

## Fourth quarter and year-end report - 31 December 2017

### Fourth quarter 2017 (third quarter 2017)

- Production amounted to 11,726 bopd (12,354 bopd)
- Revenue of MUSD 30.1 (MUSD 28.5)
- EBITDA of MUSD 19.7 (MUSD 18.2)
- Net result of MUSD 11.0 (MUSD 4.8)
- Earnings per share amounted to USD 0.32 (USD 0.14)
- Exploration well Samah-1, drilled 5 km south of the Ulfa discovery, had good oil flows to surface
- Exploration well V-1, targeting testing the Amin formation, did not encounter hydrocarbons
- Award of Block 49, onshore Oman, as operator

### Reserves and Contingent Resources

- Year-end 2017 2P Reserves of 22,044 mbo and 2C Contingent Resources of 17,264 mbo
- 2P internal reserve replacement ratio of 114 percent

### Dividend

- The board of directors proposes an ordinary dividend of SEK 2.00 per share (2017: SEK 1.00), to be paid in two instalments of SEK 1.00 per share each in May and November 2018
- The board of directors proposes an extraordinary distribution of SEK 4.00 by way of a mandatory share redemption programme following the AGM 2018

MUSD (unless specifically stated)	Fourth quarter 2017	Third quarter 2017	Fourth quarter 2016	Full year 2017	Full year 2016
Net daily production before government take (bbl)	11,726	12,354	12,268	12,261	12,235
Net barrels sold, after government take (bbl)	617,577	568,796	583,772	2,316,404	2,357,701
Average selling price per barrel, USD	53.9	48.6	46.0	51.8	40.5
Revenue	30.1	28.5	20.7	119.3	87.1
EBITDA	19.7	18.2	9.6	78.2	44.0
Operating result	9.9	8.2	-1.7	38.4	-0.5
Result for the period	11.0	4.8	1.5	33.1	2.7
Net cash	42.0	47.5	39.0	42.0	39.0
Investments in oil and gas properties	8.2	4.1	15.0	40.4	48.5
Earnings per share (after dilution), USD	0.32	0.14	0.04	0.96	0.08

# Letter to shareholders

## Dear Friends and Investors,

2017 turned into quite a successful year for Tethys Oil, with considerable success not least achieved within one of the most important activities of our industry – exploration and resulting discoveries. In 2017, we discovered significant amounts of oil in new structures near our producing fields in Blocks 3&4. The Erfan, Ulfa and Samah discoveries are all undergoing long term production tests and thus already contribute to our production. These three discoveries have added more than 17 million barrels of 2C contingent resources and the majority of some five million barrels of 2P reserves added in 2017. The increase in 2P reserves represents an internal reserve replacement ratio of 114 percent. A major focus for 2018 will be to complete the appraisal programmes on these discoveries and develop them into new oilfields and in the process mature the resources into reserves.

And we are hopeful success will breed success. The three discoveries give strong support to our so far identified leads and prospects. In the area just east of the Ulfa discovery, we have some ten leads which will be evaluated by the ongoing 3D seismic study covering 1,200 km<sup>2</sup>. Naturally we hope to mature the majority of these leads into drillable prospects.

## 2017

2017 was a year with focus on exploration and appraisal. In addition to our three successful exploration wells, we also put five previously undrilled fault blocks on the Farha South field and one previously undrilled structure on the Shahd field into production.

We also produced 4.48 mmbo in 2017, very much in line with the 4.48 mmbo we produced during 2016. So production year on year remained stable. A number of factors have affected the production during the year. Besides technical factors, also Oman's participation in the OPEC production restriction agreement. An increase in average realised price per barrel of 28 percent compared to 2016 contributed to our revenue growth of 37 percent to MUSD 119.3. Our EBITDA increased even more in 2017, 78 percent, and amounted to MUSD 78.2.

In late 2017, our scope of operations increased when we as operator were awarded a new exploration license in Oman. Block 49 covers an area of 15,439 km<sup>2</sup> with known oil shows in the south western part of the country at the Saudi Arabian border. We are looking forward to exploring this part of Oman.

We entered into 2017 with Brent oil prices at about USD 55 per barrel. During the first half of the year, prices were weak but since June, when the price briefly fell below USD 45 per barrel, the oil price has shown considerable strength and ended the year at USD 67 per barrel. Our average selling price for 2017 amounted to USD 51.8 per barrel, an increase of 28 percent compared with 2016.

## Fourth quarter in focus

We produced 1.08 million barrels of oil in the fourth quarter 2017, corresponding to 11,726 barrels of oil per day. Fourth quarter 2017 production was lower than both the average for the year and the third quarter. The production in the last quarter 2017 was impacted by a number of factors, mostly related to mechanical upgrades and repair and upgrade of downhole pumps and repairs and upgrades of surface components. A shortage of workover capacity also led to wells being shut in longer than planned. Both reserves and production have also been affected by a lower than expected production from part of the Shahd area which has not responded as well as expected to water injection.

The lower daily production during the quarter was more than offset by the higher oil prices. Our average selling price in the fourth quarter amounted to USD 53.9 per barrel, an increase of 11 percent compared with the third quarter. For the quarter, we report revenues of MUSD 30.1, up 6 percent compared with the third quarter. Our EBITDA amounted to MUSD 19.7, up 8 percent compared with the third quarter. For the fourth quarter 2017 cash flow from operations after investments in oil and gas amounted to MUSD -3.7, and our net cash position decreased from MUSD 47.5 to MUSD 42.0 following payment of MUSD 14.7 relating to costs previously not cash called. Our operating expenses per barrel amounted to USD 8.4, slightly higher than in the third quarter. The result for the period amounted to MUSD 11.0, up 129 percent compared with MUSD 4.8 in the third quarter.

## Outlook

The production guidance for 2018 is a monthly average production of between 11,000-13,000 barrels of oil per day.

We expect the bulk of 2018 production to continue to come from the established Farha South, Shahd and Saiwan East fields, however with increasing decline from the older wells in these fields. 2018 production will also be affected by ongoing upgrades and improvements of field infrastructure as well as continued well workover and repair work. Production from the new discoveries will have a positive impact. Production from the appraisal programmes and long term production tests of the Erfan, Ulfa and Samah will contribute to 2018 and we would expect future production from the discoveries to account for an increasing share of overall production. Production may from time to time also be impacted by the OPEC production quota arrangement.

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, which is an increase of 100 percent compared to the ordinary dividend during 2017. Further, in line with Tethys Oil's long term capital structure target, the board of directors is proposing an extraordinary distribution of SEK 4.00 per share.

In 2018, Tethys Oil expects investments in Oman to amount to MUS\$ 53-62, the bulk of which will be spent on Blocks 3&4. The work programme will of course include the appraisal of the discoveries and the new seismic area as well as further exploration wells. Included is also upgrading of the infrastructure and production drilling on the older fields. On Block 49 work has commenced but, at least initially, at a lower pace than on Blocks 3&4.

