investment budget 2016 will continue to focus on development and appraisal. Following the oil price development, Tethys Oil's investment plans, including the capex budget, for 2016 will be closely monitored and subject to on-going revisions. The target is to fund investments on Blocks 3 and 4 from available funds and from cash flow from operations.

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

#### **Parent company**

The Parent company reports a net result after tax for the third quarter 2016 amounting to MSEK 20 compared to MSEK -7 for the second quarter 2016. Administrative expenses amounted to MSEK 5 for the third quarter 2016 compared to MSEK 12 for the second quarter 2016. The higher administrative expenses in the second quarter 2016 relate to the incentive programme and bonus payments. Net financial result amounted to MSEK 21 during the third quarter 2016 compared to MSEK 2 for the second quarter 2016. The stronger USD in comparison to SEK is the main reason for the positive net financial result during the third quarter.

#### **Share data**

As per 30 September 2016, the number of outstanding shares in Tethys Oil amount to 35,543,750, with a quota value of SEK 0.17. All shares represent one vote each. There has been no change in the number of shares since 31 December 2015. Tethys Oil have warrant based incentive programmes for employees, for further information please see page 17.

As per 30 September 2016, Tethys Oil held 1,329,224 of its own shares which have been purchased since commencement of the programme during the fourth quarter 2014. 31,964 shares were purchased during the third quarter 2016 at an average price of SEK 60. The repurchased shares are still included in the total number of shares, but are not included in the average number of shares in circulation, which amount to 34,216,440 during the third quarter ending 30 September 2016.

After 30 September 2016 and to the date of publication for this report, Tethys Oil has not acquired any further shares.

#### **Seasonal effects**

Tethys Oil has no significant seasonal variations.

#### **Risks and uncertainties**

A statement of risk and uncertainties are presented in note 1, page 15.

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

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

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

- An EGM held 25 October 2016 resolved to distribute SEK 3.00 per share through a redemption programme. The share redemption will be completed by the end of November and total distributed amount will be approximately MUSD 12.



# Consolidated statement of comprehensive income in summary

Third quarter 2015	Second quarter 2016	Third quarter 2016	MUSD	Note	Nine months 2016	Nine months 2015
30	21	26	Revenue	3	66	81
-11	-10	-9	Operating expenses		-27	-31
<b>19</b>	<b>10</b>	<b>17</b>	<b>Gross profit</b>		<b>39</b>	<b>50</b>
-9	-11	-11	Depletion, depreciation and amortisation		-33	-25
-1	-	-	Exploration costs		-	-1
-0	-0	-0	Net profit/loss from associates		-0	-1
-1	-2	-1	Administrative expenses	8	-5	-4
<b>8</b>	<b>-3</b>	<b>4</b>	<b>Operating result</b>		<b>1</b>	<b>19</b>
<b>0</b>	<b>0</b>	<b>2</b>	<b>Net financial result</b>	4	<b>0</b>	<b>1</b>
<b>8</b>	<b>-3</b>	<b>6</b>	<b>Result before tax</b>		<b>1</b>	<b>20</b>
-	-	-	Income tax		-	-
<b>8</b>	<b>-3</b>	<b>6</b>	<b>Result for the period</b>		<b>1</b>	<b>20</b>
			<b>Other comprehensive result</b>			
			Items that may be subsequently reclassified to profit or loss:			
-2	-0	1	Currency exchange differences		-0	-6
<b>-2</b>	<b>-0</b>	<b>1</b>	<b>Other comprehensive result for the period</b>		<b>-0</b>	<b>-6</b>
<b>6</b>	<b>-3</b>	<b>7</b>	<b>Total comprehensive result for the period</b>		<b>1</b>	<b>14</b>
			Attributable to:			
6	-3	7	Shareholders in the parent company		1	14
-	-	-	Non controlling interest		-	-
35,543,750	35,543,750	35,543,750	Number of shares outstanding		35,543,750	35,543,750
35,543,750	35,543,750	35,543,750	Number of shares outstanding (after dilution)		35,543,750	35,543,750
34,903,423	34,407,417	34,216,440	Weighted number of shares		34,360,784	35,095,632
0.23	-0.09	0.19	Earnings per share (before dilution), USD		0.03	0.58
0.23	-0.09	0.19	Earnings per share (after dilution), USD		0.03	0.58



