



Tethys Oil Sustainability Report 2018

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Letter from the Managing Director

Dear stakeholders,

2018 was a year of record financial results, continued reserve growth and operational and organisational progress for Tethys Oil. While I am proud of these results and achievements, I am even more proud in the knowledge that this was done in a sustainable and responsible way. Sustainability means running a business that is not only profitable but in tune with the requirements and expectations of stakeholders both within and outside the company.

Tethys Oil is in the oil and gas business and has as a stated objective to create shareholder value by operating across the entire upstream lifecycle. About a third of the world's energy needs are satisfied by oil

This sustainability report is produced in accordance with the Annual Accounts act and encompasses Tethys Oil AB (publ) and its subsidiaries. The board of directors and group management are responsible for the preparation of the report.



and will likely remain so for some time to come. In our view, as long as this demand remains, Tethys Oil sees it as its objective to seek to satisfy that demand in an economically, socially, and environmentally responsible way.

During the year Tethys oil has developed as a company. This mainly involves growing as an organisation as well as growing the organisation's capabilities. Aside from this it has also entailed Tethys Oil's development as a responsible actor and corporate citizen through the development of its corporate social responsibility programme in Oman. With the operatorship of Block 49 onshore Oman we have again a much more direct involvement with the people

and the environment in our operating area. And again we have encountered the great satisfaction in being present on the ground and interacting with one of our main stakeholder groups- those directly affected by our operation. It is our hope that we will be able to make a lasting contribution to these communities, whether we are successful in finding oil on Block 49 or not.

Tethys Oil is active in a competitive and heavily regulated industry where opportunities are scarce, and skilled personnel is critical for success. In such an environment a company like Tethys Oil cannot afford to not act responsibly and sustainably. We will therefore continue to develop as a sustainable and responsible company, because this

is the only way forward. And being active in an extractive industry gives us an added opportunity to show that it is possible to be responsible and at the same time contribute to the world's demand for energy. I hope that you as a stakeholder will share in our pride in what we as a Company have and will achieve.



Magnus Nordin
Managing Director



Mission

Tethys Oil AB (publ) and the entirety of its group (together, “Tethys Oil” or the “Company”) is an oil and gas exploration and production company with the primary objective of creating shareholder value by working across the whole upstream industry lifecycle of exploration, appraisal, development and production. A central tenet in Tethys Oil’s business model is to explore for and produce oil and gas in an economically, socially, and environmentally responsible way. The Company applies the same standards to its activities worldwide to satisfy both its commercial and ethical requirements as per Tethys Oil’s Code of Conduct.

Tethys Oil seeks to be a sustainable and profitable business long-term. Sustainability means running a business that is not only profitable but in tune with the requirements and expectations of stakeholders both within and outside the Company.

Vision

Tethys Oil’s vision is that growth continues through its exploration success. It seeks to build, maintain and expand a well-balanced and self-financed portfolio of oil assets, offering a measured exposure to onshore production, development, appraisal and exploration potential. The focus today and tomorrow is on geographies with proven petroleum systems, existing infrastructure, established institutional frameworks and low political risk. In all its activities, Tethys Oil seeks a balanced approach to risk.

Tethys Oil will continue to create increased shareholder value with a balanced approach to growth and shareholder distributions, with a long-term capital structure target of a zero net cash position.