2017 turned out to be very successful and offers great promise for the future. Let hope we can realise some of those promises in 2018 and find even more 'promise' for the future!

So stay with us, it seems the 'spark' is back in the oil industry.

Stockholm in February 2018

Magnus Nordin  
Managing director

## OPERATIONAL AND FINANCIAL REVIEW<sup>1</sup>

Tethys Oil's core area is onshore the Sultanate of Oman ("Oman"), where the company holds a 30 percent non-operated interest in exploration and production licence Blocks 3&4 ("Blocks 3&4") and a 100 percent operated interest in exploration licence Block 49 ("Block 49"). Tethys Oil also has non-operated interests in three licenses onshore Lithuania<sup>2</sup> and in one license onshore France<sup>3</sup>.

### Production

#### **Blocks 3&4**

Tethys Oil's share of production, before government take during the fourth quarter 2017 was 1,070,633 barrels of oil, corresponding to 11,637 bopd. The fourth quarter 2017 average daily production was lower than the third quarter 2017 average daily production of 12,259 bopd. Fourth quarter 2017 production was also lower than the average for the year, and was impacted by a number of factors, some related to mechanical upgrades and repair of downhole pumps and repairs and upgrades of surface components. A shortage of workover capacity led to some wells being shut in longer than planned. The work with upgrades and repairs is expected to continue during 2018 and may affect production negatively. Both reserves and production have also been affected by a lower than expected production from part of the Shahd area which has responded less well to water injection. The implementation of the Shahd water injection programme will continue and results are being carefully monitored. Production from the appraisal programmes and long term production tests of the Erfan, Ulfa and Samah are contributing and are expected to contribute to 2018 production. Future production from these discoveries is expected to account for an increasing share of overall production.

#### **Other**

Production on the Gargzdai field, Lithuania, decreased following natural decline of the wells.

Tethys Oil's share of quarterly volumes, before government take (bbls)	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
<b>Oman, Blocks 3&amp;4<sup>4</sup></b>					
Production	1,070,633	1,127,816	1,125,973	1,114,697	1,118,227
Average daily production	11,637	12,259	12,373	12,386	12,155
<b>Lithuania, Gargzdai</b>					
Production	8,173	8,743	9,397	9,882	10,394
Average daily production	89	95	104	109	113
<b>Total production</b>	<b>1,078,806</b>	<b>1,136,559</b>	<b>1,135,370</b>	<b>1,124,579</b>	<b>1,128,621</b>
<b>Total average daily production</b>	<b>11,726</b>	<b>12,354</b>	<b>12,477</b>	<b>12,495</b>	<b>12,268</b>

#### **Production guidance 2018**

The production guidance for 2018 is a monthly average production of between 11,000-13,000 barrels of oil per day.

Following the agreement between OPEC and certain non-OPEC members in December 2016, as revised, including Oman, Tethys Oil can from time to time be subject to export restrictions.

<sup>1</sup> The consolidated financial statements of the Tethys Oil Group (hereafter referred to as "Tethys Oil", "Tethys" or the "Group"), in which group Tethys Oil AB (publ) (the "Company") with organisational number 556615-8266 is the parent company, are hereby presented for the fourth quarter 2017. Segments of the Group are geographical markets.

<sup>2</sup> The interest in the three Lithuanian licences are indirectly held through a shareholding in two Danish private companies, which in turn hold shares in Lithuanian companies holding 100 percent of the licences. The two companies are not consolidated in Tethys Oils financial statements and are therefore only presented in the balance sheet under Investments in associates and in the income statement as Share of net profit/loss from associates.

<sup>3</sup> The Attila licence has been extended until February 2019 and Tethys Oil is currently reviewing the prospectivity and potential for additional work.

<sup>4</sup> On Blocks 3&4, the joint operations share of production (after government take) is currently 52 percent of total production. The basis of production sharing is further explained in the Annual report 2016.

## Reserves and Contingent Resources

### *Oman, Blocks 3&4*

Tethys Oil's net working interest Reserves on Blocks 3&4 in Oman as per 31 December 2017 amount to 15,559 thousand barrels of oil ("mbo") of proven Reserves (1P), 22,044 mbo of proven and probable Reserves (2P) and 32,414 mbo of proven, probable and possible Reserves (3P).

Tethys Oil's net working interest resources of oil in Oman amounts to 10,129 mbo of 1C, 17,264 mbo of 2C and 27,328 mbo of 3C Contingent Resources.

<b>Development of Reserves, Blocks 3&amp;4 (audited)</b>			
mbo	<b>1P</b>	<b>2P</b>	<b>3P</b>
Total 31 December 2016	14,222	21,408	29,729
Production 2017	-4,439	-4,439	-4,439
Discoveries	3,482	4,879	7,475
Revisions	2,294	196	-350
<b>Total 31 December 2017</b>	<b>15,559</b>	<b>22,044</b>	<b>32,414</b>

In 2017 Tethys Oil replaced 5,776 mbo of 1P Reserves, representing a 1P Reserve replacement ratio (i.e. percentage of 2017 production replaced) of 130 percent; replaced 5,075 mbo of 2P Reserves, representing a 2P Reserve replacement ratio of 114 percent; replaced 7,124 mbo of 3P Reserves, representing a 3P Reserve replacement ratio of 160 percent.

<b>Reserves Blocks 3&amp;4, (audited)</b>			
mbo	<b>1P</b>	<b>2P</b>	<b>3P</b>
Farha South Field	9,206	11,756	16,061
Shahd Field	3,441	5,634	8,856
Saiwan East Field	631	1,250	1,805
New areas	2,281	3,405	5,692
<b>Total 31 December 2017</b>	<b>15,559</b>	<b>22,044</b>	<b>32,414</b>

In addition to Reserves, Tethys Oil also announces Contingent Resources. The estimated Contingent Resources are contained in the recent discoveries – Ulfa, Erfan and Samah. Development of the Contingent Resources in the new discoveries will be contingent on the on-going appraisal programme and also a work programme and budget to access these resources.

<b>Contingent Resources Blocks 3&amp;4 (audited)</b>			
mbo	<b>1C</b>	<b>2C</b>	<b>3C</b>
<b>Total 31 December 2017</b>	<b>10,129</b>	<b>17,264</b>	<b>27,328</b>

The Company's 2017 and 2016 year-end Reserves reports were prepared by ERC Equipoise Limited ("ERCE") and DeGolyer and MacNaughton Canada Limited ("DMCL"), respectively, as independent qualified reserves evaluators. ERCE were engaged to prepare the 2017 year-end Reserves report following the closure of DMCL's office in Calgary.