# Consolidated balance sheet in summary

MUSD	Note	30 Sep 2016	31 Dec 2015	31 Dec 2014
<b>ASSETS</b>				
<b>Non current assets</b>				
Oil and gas properties	5	187	189	166
Office equipment		0	0	0
Investment in associates		1	2	5
		<b>188</b>	<b>191</b>	<b>172</b>
<b>Current assets</b>				
Other receivables		7	8	10
Prepaid expenses		1	2	2
Cash and cash equivalents		48	51	48
		<b>56</b>	<b>62</b>	<b>61</b>
<b>TOTAL ASSETS</b>		<b>244</b>	<b>253</b>	<b>232</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>				
<b>Shareholders' equity</b>				
Share capital		1	1	1
Additional paid in capital		71	71	71
Reserves		-12	-12	-9
Retained earnings		151	157	152
<b>Total shareholders' equity</b>		<b>211</b>	<b>217</b>	<b>214</b>
<b>Non current liabilities</b>				
Loan facility	6	-	-	-
Other non current liabilities	7	4	4	3
		<b>4</b>	<b>4</b>	<b>3</b>
<b>Current liabilities</b>				
Accounts payable		0	0	0
Accrued expenses		8	20	14
Other current liabilities		20	12	0
		<b>29</b>	<b>31</b>	<b>15</b>
<b>Total liabilities</b>		<b>33</b>	<b>35</b>	<b>18</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>244</b>	<b>253</b>	<b>232</b>

# Consolidated statement of changes in equity in summary

MUSD	Share capital	Paid in capital	Reserves	Retained earnings	Total equity
<b>Opening balance 1 January 2015</b>	<b>1</b>	<b>71</b>	<b>-9</b>	<b>152</b>	<b>214</b>
<b>Comprehensive income</b>					
Result for nine months 2015	-	-	-	20	<b>20</b>
Currency exchange differences nine months 2015	-	-	-3	-	<b>-3</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-3</b>	<b>20</b>	<b>17</b>
<b>Transactions with owners</b>					
Purchase of own shares	-	-	-	-5	<b>-5</b>
Dividends paid	-	-	-	-4	<b>-4</b>
Share redemption	-	-	-	-8	<b>-8</b>
Incentive programme	-	-	-	-0	<b>-0</b>
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-17</b>	<b>-17</b>
<b>Closing balance 30 September 2015</b>	<b>1</b>	<b>71</b>	<b>-12</b>	<b>156</b>	<b>216</b>
<b>Comprehensive income</b>					
Result for the fourth quarter 2015	-	-	-	3	<b>3</b>
Currency exchange difference fourth quarter 2015	-	-	0	-	<b>0</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>0</b>	<b>3</b>	<b>3</b>
<b>Transactions with owners</b>					
Purchase of own shares	-	-	-	-2	<b>-2</b>
<b>Total transaction with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-2</b>	<b>-2</b>
<b>Closing balance 31 December 2015</b>	<b>1</b>	<b>71</b>	<b>-12</b>	<b>157</b>	<b>217</b>
<b>Opening balance 1 January 2016</b>	<b>1</b>	<b>71</b>	<b>-12</b>	<b>157</b>	<b>217</b>
<b>Comprehensive income</b>					
Result for the first quarter 2016	-	-	-	-2	<b>-2</b>
Result for the second quarter 2016	-	-	-	-3	<b>-3</b>
Result for the third quarter 2016	-	-	-	6	<b>6</b>
<b>Period result</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>1</b>
<b>Other Comprehensive income</b>					
Currency exchange differences first quarter 2016	-	-	-1	-	<b>-1</b>
Currency exchange differences second quarter 2016	-	-	-0	-	<b>-0</b>
Currency exchange differences third quarter 2016	-	-	1	-	<b>1</b>
<b>Total other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>0</b>	<b>-</b>	<b>0</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>0</b>	<b>1</b>	<b>1</b>
<b>Transactions with owners</b>					
Purchase of own shares	-	-	-	-2	<b>-2</b>
Dividends paid	-	-	-	-4	<b>-4</b>
Incentive programme	-	-	-	-0	<b>-0</b>
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-6</b>	<b>-6</b>
<b>Closing balance 30 September 2016</b>	<b>1</b>	<b>71</b>	<b>-12</b>	<b>151</b>	<b>211</b>