Values

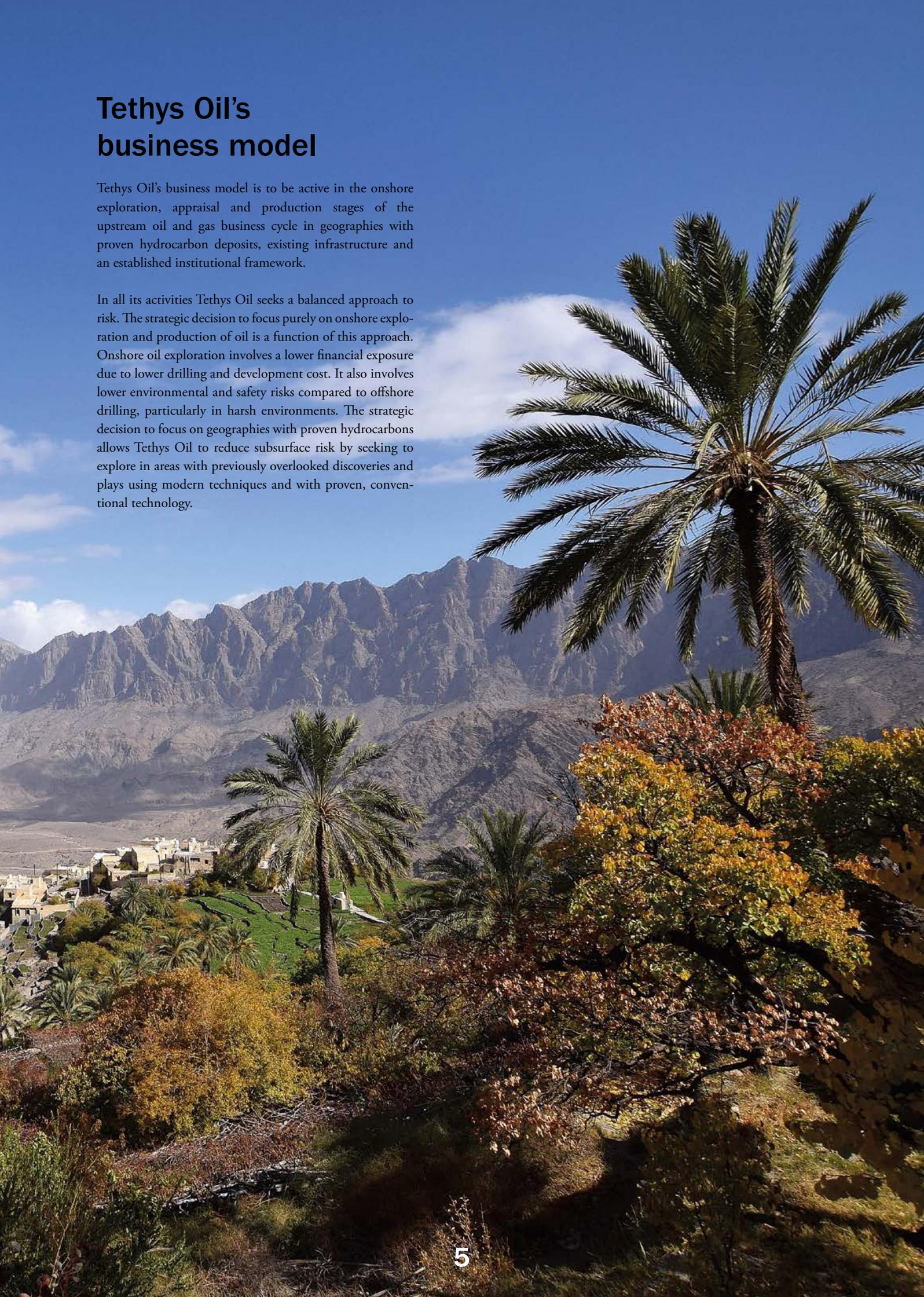
Tethys Oil’s corporate culture emanate from the Company’s Scandinavian roots. It is the responsibility of the Tethys Oil’s management to foster a corporate culture that promotes the values and principles outlined in Tethys Oil’s Code of Conduct. Tethys Oil aims to act in all respects in a responsible, fair, accountable and ethical manner towards all aspects of the environment and to all individuals and entities that the Company encounters in its course of doing business. Tethys Oil aims to apply the same standards to all its activities wherever they are carried out.

It is of vital importance to Tethys Oil that the Company maintains and further builds on its reputation as a responsible and forward- looking corporate citizen in all countries where Tethys Oil has a presence and in relation to all stakeholders, may they be shareholders, employees, contractors, partners or someone else.

Tethys Oil's business model

Tethys Oil's business model is to be active in the onshore exploration, appraisal and production stages of the upstream oil and gas business cycle in geographies with proven hydrocarbon deposits, existing infrastructure and an established institutional framework.

In all its activities Tethys Oil seeks a balanced approach to risk. The strategic decision to focus purely on onshore exploration and production of oil is a function of this approach. Onshore oil exploration involves a lower financial exposure due to lower drilling and development cost. It also involves lower environmental and safety risks compared to offshore drilling, particularly in harsh environments. The strategic decision to focus on geographies with proven hydrocarbons allows Tethys Oil to reduce subsurface risk by seeking to explore in areas with previously overlooked discoveries and plays using modern techniques and with proven, conventional technology.





Tethys Oil Policy Framework

Tethys Oil is committed to the highest possible standards of ethical, moral and legal business conduct and expects its staff to act honestly, with integrity and in accordance with the Company’s Code of Conduct.

Sustainability and Social Responsibility is high on the agenda for Tethys Oil’s management. During the year, much of the focus has been on the implementation into the Company’s day-to-day operations of operating systems, policies and procedures developed in previous years.

Tethys Oil has, during the past year, held workshops for all its employees on the Company’s Code of Conduct and policies.