The audits of the Reserves in Oman has been conducted using the 2007 Petroleum Resources Management System (PRMS), 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**

Revenue	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Oil sold, bbl	617,577	568,796	565,331	564,700	583,772
Underlift (+)/overlift(-) movement, bbl	-60,848	17,668	20,175	14,942	-2,294
Oil price, USD/bbl	53.9	48.6	53.7	50.7	46.0
Net sales, MUSD	33.3	27.7	30.3	28.6	26.9
Underlift (+)/overlift(-) adjustments, MUSD	-3.2	0.8	1.1	0.7	-6.2
<b>Revenue, MUSD</b>	<b>30.1</b>	<b>28.5</b>	<b>31.4</b>	<b>29.3</b>	<b>20.7</b>

During the fourth quarter 2017, Tethys Oil sold 617,577 barrels of oil from Blocks 3&4, which is higher than the third quarter of 2017 when 568,796 barrels of oil were sold. The sales volumes in the fourth quarter 2017 have resulted in a shift to an overlift position.

The average selling price amounted to USD 53.9 per barrel during the fourth quarter 2017, compared to USD 48.6 during the third quarter 2017. The average price for Dated Brent oil for the fourth quarter 2017 amounted to USD 61.4 per barrel. The higher price will benefit Tethys Oil during the first quarter 2018.

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 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.

Net sales during the fourth quarter 2017 was MUSD 33.3 compared to MUSD 27.7 during the third quarter 2017. The adjustment for the shift to an overlift position amounted to MUSD -3.2 and together with net sales of MUSD 33.3 add up to revenue of MUSD 30.1 during the fourth quarter 2017. The fourth quarter 2017 revenue is up 6 percent compared to the third quarter 2017 revenue of MUSD 28.5 mainly due to the increase in oil prices and despite a lower production.

Oil sale volumes are nominated two months in advance and are not based upon the actual production in a month; as a result, oil sale volumes can be above or below production volumes. Where the sales volume exceeds the volume of barrels produced an overlift position occurs and where it is less, an underlift position occurs. Tethys Oil has an overlift position during the fourth quarter 2017, which as per 31 December 2017 amounts to 36,092 barrels.

Underlift/overlift, bbls	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Underlift (+)/overlift(-), movement during period	-60,848	17,668	20,175	14,942	-2,294
Underlift (+)/overlift(-), closing position	-36,092	24,756	7,088	-13,087	-28,029

**Operating expenses**

Operating expenses, Blocks 3&4	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Production costs, MUSD	8.0	8.5	8.0	8.2	8.1
Well workovers, MUSD	1.0	0.7	0.2	0.3	1.1
<b>Total operating expenses, MUSD</b>	<b>9.0</b>	<b>9.2</b>	<b>8.2</b>	<b>8.5</b>	<b>9.2</b>
Operating expenses per barrel, USD	8.4	8.1	7.3	7.6	8.2

Operating expenses during the fourth quarter 2017 amounted to MUSD 9.0 compared to MUSD 9.2 during the third quarter 2017. Operating expenses are related to oil production on Blocks 3&4, and comprise expenses for field staff, expenses related to maintenance, well workovers and interventions and administration.

Operating expenses per barrel during the last five quarters have been in the range USD 7.3 to 8.4 per barrel.

**Depletion, depreciation and amortisation**

<b>DD&amp;A, Blocks 3&amp;4</b>	<b>Q4 2017</b>	Q3 2017	Q2 2017	Q1 2017	Q4 2016
DD&A, MUSD	9.5	10.0	10.0	10.0	11.2
DD&A per barrel, USD	8.9	8.9	8.9	8.9	10.0

Depletion, depreciation and amortisation (“DD&A”) for the fourth quarter 2017 amounted to MUSD 9.5, which is lower than MUSD 10.0 in the third quarter 2017 following lower production in the fourth quarter.

**Netback**

<b>Netback Blocks 3&amp;4, USD/bbl</b>	<b>Q4 2017</b>	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Oil price achieved (sales barrels)	53.9	48.6	53.7	50.7	46.0
Revenue (after government take)	28.0	25.3	27.9	26.3	23.9
Operating expenses	8.4	8.1	7.3	7.6	8.2
<b>Netback</b>	<b>19.6</b>	<b>17.2</b>	<b>20.6</b>	<b>18.7</b>	<b>15.7</b>

Netback during the fourth quarter 2017 is higher than the third quarter 2017 due to the increase in oil prices.

**Share of net profit/loss from associate**

Tethys Oil holds indirect interest in the three Lithuanian licences; Gargzdai, Rietavas and Raseiniai, through associated companies Jylland Olie and Odin Energi. The result from Tethys Oil’s share in these associated companies during the fourth quarter 2017 amounted to MUSD -0.0, in line with MUSD -0.0 during the third quarter 2017.

**Administrative expenses**

Administrative expenses amounted to MUSD 1.4 for the fourth quarter 2017 compared to MUSD 1.1 during the third quarter 2017. Administrative expenses are mainly salaries, rents, listing costs and external services. Administrative expenses have been relatively stable between the quarters.

**Net financial result**

The net financial result amounted during the fourth quarter to MUSD 1.1 compared to MUSD -3.4 during the third quarter 2017. The net financial result for the fourth quarter 2017 is primarily related to currency exchange effects and costs for the loan facility. Currency exchange differences recorded on loans between the parent company and subsidiaries are non-cash related items. Interest and fees related to the loan facility amounted to MUSD -0.1 and other financial costs amounted to MUSD -0.4.

**Tax**

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

**Result**

Tethys Oil reports a net result after tax for the fourth quarter 2017 of MUSD 11.0, representing earnings per share (after dilution) of USD 0.32. The result for the fourth quarter 2017 is up compared to the third quarter 2017 where the net result amounted to MUSD 4.8.

## Investments and work program

During the fourth quarter 2017, total investments amounted to MUSD 8.2 of which almost all relate to Blocks 3&4.

Summary of oil and gas properties (MUSD)			
Country	Book value 31 Dec 2017	Book value 31 Dec 2016	Investments Jan-Dec 2017
Oman	189.5	190.8	40.2
Lithuania	-	-	-
France	-	-	-
New ventures	0.2	0.3	0.2
<b>Total</b>	<b>189.7</b>	<b>191.1</b>	<b>40.4</b>

### Blocks 3&4, Oman

Investments on Blocks 3&4 were higher during the fourth quarter 2017 compared to the third quarter 2017.

Investments Blocks 3&4, MUSD	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Drilling	5.5	2.6	10.6	7.8	10.1
G&G	0.8	0.4	1.4	1.6	1.5
Facilities	1.5	1.1	3.1	3.5	3.3
<b>Total investments Blocks 3&amp;4</b>	<b>7.8</b>	<b>4.1</b>	<b>15.1</b>	<b>12.9</b>	<b>14.9</b>

Three rigs and one workover unit has been operating on Blocks 3&4 in the fourth quarter 2017. A total of eight wells were completed on the Blocks, including two exploration wells. In addition, the far field exploration well Luja-1 spudded in the latter part of the fourth quarter 2017 and drilling operations are currently ongoing.

Wells completed Q4 2017 (primary purpose)	Farha South Field	Shahd and Saiwan East Fields	Near and far field	Total
Appraisal/Production	1	1	1	3
Water injection	2	1	-	3
Water source	-	-	-	-
Exploration	-	-	2	2
<b>Total</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>8</b>

#### Block 3: Farha South Field

One production well was drilled in fault block O in the fourth quarter 2017. Fault block O was first drilled in the first quarter 2017, and the well drilled in fourth quarter was the second well on the fault block. The well encountered oil in the Barik layer and has been connected to the production system.