# Consolidated cash flow statement in summary

Third quarter 2015	Second quarter 2016	Third quarter 2016	MUSD	Note	Nine months 2016	Nine months 2015
			<b>Cash flow from operations</b>			
8	-3	4	Operating result		1	21
0	0	0	Interest received		0	0
-0	-0	-0	Interest paid	4	-1	-1
-	-	-	Income tax		-	-
1	-	-	Adjustment for exploration costs		-	1
8	8	11	Adjustment for depletion, depreciation and other non cash related items		30	24
<b>17</b>	<b>5</b>	<b>15</b>	<b>Total cash flow from operations before change in working capital</b>		<b>30</b>	<b>45</b>
7	6	-9	Change in receivables		-3	4
10	0	9	Change in liabilities		10	9
<b>34</b>	<b>11</b>	<b>15</b>	<b>Cash flow from operations</b>		<b>37</b>	<b>58</b>
			<b>Investment activity</b>			
-13	-9	-9	Investment in oil and gas properties	5	-34	-35
-0	0	-0	Investment in other fixed assets		-0	-0
-	-	-	Dividend from associated companies		1	3
<b>-13</b>	<b>-9</b>	<b>-9</b>	<b>Cash flow from investment activity</b>		<b>-33</b>	<b>-33</b>
			<b>Financing activity</b>			
-3	-1	-0	Purchase of own shares		-2	-3
-	-	-	Share redemption		-	-9
-	-4	-	Dividend		-4	-4
10	-	-	Long term credit, net after issue costs		-	10
<b>7</b>	<b>-6</b>	<b>0</b>	<b>Cash flow from financing activity</b>		<b>-6</b>	<b>-6</b>
<b>28</b>	<b>-3</b>	<b>6</b>	<b>Period cash flow</b>		<b>-3</b>	<b>20</b>
39	45	41	Cash and cash equivalents at the beginning of the period		51	48
0	-1	1	Exchange gains/losses on cash and cash equivalents		0	0
67	41	48	Cash and cash equivalents at the end of the period		48	67