In addition, two water injection wells were drilled on fault blocks C and H.

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

One appraisal/production well was drilled in the previously drilled structure I on the Shahd field. The well encountered oil in the Khufai layer and was completed with a horizontal leg. The well is planned to be connected to the production system in the first quarter 2018. One water injection well was also drilled on the Shahd I structure.

#### Exploration on Blocks 3&4

The two discovery wells drilled in the first half of 2017, Erfan-1 and Ulfa-1, continue to deliver good production rates and the appraisal of the Erfan structure continued with the Erfan-3 well successfully drilled in the fourth quarter. The well was completed and tested in the beginning of 2018 with good oil flows to surface and has been connected to the production system. The appraisal drilling on the Ulfa discovery will commence in 2018.

The exploration well Samah-1 was spudded in late August 2017 on Block 3. Samah-1 was drilled vertically to a total depth (TVD) of 4,142 m on a structure located 5 km south of the Ulfa discovery. The well was completed in November and oil shows were recorded in three formations Middle Buah, Lower Buah and Khufai. The well was tested in late December 2017 with good oil flows to surface and will undergo long term production testing.



During the fourth quarter 2017 the exploration well V-1 was drilled on a structure 2 km northeast of the fault block F in Farha South field. The main target of the well was to test the Amin formation as a producer in Block 3. The well was drilled to a total depth (TVD) of 2,530 m but did not encounter any hydrocarbons in the Amin formation and a post drill analysis is on-going. The evaluation will guide the continuing effort of the Amin play work.

The Luja-1 well was spudded in the latter part of fourth quarter 2017 in the southern part of Block 4. Luja-1 is located about 110 km southwest of the Shahd field.

#### *Seismic acquisition*

A new 3D seismic campaign was launched late in the fourth quarter east of the Ulfa discovery. Some 320 km<sup>2</sup> of seismic were acquired in 2017. The survey continues in 2018 with the target to cover a total area of about 1,200 km<sup>2</sup>. Tethys Oil has so far identified more than ten leads based on the interpretation of old 2D seismic.

#### **Block 49, Oman**

In November, Tethys Oil was awarded a new exploration license in Oman. Block 49 is an onshore block that covers a prospective but still rather unexplored area in the south western Oman, bordering Saudi Arabia. Tethys Oil is the operator of Block 49 and holds a 100 percent license interest.

The Block 49 licence covers an area of 15,439 km<sup>2</sup>. 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. Among the legacy wells is the first well ever drilled in Oman in 1955 (Dauka-1).

The 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 into a 15 year production license which can be extended for another five years. In case of a commercial discovery Oman Government Company, has a back-in right for a 30 percent interest against refunding of past expenditure. The initial work commitments during the first period include geological studies, seismic acquisition and processing and exploratory drilling. Tethys Oil does not expect any short term material changes to the organisation as a consequence of having been awarded Block 49.

Geological studies and studies of legacy seismic data is ongoing.

Investments on Block 49 during the fourth quarter amounted to MUSD 0.4 compared to MUSD 0.0 during the third quarter and was mainly related to the license acquisition.

#### **Investments and work program 2018**

Under current market conditions and production assumptions, Tethys Oil expects its 2018 investments to amount to MUSD 53-62. The range includes deferred investments from 2017.

Focus of the work program on Blocks 3&4 is expected to be drilling and developing new Farha South fault blocks and continue the development of existing producing fault blocks, appraising the 2017 discoveries, upgrading of facilities and infrastructure and continued exploration including acquisition of further 3D seismic and drilling of three exploration wells. Focus on Block 49 will be on geological and geophysical work including studies of legacy seismic data in preparation of new seismic acquisition.

#### **New ventures**

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

#### **Associated companies**

As per 31 December 2017, the value of the shareholding in the two associated Danish companies holding the interest in Lithuanian licenses, amounted to MUSD 0.0 compared to MUSD 0.0 in the third quarter 2017. For further information regarding the ownership structure, please refer to the Annual report 2016. The book value related to Minijos Nafta (Gargzdai) is zero and there are no liabilities 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 the fourth quarter 2017, an average of 16 wells were in production on the license. Old 2D seismic covering the Rietavas licence has been reprocessed and interpreted to further evaluate two leads.

### **Liquidity and financing**

Cash and bank and Net cash as per 31 December 2017 amounted to MUSD 42.0 compared to MUSD 47.5 as per 30 September 2017.

In May 2017 a dividend of SEK 1.00 per share was paid to shareholders, which in total amounted to MUSD 3.9.

During the fourth quarter 2017, cash flow from operations amounted to MUSD 4.5 and investments in oil and gas amounted to MUSD 8.2. For the fourth quarter 2017 cash flow from operations after investments in oil and gas amounted to MUSD -3.7.

In addition to paying the ordinary monthly cash calls to the operator of Blocks 3&4 during the fourth quarter 2017, Tethys Oil paid further cash calls of MUSD 14.7 settling costs previously accounted for but not cash called, hence reducing other current liabilities.

Tethys Oil's operations on Blocks 3&4 and Block 49, including investment program, 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.

Tethys Oil has a four-year, up to MUSD 17, senior revolving reserve based lending facility (the "Facility"). Security for the Facility is the interest in the Blocks 3&4 licence. The Facility matures at the end of February 2018 and will not be extended or renewed.

### *Export Reporting Error*

Tethys Oil accounted during the fourth quarter 2016 for the effects of a fiscal metering calibration error resulting in over-reporting of exported oil from Blocks 3&4, affecting fourth quarter 2016 and full year 2016 revenue and result negatively by MUSD 5.9. The error amount will be repaid in cash according to a repayment schedule over a five year period and Tethys Oil estimates that the negative undiscounted net cash effect for Tethys Oil will be less than MUSD 1.4. The mechanism for the full settlement details are being discussed, but Tethys Oil expects that the final settlement will reflect the relevant agreements.

Of the Export Reporting Error amount of MUSD 5.9, MUSD 0.3 was repaid during the fourth quarter 2017 resulting in Current provisions amounting to MUSD 1.0 and Non-current provisions to MUSD 3.0, hence a total amount remaining to be settled of MUSD 4.0, to be repaid in equal monthly instalments until 2022.

### **Parent company**

The Parent company reports a net result after tax for the fourth quarter 2017 amounting to MSEK 138.0 compared to MSEK -24.3 for the third quarter 2017. Administrative expenses amounted to MSEK 6.7 for the fourth quarter 2017 compared to MSEK 4.0 for the third quarter 2017. Net financial result amounted to MSEK 142.5 during the fourth quarter 2017 compared to MSEK -23.4 for the third quarter 2017. Dividends from group companies and currency exchange gains related to loans to subsidiaries are the main reasons for the improved result during the quarter.

### **Share data**

As per 31 December 2017, the number of outstanding shares in Tethys Oil amount to 35,543,750, with a quota value of SEK 0.17. All shares represent one vote each. The Company has the same amount of shares outstanding as per 30 September 2017. Tethys Oil has a warrant based incentive programme for employees, for further information please see note 8 on page 23. As the subscription price is below the share price for one tranche of the incentive program as per the reporting date in this report, the warrants of this tranche are included in the diluted number of shares which amount to 35,895,500 per 31 December 2017. 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 per 31 December 2017, Tethys Oil held 1,644,163 of its own shares which have been repurchased since commencement of the programme during the fourth quarter 2014. 263,627 shares were purchased during the

fourth quarter 2017. The repurchased shares are still included in the total number of shares, but are not included in the average number of shares in circulation. The weighted average number of shares in circulation during the fourth quarter 2017 before dilution is 34,043,831 and after dilution 34,183,415.

After 31 December 2017 and up to the date of publication of this report, Tethys Oil has not repurchased 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 on page 20.

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

There have been no transactions with related parties during the fourth quarter 2017, nor for any comparative periods.

#### **Dividend**

The board of directors proposes a dividend of SEK 2.00 per share (AGM 2017: SEK 1.00). 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 2018. Proposed record dates are May 14, 2018 and November 14, 2018

The board of directors proposes an extraordinary distribution of SEK 4.00 per share by way of a mandatory share redemption programme following the AGM 2018. Further details to follow in the proposal to the AGM.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME IN SUMMARY**

MUSD	Note	Fourth quarter 2017	Third quarter 2017	Fourth quarter 2016	Full year 2017	Full year 2016
Revenue	3	30.1	28.5	20.7	119.3	87.1
Operating expenses		-9.0	-9.2	-9.2	-34.9	-36.6
<b>Gross profit</b>		<b>21.1</b>	<b>19.3</b>	<b>11.5</b>	<b>84.4</b>	<b>50.5</b>
Depletion, depreciation and amortisation		-9.5	-10.0	-11.2	-39.5	-44.4
Exploration costs		-0.3	-0.0	-0.1	-0.3	-0.1
Share of net profit/loss from associates		-0.0	-0.0	-0.7	-0.3	-0.7
Administrative expenses	8	-1.4	-1.1	-1.2	-5.9	-5.8
<b>Operating result</b>		<b>9.9</b>	<b>8.2</b>	<b>-1.7</b>	<b>38.4</b>	<b>-0.5</b>
<b>Net financial result</b>	4	<b>1.1</b>	<b>-3.4</b>	<b>3.2</b>	<b>-5.3</b>	<b>3.2</b>
<b>Result before tax</b>		<b>11.0</b>	<b>4.8</b>	<b>1.5</b>	<b>33.1</b>	<b>2.7</b>
Income tax		-	-	-	-	-
<b>Result for the period</b>		<b>11.0</b>	<b>4.8</b>	<b>1.5</b>	<b>33.1</b>	<b>2.7</b>
<b>Other comprehensive result</b>						
Items that may be subsequently reclassified to profit or loss:						
Exchange differences		-1.8	3.6	-4.9	4.5	-7.0
<b>Other comprehensive result for the period</b>		<b>-1.8</b>	<b>3.6</b>	<b>-4.9</b>	<b>4.5</b>	<b>-7.0</b>
<b>Total comprehensive result for the period</b>		<b>9.2</b>	<b>8.4</b>	<b>-3.4</b>	<b>37.6</b>	<b>-4.4</b>
Attributable to:						
Shareholders in the parent company		9.2	8.4	-3.4	37.6	-4.4
Non controlling interest		-	-	-	-	-
Number of shares outstanding		35,543,750	35,543,750	35,543,750	35,543,750	35,543,750
Number of shares outstanding (after dilution)		35,895,500	35,543,750	36,232,460	35,895,500	36,232,460
Weighted average number of shares (before dilution)		34,043,831	34,209,858	34,214,526	34,170,474	34,324,020
Weighted average number of shares (after dilution)		34,183,415	34,226,093	34,405,662	34,385,463	34,372,065
Earnings per share (before dilution), USD		0.32	0.14	0.04	0.97	0.08
Earnings per share (after dilution), USD		0.32	0.14	0.04	0.96	0.08

**CONSOLIDATED BALANCE SHEET IN SUMMARY**

MUSD	Note	31 Dec 2017	31 Dec 2016
<b>ASSETS</b>			
<b>Non current assets</b>			
Oil and gas properties	5	189.7	191.1
Office equipment		0.0	0.1
Investment in associates		0.0	0.3
		<b>189.7</b>	<b>191.5</b>
<b>Current assets</b>			
Other receivables		12.7	7.4
Prepaid expenses		0.3	1.1
Cash and cash equivalents		42.0	39.0
		<b>55.0</b>	<b>47.5</b>
<b>TOTAL ASSETS</b>		<b>244.7</b>	<b>239.0</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
Share capital		0.8	0.8
Additional paid in capital		71.0	71.0
Reserves		3.4	-1.1
Retained earnings		153.3	126.2
<b>Total shareholders' equity</b>		<b>228.5</b>	<b>196.9</b>
<b>Non current liabilities</b>			
Non current provisions	7	9.1	8.8
		<b>9.1</b>	<b>8.8</b>
<b>Current liabilities</b>			
Current provisions	7	1.0	1.9
Accounts payable and other current liabilities		6.1	31.4
Loan facility	6	-	-
		<b>7.1</b>	<b>33.3</b>
<b>Total liabilities</b>		<b>16.2</b>	<b>42.1</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>244.7</b>	<b>239.0</b>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY IN SUMMARY**

Attributable to shareholders of the parent company					
MUSD	Share capital	Paid in capital	Reserves	Retained earnings	Total equity
<b>Opening balance 1 January 2016</b>	<b>0.8</b>	<b>71.0</b>	<b>5.9</b>	<b>139.5</b>	<b>217.2</b>
<b>Comprehensive income</b>					
Result for twelve months 2016	-	-	-	2.7	2.7
Currency exchange differences twelve months 2016	-	-	-7.0	-	-7.0
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-7.0</b>	<b>2.7</b>	<b>-4.4</b>
<b>Transactions with owners</b>					
Purchase of own shares	-	-	-	-1.5	-1.5
Dividends paid	-	-	-	-3.7	-3.7
Share redemption	-	-	-	-10.9	-10.9
Incentive programme	-	-	-	0.3	0.3
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-15.8</b>	<b>-15.8</b>
<b>Closing balance 31 December 2016</b>	<b>0.8</b>	<b>71.0</b>	<b>-1.1</b>	<b>126.2</b>	<b>196.9</b>
<b>Opening balance 1 January 2017</b>	<b>0.8</b>	<b>71.0</b>	<b>-1.1</b>	<b>126.2</b>	<b>196.9</b>
<b>Comprehensive income</b>					
Result for twelve months 2017	-	-	-	33.1	33.1
Currency exchange differences twelve months 2017	-	-	4.5	-	4.5
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>4.5</b>	<b>33.1</b>	<b>37.6</b>
<b>Transactions with owners</b>					
Purchase of own shares	-	-	-	-2.3	-2.3
Dividends paid	-	-	-	-3.9	-3.9
Share redemption	-	-	-	-	-
Incentive programme	-	-	-	0.3	0.3
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-5.9</b>	<b>-5.9</b>
<b>Closing balance 31 Dec 2017</b>	<b>0.8</b>	<b>71.0</b>	<b>3.4</b>	<b>153.3</b>	<b>228.5</b>