# Key ratios

Third quarter 2015	Second quarter 2016	Third quarter 2016	Group	Nine months 2016	Nine months 2015
			<b>Operational items</b>		
928,047	1,106,882	<b>1,131,282</b>	Production before government take, bbl	<b>3,349,500</b>	2,570,706
10,087	12,164	<b>12,297</b>	Production per day, bbl	<b>12,224</b>	9,417
584,399	740,844	<b>501,167</b>	Net sales after government take, bbl	<b>1,773,929</b>	1,438,310
61.77	35.88	<b>45.76</b>	Achieved oil price, USD/bbl	<b>38.62</b>	60.69
			<b>Income statement and balance sheet</b>		
30	21	<b>26</b>	Revenue, MUSD	<b>66</b>	81
18	8	<b>16</b>	EBITDA, MUSD	<b>34</b>	45
60%	41%	<b>60%</b>	EBITDA-margin	<b>52%</b>	56%
8	-3	<b>4</b>	Operating result, MUSD	<b>1</b>	19
27%	-12%	<b>17%</b>	Operating margin	<b>2%</b>	24%
8	-3	<b>6</b>	Net result, MUSD	<b>1</b>	20
27%	-14%	<b>24%</b>	Net margin	<b>2%</b>	25%
67	41	<b>48</b>	Cash and cash equivalents, MUSD	<b>48</b>	67
216	207	<b>211</b>	Shareholders' equity, MUSD	<b>211</b>	216
252	244	<b>244</b>	Balance sheet total, MUSD	<b>244</b>	252
			<b>Capital structure</b>		
86%	85%	<b>86%</b>	Solvency	<b>86%</b>	86%
neg.	neg.	<b>neg.</b>	Leverage ratio	<b>neg.</b>	neg.
13	9	<b>9</b>	Investments, MUSD	<b>34</b>	35
59	41	<b>48</b>	Net cash, MUSD	<b>48</b>	59
			<b>Profitability</b>		
3.81%	1.39%	<b>2.97%</b>	Return on shareholders' equity	<b>0.53%</b>	9.44%
4.16%	-0.75%	<b>3.73%</b>	Return on capital employed	<b>3.24%</b>	10.97%
			<b>Other</b>		
17	19	<b>21</b>	Average number of employees	<b>20</b>	17
-	0.12	<b>-</b>	Dividend per share, USD	<b>0.12</b>	0.36
0.98	0.32	<b>0.45</b>	Cash flow from operations per share, USD	<b>1.06</b>	1.66
35,544	35,544	<b>35,544</b>	Number of shares on balance day, '000	<b>35,544</b>	35,544
6.07	5.82	<b>5.93</b>	Shareholders' equity per share, USD	<b>5.93</b>	6.07
34,903	34,407	<b>34,216</b>	Weighted number of shares on balance day, '000	<b>34,361</b>	35,096
0.23	-0.09	<b>0.19</b>	Earnings per share before dilution, USD	<b>0.03</b>	0.58
0.23	-0.09	<b>0.19</b>	Earnings per share after dilution, USD	<b>0.03</b>	0.58

**Key quarterly data**

	<b>Q3 2016</b>	<b>Q2 2016</b>	<b>Q1 2016</b>	<b>Q4 2015</b>	<b>Q3 2015</b>	<b>Q2 2015</b>	<b>Q1 2015</b>	<b>Q4 2014</b>
Daily production, bbl	12,297	12,164	12,212	10,956	10,087	9,434	8,713	8,350
Barrels sold, bbl	501,167	740,844	531,918	366,746	584,399	545,019	308,892	434,035
Revenue, MUSD	26	21	20	26	30	26	25	38
EBITDA, MUSD	16	8	10	13	18	15	13	24
Return on shareholders' equity	2.97%	1.39%	-1.05%	1.52%	4.5%	1.7%	3.5%	-0.1%
Cash flow from operations, MUSD	15	11	10	2	35	6	18	33
Earnings per share, USD	0.19	-0.09	-0.07	0.09	0.24	0.13	0.22	-0.00
Share price, end of period, SEK	60.5	64.5	54.0	57.5	44.4	55.5	57.8	59.2

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

## Parent company income statement in summary<sup>5</sup>

Third quarter 2015	Second quarter 2016	Third quarter 2016	MSEK	Note	Nine months 2016	Nine months 2015
3	3	4	Other income		9	9
-2	-	-0	Net profit/loss of associates		-0	-7
-4	-12	-5	Administrative expenses		-24	-24
<b>-2</b>	<b>-9</b>	<b>-1</b>	<b>Operating result</b>		<b>-16</b>	<b>-21</b>
6	2	21	Net financial items		15	21
<b>4</b>	<b>-7</b>	<b>20</b>	<b>Result before tax</b>		<b>-1</b>	<b>-1</b>
-	-	-	Income tax		-	-
<b>4</b>	<b>-7</b>	<b>20</b>	<b>Result for the period<sup>6</sup></b>		<b>-1</b>	<b>-1</b>

## Parent company balance sheet in summary

MSEK	Note	30 Sep 2016	30 Jun 2016	31 Dec 2015
<b>ASSETS</b>				
Total non current assets		221	204	148
Total current assets		214	218	368
<b>TOTAL ASSETS</b>		<b>435</b>	<b>421</b>	<b>517</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>				
Restricted shareholders' equity		77	77	77
Unrestricted shareholders' equity		348	298	395
Total current liabilities		10	46	45
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>435</b>	<b>421</b>	<b>517</b>

<sup>5</sup> Please note that the parent company presents the financial reports in SEK. For more information please see Accounting principles on next page.

<sup>6</sup> As there are no items in the parent company's other comprehensive income, no separate report on total comprehensive income is presented.

# Notes

## General information

Tethys Oil AB (publ) ("the Company"), organisation number 556615-8266, and its subsidiaries (together "the Group" or "Tethys Oil") are focused on exploration for and production of oil and natural gas. The Group has interests in licences in Oman, Lithuania and France.

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

## Accounting principles

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

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

With effect from the second quarter report 2016, Tethys Oil has applied the ESMA's (European Securities and Markets Authority) guidelines for alternative performance measures. Definitions of performance measures are provided in the Annual Report 2015 and the relevant reconciliations can be found on page 17 of this report.

## Fair value

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

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

	30 September 2016				31 December 2015		
	Financial assets and liabilities at fair value through profit or loss	Other receivables and cash and bank	Other liabilities		Financial assets and liabilities at fair value through profit or loss	Other receivables and cash and bank	Other liabilities
MUSD				MUSD			
Other receivables	-	7	-	Other receivables	-	8	-
Cash and bank	-	48	-	Cash and bank	-	51	-
Accounts payables	-	-	0	Accounts payables	-	-	0
Accrued expenses	-	-	8	Accrued expenses	-	-	20

## Note 1, Risks and uncertainties

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

### Operational risk

At its current stage of development Tethys Oil is commercially producing oil and is furthermore exploring for and appraising undeveloped known oil and/or natural gas accumulations. The operational risk is different in these parts of Tethys Oil's operations. The main operational risk in exploration and appraisal activities is that the activities and investments made by Tethys Oil and its partners will not evolve into commercial reserves of oil and gas. The oil price is of significant importance to Tethys Oil in all parts of operations as income and profitability is and will be dependent on prices prevailing from time to time. Significantly lower oil prices will reduce current

### New financial reporting currency

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

## Exchange rates

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

Currency	30 September 2016		30 June 2016		31 December 2015	
	Average	Period end	Average	Period end	Average	Period end
SEK/USD	8.46	8.67	8.39	8.32	8.45	8.51

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

and expected cash flows and profitability in projects and can make projects sub economic. Lower oil prices could also decrease the industry interest in Tethys Oil's projects regarding farmout or sale of assets. There are no oil price hedges in place as per 30 September 2016.

Another operational risk factor is access to equipment in Tethys Oil's projects. In the drilling/development phase of a project the group is dependent on advanced equipment such as rigs, casing, pipes etc. A shortage of these supplies can present difficulties for Tethys Oil to fulfil projects. Through its operations Tethys Oil is furthermore subject to political risk, environmental risk and the risk of not being able to retain key personnel.

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



## Note 2, Segment reporting

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

Group income statement Jan-Sep 2016						Group income statement Jan-Dec 2015					
MUSD	Oman	Lithuania	Sweden	Other	Total	MUSD	Oman	Lithuania	Sweden	Other	Total
Revenue	66	-	-	-	<b>66</b>	Revenue	107	-	-	-	<b>107</b>
Operating expenses	-27	-	-	-	<b>-27</b>	Operating expenses	-43	-	-	-	<b>-43</b>
Depreciation, depletion and amortisation	-33	-	-	-	<b>-33</b>	Depreciation, depletion and amortisation	-35	-	-	-	<b>-35</b>
Exploration costs	-	-	-	-	<b>-</b>	Exploration costs	-	-	-	-0	<b>-0</b>
Other income	-	-	-	-	<b>-</b>	Other income	-	-	-	-	<b>-</b>
Net profit/loss from associates	-	-0	-	-	<b>-0</b>	Net profit/loss from associates	-	-0	-	-	<b>-0</b>
Administrative expenses	-1	-	-3	-0	<b>-5</b>	Administrative expenses	-1	-	-3	-1	<b>-5</b>
<b>Operating result</b>	<b>5</b>	<b>-</b>	<b>-3</b>	<b>-0</b>	<b>1</b>	<b>Operating result</b>	<b>27</b>	<b>-0</b>	<b>-3</b>	<b>-1</b>	<b>23</b>
Total financial items					-0	Total financial items					0
<b>Result before tax</b>					<b>1</b>	<b>Result before tax</b>					<b>23</b>
Income tax					-	Income tax					-
<b>Result for the period</b>					<b>1</b>	<b>Result for the period</b>					<b>23</b>