**CONSOLIDATED CASH FLOW STATEMENT IN SUMMARY**

MUSD	Note	Fourth quarter 2017	Third quarter 2017	Fourth quarter 2016	Full year 2017	Full year 2016
<b>Cash flow from operations</b>						
Operating result		9.9	8.2	-1.7	38.4	-0.5
Interest received		-	-	-	-	-
Interest paid	4	-0.1	-	-0.1	-0.2	-0.7
Adjustment for exploration costs		0.3	-	0.1	0.3	0.1
Adjustment for depletion, depreciation and other non-cash related items		9.3	7.2	16.2	38.2	45.8
<b>Total cash flow from operations before change in working capital</b>		<b>19.4</b>	<b>15.4</b>	<b>14.5</b>	<b>76.7</b>	<b>44.7</b>
Change in receivables		-2.7	-7.2	0.6	-5.4	-1.8
Change in liabilities		-12.2	11.7	1.1	-21.2	9.8
<b>Cash flow from operations</b>		<b>4.5</b>	<b>19.9</b>	<b>16.2</b>	<b>50.1</b>	<b>52.7</b>
<b>Investment activity</b>						
Investment in oil and gas properties	5	-8.2	-4.1	-15.0	-40.4	-48.5
Investment in other fixed assets		0.0	0.0	0.0	0.0	-
Cash from associated companies, net		0.0	0.0	0.0	0.0	0.1
<b>Cash flow from investment activity</b>		<b>-8.2</b>	<b>-4.1</b>	<b>-15.0</b>	<b>-40.4</b>	<b>-48.4</b>
<b>Financing activity</b>						
Purchase of own shares		-1.9	-0.4	-	-2.3	-1.7
Share redemption		-	-	-11.5	-	-11.6
Dividend		-	-	-	-3.9	-4.1
<b>Cash flow from financing activity</b>		<b>-1.9</b>	<b>-0.4</b>	<b>-11.5</b>	<b>-6.2</b>	<b>-17.4</b>
<b>Period cash flow</b>		<b>-5.6</b>	<b>15.4</b>	<b>-10.3</b>	<b>3.5</b>	<b>-13.1</b>
Cash and cash equivalents at the beginning of the period		47.5	32.3	48.2	39.0	51.2
Exchange gains/losses on cash and cash equivalents		0.1	-0.2	1.2	-0.5	0.9
Cash and cash equivalents at the end of the period		42.0	47.5	39.0	42.0	39.0

**KEY RATIOS**

Group	Fourth quarter 2017	Third quarter 2017	Fourth quarter 2016	Full year 2017	Full year 2016
<b>Operational items</b>					
Production before government take, bbl	1,078,806	1,136,559	1,128,621	4,475,314	4,478,121
Production per day, bbl	11,726	12,354	12,268	12,261	12,235
Net sales after government take, bbl	617,577	568,796	583,772	2,316,404	2,357,701
Achieved oil price, USD/bbl	53.9	48.6	46.0	51.8	40.5
<b>Income statement and balance sheet</b>					
Revenue, MUSD	30.1	28.5	20.7	119.3	87.1
EBITDA, MUSD	19.7	18.2	9.6	78.2	44.0
EBITDA-margin	65%	64%	46%	66%	51%
Operating result, MUSD	9.9	8.2	-1.7	38.4	-0.5
Operating margin	33%	29%	-8%	32%	-1%
Net result, MUSD	11.0	4.8	1.5	33.1	2.7
Net margin	37%	17%	7%	28%	3%
Cash and cash equivalents, MUSD	42.0	47.5	39.0	42.0	39.0
Shareholders' equity, MUSD	228.5	221.1	196.8	228.5	196.9
Balance sheet total, MUSD	244.7	250.2	238.9	244.7	239.0
<b>Capital structure</b>					
Solvency	93%	88%	82%	93%	82%
Leverage ratio	neg.	neg.	neg.	neg.	neg.
Investments, MUSD	8.2	4.1	15.0	40.4	48.5
Net cash, MUSD	42.0	47.5	39.0	42.0	39.0
<b>Profitability</b>					
Return on shareholders' equity	5.18%	2.28%	0.74%	15.56%	1.29%
Return on capital employed	5.39%	3.87%	0.86%	18.97%	4.20%
<b>Other</b>					
Average number of full time employees	19	19	21	19	19
Dividend per share, SEK*	-	-	-	1.00	1.00
Cash flow from operations per share, USD	0.13	0.58	0.47	1.46	1.53
Number of shares on balance day, '000	35,544	35,544	35,544	35,544	35,544
Shareholders' equity per share, USD	6.43	6.22	5.54	6.43	5.54
Weighted average number of shares (before dilution) on balance day, '000	34,044	34,210	34,215	34,170	34,324
Weighted average number of shares (after dilution) on balance day, '000	34,183	34,226	34,406	34,385	34,372
Earnings per share before dilution, USD	0.32	0.14	0.04	0.97	0.08
Earnings per share after dilution, USD	0.32	0.14	0.04	0.96	0.08

**Key quarterly data**

	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Daily production, bbl	11,726	12,354	12,477	12,495	12,268	12,297	12,164	12,212
Barrels sold, bbl	617,577	568,796	565,331	564,700	583,772	501,167	740,844	531,918
Revenue, MUSD	30.1	28.5	31.4	29.3	20.7	26.1	20.6	19.7
EBITDA, MUSD	19.7	18.2	21.0	19.3	9.6	15.7	8.4	10.3
Return on shareholders' equity	5.18%	2.28%	5.19%	3.32%	0.74%	2.97%	1.39%	-1.05%
Cash flow from operations, MUSD	4.5	19.9	11.1	14.4	16.2	15.5	11.3	9.9
Earnings per share after dilution, USD	0.32	0.14	0.31	0.19	0.04	0.19	-0.09	-0.07
Share price, end of period, SEK	65.75	62.25	58.50	63.50	78.75	60.50	64.50	54.00

For definitions of key ratios please refer to the 2016 Annual Report.

\*Not including share redemption of 3.00 SEK per share in Q4 2016.



**Relevant reconciliations of alternative performance measures**

Besides the definitions below, definitions of the alternative performance measures below can be found in the Annual Report 2016.