## Note 3, Revenue

Third quarter 2015	Second quarter 2016	Third quarter 2016	MUSD	Nine months 2016	Nine months 2015
36	27	23	Net sales,	69	87
(6)	(6)	3	Underlift (overlift)	(3)	(6)
<b>30</b>	<b>21</b>	<b>26</b>	<b>Revenue</b>	<b>66</b>	<b>81</b>

Tethys Oil sells all of its oil to Mitsui Energy Trading Singapore, which is part of Mitsui & Co Ltd. All oil sales come from Blocks 3 and 4 Oman and are made on a monthly basis. The selling price is the monthly average of the two month future price for Oman blend.

## Note 4, Net financial result

Third quarter 2015	Second quarter 2016	Third quarter 2016	MUSD	Nine months 2016	Nine months 2015
			<i>Financial income:</i>		
0	0	0	Interest income	0	0
1	1	3	Gain on currency exchange rates	1	1
0	0	0	Other financial income	0	0
			<i>Financial expenses:</i>		
-0	-0	-0	Interest expenses	-0	-0
-1	-1	-1	Currency exchange losses	-1	-0
-0	-0	-0	Other financial expenses	-0	-0
<b>0</b>	<b>0</b>	<b>2</b>	<b>Net financial result</b>	<b>0</b>	<b>1</b>

## Note 5, Oil and gas properties

Country	Licence name	Phase	Tethys Oil, %	Total area, km <sup>2</sup>	Partners (operator in bold)	Book value 30 Sep 2016	Book value 31 Dec 2015	Investments Jan-Sep 2016
Oman	Blocks 3,4	Production	30%	34,610	<b>CCED</b> , Mitsui	186	189	34
Lithuania	Gargzdai	Production	25%	884	Odin, GeoNafta	-	-	-
Lithuania	Rietavas	Exploration	30%	1,594	Odin, private investors	-	-	-
Lithuania	Raseiniai	Exploration	30%	1,535	Odin, private investors	-	-	-
France	Alès	Exploration	37.5	215	MouvOil	-	-	-
France	Attila	Exploration	40%	1,986	<b>Galli Coz</b>	-	-	-
<b>New ventures</b>						0	-	0
<b>Total</b>						<b>187</b>	<b>189</b>	<b>34</b>

### Note 6, Loan facility

Tethys Oil has a four-year, up to MUSD 31, senior revolving reserve based lending facility. The original facility amount was up to MUSD 100 and the maximum facility amount is being reduced in accordance with the loan life. Security for the facility is the interest in the Blocks 3 and 4 licence. The interest rate of the credit facility is floating between LIBOR + 3.75 per cent to LIBOR + 4.00 per cent per annum, depending on the level of utilization of the facility. As per 30 September 2016, there is no outstanding interest bearing debt from the credit facility.

### Note 7, Provision

Tethys Oil have a provision of MUSD 4 (MUSD 4), which is a provision for site restoration on Blocks 3 and 4 in Oman.

### Note 8, Incentive programme

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

	2015/2018 Warrants	2016/2019 Warrants
Number of warrants issued	356,000	350,000
Number of shares each warrant entitles to subscribe for	1.03	1.00
Subscription price, SEK	80.40	65.50
Exercise period	23 May – 5 Oct, 2018	28 May – 4 Oct, 2019

As the subscription price is above the share price as per the reporting date in this report, the warrants are not included in the fully diluted number of shares.

### Note 9, Pledged assets

As per 30 September 2016, pledged assets amounted to MUSD 174 (213). Pledged assets are mainly a continuing security with regard to the credit facility where Tethys Oil has entered into a pledge agreement. The pledge relates to all shares in the subsidiary Tethys Oil Block 3&4 Ltd for the benefit of the lenders in the credit facility and the value of the pledge is equal to the shareholders' equity value in Tethys Oil Block 3&4 Ltd. The reduction of pledged assets during the first nine months 2016 is an effect of reduced shareholders' equity in Tethys Oil Block 3&4 Ltd after paying dividend to the parent company.

Pledged assets in the parent company amounts to MSEK 1 (1) and relate to a pledge in relation to office rental.

### Note 10, Contingent liabilities

There are no outstanding contingent liabilities as per 30 September 2016, nor for the comparative period.

#### Relevant reconciliations of alternative performance measures

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

Third quarter 2015	Second quarter 2016	Third quarter 2016	MUSD (unless specifically stated)	Nine months 2016	Nine months 2015
8	-3	4	Operating result	1	19
9	11	11	Depreciation, depletion and amortization	33	25
1	-	-	Exploration costs	-	1
<b>18</b>	<b>8</b>	<b>16</b>	<b>EBITDA</b>	<b>34</b>	<b>45</b>
67	41	48	Cash and bank	48	67
-8	-	-	Interest bearing debt	-	-8
<b>59</b>	<b>41</b>	<b>48</b>	<b>Net cash</b>	<b>48</b>	<b>59</b>
34	11	15	Cash flow from operations	37	58
-13	-9	-9	Investment in oil and gas properties	-34	-35
<b>21</b>	<b>3</b>	<b>6</b>	<b>Cash flow from operations after investments</b>	<b>3</b>	<b>23</b>

# About Tethys Oil

Tethys Oil is a Swedish energy company focused on exploration and production of oil. Tethys Oil's core area is the Sultanate of Oman, where the company is one of the largest onshore oil concession holders with a current net production of about 12,000 barrels of oil per day. Tethys Oil also has exploration and production assets onshore Lithuania and France. The shares are listed on Nasdaq Stockholm (TETY).

## **Vision**

Tethys Oil shall have a well-balanced and self-financed portfolio of oil and natural gas assets. The company also aims to conduct business in an economical, socially and environmentally responsible way, to the benefit of all stakeholders.

## **Capital structure target**

Tethys Oil's primary objective is to create shareholder value and in doing so the company will have a balanced approach to growth and shareholder distributions, with a long term capital structure target of a zero net cash position.

# Financial calendar

**Fourth quarter 2016** (January – December 2016) on 14 February 2017

**First quarter 2017** (January – March 2017) on 2 May 2017

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

**Second quarter 2017** (January – June 2017) on 15 August 2017

**Third quarter 2017** (January – September 2017) on 7 November 2017

Stockholm, 1 November 2016

**Tethys Oil AB (publ)**

Org. No. 556615-8266

Magnus Nordin

*Managing director*

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*This information is information that Tethys Oil AB is obliged to make public pursuant to the EU Market Abuse Regulation. The information was submitted for publication, through the agency of the contact persons set out above, at 07.30 CET on 1 November 2016.*

# Report of Review of Interim Financial Information

## **Introduction**

We have reviewed the condensed interim financial information (interim report) of Tethys Oil AB (publ) as of 30 September 2016 and the nine-month period then ended. The board of directors and the CEO are responsible for the preparation and presentation of the interim financial information in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

## **Scope of Review**

We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410, Review of Interim Report Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, ISA, and other generally accepted auditing standards in Sweden. The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, in accordance with IAS 34 and the Swedish Annual Accounts Act, regarding the Group, and with the Swedish Annual Accounts Act, regarding the Parent Company.

Gothenburg, 1 November 2016

PricewaterhouseCoopers AB

Johan Malmqvist  
*Authorized Public Accountant*

Ulrika Ramsvik  
*Authorized Public Accountant*