MUSD (unless specifically stated)	Fourth quarter 2017	Third quarter 2017	Fourth quarter 2016	Full year 2017	Full year 2016
Operating result	9.9	8.2	-1.7	38.4	-0.5
Depreciation, depletion and amortization	9.5	10.0	11.2	39.5	44.4
Exploration costs	0.3	0.0	0.1	0.3	0.1
<b>EBITDA</b>	<b>19.7</b>	<b>18.2</b>	<b>9.6</b>	<b>78.2</b>	<b>44.0</b>
Cash and bank	42.0	47.5	39.0	42.0	39.0
Interest bearing debt	-	-	-	-	-
<b>Net cash</b>	<b>42.0</b>	<b>47.5</b>	<b>39.0</b>	<b>42.0</b>	<b>39.0</b>
Cash flow from operations	4.5	19.9	16.2	50.1	52.7
Investment in oil and gas properties	-8.2	-4.1	-15.0	-40.4	-48.5
<b>Cash flow from operations after investments</b>	<b>-3.7</b>	<b>15.8</b>	<b>1.2</b>	<b>9.7</b>	<b>4.2</b>

**PARENT COMPANY INCOME STATEMENT IN SUMMARY**

<b>MSEK</b>	<b>Note</b>	<b>Fourth quarter 2017</b>	<b>Third quarter 2017</b>	<b>Fourth quarter 2016</b>	<b>Full year 2017</b>	<b>Full year 2016</b>
Other income		2.2	3.4	2.0	10.9	10.6
Net profit/loss of associates		-0.0	-0.3	-5.6	-2.8	-5.6
Administrative expenses	8	-6.7	-4.0	-6.7	-31.2	-31.3
<b>Operating result</b>		<b>-4.5</b>	<b>-0.9</b>	<b>-10.3</b>	<b>-23.1</b>	<b>-26.3</b>
Net financial items		142.5	-23.4	31.4	108.1	46.6
Appropriations		-	-	3.1	-	3.1
<b>Result before tax</b>		<b>138.0</b>	<b>-24.3</b>	<b>24.2</b>	<b>85.0</b>	<b>23.4</b>
Income tax		-	-	-	-	-
<b>Result for the period*</b>		<b>138.0</b>	<b>-24.3</b>	<b>24.2</b>	<b>85.0</b>	<b>23.4</b>

\* 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 IN SUMMARY**

<b>MSEK</b>	<b>Note</b>	<b>31 Dec 2017</b>	<b>31 Dec 2016</b>
<b>ASSETS</b>			
Total non current assets		328.5	249.1
Total current assets		64.4	108.1
<b>TOTAL ASSETS</b>		<b>392.9</b>	<b>357.2</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
Restricted shareholders' equity		77.0	77.0
Unrestricted shareholders' equity		303.1	269.3
Total current liabilities		12.8	10.9
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>392.9</b>	<b>357.2</b>

## 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 and production 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.

### Accounting principles

The fourth quarter and full-year report 2017 of the Tethys Oil Group has been prepared in accordance with IAS 34 and the Annual Accounts Act. The fourth quarter and full-year report 2017 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 2016 have been used in the preparation of this report.

Tethys Oil has applies the ESMA’s (European Securities and Markets Authority) guidelines for alternative performance measures. Definitions of performance measures are provided in the Annual Report 2016 and the relevant reconciliations can be found on page 17 of this report.

### New standards and interpretations not yet adopted

IFRS 15, ‘Revenue from contracts with customers’ deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 ‘Revenue’ and IAS 11 ‘Construction contracts’ and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group has assessed the impact of IFRS 15 and has concluded that the standard will not cause any change in timing, nor have any material effects on the Group financial reporting apart from changes in presentation where the liftings position will be separately disclosed.

IFRS 9, ‘Financial instruments’, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets. The standard is effective for accounting periods beginning on or after 1 January 2018. The Group has elected not to adopt the standard early. The Group has assessed the impact of IFRS 9 and has concluded that the standard will not have any material effects on the Group financial reporting.

### Exchange rates

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

Currency	31 December 2017		31 December 2016	
	Average	Period end	Average	Period end
SEK/USD	8.67	8.44	8.63	9.42
SEK/EUR	9.73	10.00	9.52	9.80

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 the fourth quarter 2017, all of Tethys Oil’s oil sales and operative expenditures were denominated in USD.

**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*

MUSD	31 December 2017			MUSD	31 December 2016		
	Financial assets and liabilities at fair value through profit or loss	Financial assets at amortised cost	Financial liabilities at amortised cost		Financial assets and liabilities at fair value through profit or loss	Financial assets at amortised cost	Financial liabilities at amortised cost
Other receivables	-	12.7	-	Other receivables	-	7.4	-
Cash and bank	-	42.0	-	Cash and bank	-	39.0	-
Accounts payables	-	-	0.1	Accounts payables	-	-	0.2
Other current liabilities	-	-	5.8	Other current liabilities	-	-	31.2

**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 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 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 farm-out or sale of assets. There are no oil price hedges in place as per 31 December 2017. Further, Oman has, following an agreement with OPEC (Declaration of Cooperation OPEC and non-OPEC), imposed a production recommendation relating to Blocks 3&4. The Declaration of Cooperation OPEC and non-OPEC has been extended to cover all of 2018, with a review planned in June 2018. The production recommendation may affect the Company's oil production and sales.

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.

Financial risk

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.

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 2016.

**Note 2) Segment reporting**

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

Group income statement Jan-Dec 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
Other income	-	-	-	-	-
Share of net profit/loss from associates	-	-0.3	-	-	-0.3
Administrative expenses	-2.0	-	-3.5	-0.4	-5.9
<b>Operating result</b>	<b>42.9</b>	<b>-0.3</b>	<b>-3.5</b>	<b>-0.7</b>	<b>38.4</b>
Total financial items					-5.3
<b>Result before tax</b>					<b>33.1</b>
Income tax					-
<b>Result for the period</b>					<b>33.1</b>

Group income statement Jan-Dec 2016					
MUSD	Oman	Lithuania	Sweden	Other	Total
Revenue	87.1	-	-	-	87.1
Operating expenses	-36.6	-	-	-	-36.6
Depreciation, depletion and amortisation	-44.4	-	-	-	-44.4
Exploration costs	-	-	-	-0.1	-0.1
Other income	-	-	-	-	-
Share of net profit/loss from associates	-	-0.7	-	-	-0.7
Administrative expenses	-1.7	-	-3.6	-0.4	-5.8
<b>Operating result</b>	<b>4.4</b>	<b>-0.7</b>	<b>-3.6</b>	<b>-0.5</b>	<b>-0.5</b>
Total financial items					3.2
<b>Result before tax</b>					<b>2.7</b>
Income tax					-
<b>Result for the period</b>					<b>2.7</b>

**Note 3) Revenue**

MUSD	Fourth quarter 2017	Third quarter 2017	Fourth quarter 2016	Full year 2017	Full year 2016
Net sales,	33.3	27.7	26.9	119.9	95.4
Underlift (overlift)	-3.2	0.8	-6.2	-0.6	-2.4
Overlift adjustment Export Reporting Error	-	-	-	-	-5.9
<b>Revenue</b>	<b>30.1</b>	<b>28.5</b>	<b>20.7</b>	<b>119.3</b>	<b>87.1</b>

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

Tethys Oil accounted during the fourth quarter 2016 for the effects of a fiscal metering calibration error (the "Export Reporting Error") resulting in over-reporting of exported oil from Blocks 3&4, affecting fourth quarter and full year 2016 revenue and result negatively by MUSD 5.9.

**Note 4) Net financial result**

MUSD	Fourth quarter 2017	Third quarter 2017	Fourth quarter 2016	Full year 2017	Full year 2016
Financial income:					
Interest income	-	-	-	-	-
Gain on currency exchange rates	1.9	0.1	3.6	3.0	9.0
Other financial income	-	-	-	-	0.3
Financial costs:					
Interest costs	-0.1	-0.0	-0.1	-0.2	-0.6
Currency exchange losses	-0.3	-3.2	-	-6.9	-3.8
Other financial costs	-0.4	-0.3	-0.3	-1.2	-1.8
<b>Net financial result</b>	<b>1.1</b>	<b>-3.4</b>	<b>3.2</b>	<b>-5.3</b>	<b>3.2</b>

**Note 5) Oil and gas properties**

Country	Licence	Phase	Tethys share	Total area, km <sup>2</sup>	Partners (operator in bold)	Book value 31 Dec 2017	Book value 31 Dec 2016	Investments Jan-Dec 2017
<b>Oman</b>	Blocks 3&4	Prod.	30%	29,130	<b>CCED, Mitsui</b>	<b>189.1</b>	190.8	<b>39.9</b>
<b>Oman</b>	Block 49	Expl.	100%	15,439	<b>Tethys Oil</b>	<b>0.4</b>	-	<b>0.4</b>
<b>Lithuania</b>	Gargzdai	Prod.	25%	884	Odin, GeoNafta	-	-	-
<b>Lithuania</b>	Rietavas	Expl.	30%	1,594	Odin, private investors	-	-	-
<b>Lithuania</b>	Raseiniai	Expl.	30%	1,535	Odin, private investors	-	-	-
<b>France</b>	Attila	Expl.	40%	1,986	<b>Galli Coz</b>	-	-	-
<b>New ventures</b>						<b>0.2</b>	0.3	<b>0.1</b>
<b>Total</b>						<b>189.7</b>	<b>191.1</b>	<b>40.4</b>

**Note 6) Loan facility**

Tethys Oil has a four-year, up to MUSD 17, senior revolving reserve based lending facility (the “Facility”). Security for the Facility is the interest in the Blocks 3&4 licence. The interest rate of the Facility is floating between LIBOR + 3.75 percent to LIBOR + 4.00 percent per annum, depending on the level of utilization of the Facility. As per 31 December 2017 there was no outstanding balance under the Facility. The Facility matures at the end of February 2018 and will not be extended or renewed.

**Note 7) Provision**

Tethys Oil estimates that Tethys Oil’s share of site restoration regarding Blocks 3&4 amounts to MUSD 6.1 (MUSD 5.0). As a consequence of this provision, oil and gas properties have increased with an equal amount. Changes in the provision are related to a more detailed calculation of the site restoration provision affecting the provision’s net present value.

Tethys Oil has a non-current provision of MUSD 3.0 and a current provision of MUSD 1.0 related to the Export Reporting Error that had an estimated total error amount of MUSD 5.9. The Export Reporting Error amount repayment during the fourth quarter 2017 amounted to MUSD 0.3 resulting a total amount remaining to be settled of MUSD 4.0 as at 31 December 2017.

**Note 8) Incentive programme**

Tethys Oil has an incentive programme as part of the remuneration package to employees. Warrants were issued 2015, 2016 and 2017 following a decision by the respective AGM.

The number of issued warrants in 2017 was 350,000 (350,000) and the number of warrants allocated in 2017 was 324,000 (335,000). Issued but not allocated warrants are held by the company.

No warrants were issued or exercised during the fourth quarter 2017.

Warrant incentive programme	Exercise period	Subscription price, SEK	Number of warrants				31 Dec 2017
			1 Jan 2017	Issued 2017	Expired 2017	Exercised 2017	
2015 incentive programme	23 May - 5 Oct, 2018	76.8	356,000	0	0	0	356,000
2016 incentive programme	28 May - 4 Oct, 2019	62.6	350,000	0	0	0	350,000
2017 incentive programme	30 May – 2 Oct 2020	85.5	0	350,000	0	0	350,000
<b>Total</b>			<b>706,000</b>	<b>350,000</b>	<b>0</b>	<b>0</b>	<b>1,056,000</b>

As the subscription price is below the share price for one tranche of the incentive program as per the reporting date in this report, the warrants of this tranche are included in the diluted number of shares which amount to 35,895,500 per 31 December 2017. 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. The weighted average number of shares in circulation during the fourth quarter 2017 before dilution is 34,043,831 and after dilution 34,183,415.

**Note 9) Pledged assets**

As per 31 December 2017, pledged assets amounted to MUSD 214.9 (MUSD 173.2 as per 31 December 2016). Pledged assets are mainly a continuing security with regard to the loan 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 loan facility and the value of the pledge is equal to the shareholders' equity value in Tethys Oil Block 3&4 Ltd.

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

**Note 10) Contingent liabilities**

There are no outstanding contingent liabilities as per 31 December 2017, nor for the comparative period.

**FINANCIAL CALENDAR:**

**Annual report 2017** is expected to be available during the first week of April 2018

**Report for first quarter 2018** (January – March 2018) on 8 May 2018

**Annual general meeting 2018** is planned to be held in Stockholm on 9 May 2018

**Report for second quarter 2018** (January – June 2018) on 14 August 2018

**Report for third quarter 2018** (January – September 2018) on 6 November 2018

**Report for fourth quarter 2018** (January – December 2018) on 12 February 2019

Stockholm, 13 February 2018

**Tethys Oil AB (publ)**

Org. No. 556615-8266

The Board of Directors

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

For further information, please contact:

Magnus Nordin, managing director, phone: +46 8 505 947 00

Jesper Alm, CFO, phone: +46 8 505 947 00

Tethys Oil AB - Hovslagargatan 5B, SE-111 48 Stockholm, Sweden - Tel. +46 8 505 947 00 -

Fax +46 8 505 947 99 - E-mail: [info@tethysoil.com](mailto:info@tethysoil.com) - Website: [www.tethysoil.com](http://www.tethysoil.com)

*This information is information that Tethys Oil AB (publ) is obliged to make public pursuant to the EU Market Abuse Regulation and the Securities Markets Act. The information was submitted for publication, through the agency of the contact person set out above, at 7:30 CET on 13 February 2018.*



**CONFERENCE CALL**

**Date:** 13 February 2018

**Time:** 10.00 CET

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

**Link to webcast:** <https://edge.media-server.com/m6/p/ez5rt4ub>

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

Sweden: +46 8 505 564 74

Switzerland: +41 225 675 541

UK: +44 203 364 5374

North America: +1 855 753 2230