Overview of Tethys Group Policy Framework

Vision, Mission, Goals and Strategy			
Code of Conduct			
HSE policy	Diversity policy	Whistleblower policy	IT policy
Anti-corruption policy	Anti-fraud policy	Info and insider policy	



2018 in Brief

2018 was in many respects a record-breaking year for Tethys Oil. The Company produced an average of 11,767 barrels of oil per day, resulting in a revenue and other income of MUSD 157.3, EBITDA of

MUSD 106.6 with an end of year net cash balance of MUSD 73.1

At the end of the year, Tethys Oil reported 2P reserves of 25.4 million barrels, a reserve

replacement ratio (RRR) of 177% – the seventh consecutive year with positive reserves growth. The increasing reserves and reserve life underlines the increasing economic sustainability of Tethys Oil.

Net daily production from Oman, Blocks 3&4 before government take



Revenue and other income



EBITDA



2P Reserves in Oman (million barrels of oil)



Tethys Oil's activities are subject to the health, safety and environmental (HSE) risks inherent in the oil industry. The Company recognises that the prevention of accidents and ill health is critical to the efficient operation of its business and therefore has established an HSE policy with accompanying corporate procedures. The ultimate responsibility for HSE lies with the managing director. It is, however, the responsibility of all Tethys Oil staff to ensure compliance with the Company's standards for safe operations.

Tethys Oil has a responsibility for all activities that are a consequence of its operations.

At a minimum, it is Tethys Oil's duty to ensure compliance with all relevant laws and governmental regulations and directions concerning HSE.

The genuine care for HSE is a core value for the Company, and shall be transparent through all Tethys Oil's plans and actions. It is the Company's objective to provide a healthy and safe working environment for employees, contract personnel and members of the general public who might be affected by its activities. The Company is implementing a systematic approach to HSE-management to achieve continuous improvement toward the goal of no harm to people, no accidents, no spills and to strive for minimum impact on the environment, thereby contributing to sustainable development.

With the award of Block 49 in Oman in November 2017, Tethys Oil once again became the operator of an exploration licence. As a result, a project was initiated to implement a modern operations management system which included compre-

hensive policies, procedures and instructions within, amongst other things, HSE matters. The new HSE framework of policies and procedures has been developed in accordance with International Association of Oil and Gas Producers (IOGP) standards.

In parallel with the internal work related to Block 49, the Company has continued to work together with its partners and the operator on Blocks 3&4 to ensure improved routines and processes for the management of HSE-related risks.

Health, & Safety, & Environment

Health & Safety

Tethys Oil is committed to ensuring that all operations that the company conducts are done in a safe manner with genuine regard for the wellbeing of the staff, contractors and third parties. Through fostering a culture of transparent decision making, responsibility and thorough planning, Tethys Oil strives to create a safe, accident free work environment. This applies not only to Tethys Oil operations but com-

pany representatives should work to ensure that the same standards are applied in all projects and joint ventures where the company has an interest.

In 2018 Tethys Oil hired an inhouse HSE advisor to take the lead on improving internal HSE processes and awareness, review and advise on partners' HSE work

as well as monitor and manage contractors from an HSE perspective.

Blocks 3&4 Health and Safety

2018 saw an improvement in Lost Time Incidents (LTI) and no fatalities which is a very positive development. Total Recordable Cases (TRC) remained high and together with road traffic accidents above target levels, however.

	Unit of measure	2018 Actual	2017 Actual	2016 Actual
Fatalities	Number	–	1	–
Lost Time Incidents	Number	2	5	3
Lost Time Incident Frequency	#/mm Hrs	0.28	0.94	0.58
Total Recordable Cases	Number	10	8	8
Total Recordable Case Frequency	#/mm Hrs	1.42	1.51	1.56
Road Traffic Accidents	Number	4	4	3
Road Traffic Accident Frequency	#/mm km	0.25	0.34	0.27

#/mm Hrs – number of cases/incidents per million worked hours

#/mm Km – number of accidents per million kilometres driven

Lost time Incidents – The sum of fatalities and injuries where the impacted person is unable to return to work the day (or days) after the injury.

Total Recordable Cases – The Total number of incidents reported including Lost Time Incidents and more minor incidents which include restricted work capacity and medical treatment.

Actions 2018

Improvements in HSE performance has been a top priority for the Blocks 3&4 partnership and the operator has committed significant resources to further improve the HSE culture and awareness within its operations. This includes working with concepts such as Behavioural Based Safety to improve

attitudes and encourage hazard recognition and incident reporting. This has been done by increased training, monitoring and review as well as improved incentives.

Block 49 Health and Safety

Field operations on Block 49 during 2018 has been limited to field trips from Tethys

Oil staff and the seismic acquisition campaign performed during the fourth quarter 2018 by the subcontractor BGP. Tethys Oil's inhouse HSE advisor as well as external consultants monitored operations and mobilisation, acquisition and demobilisation was all carried out to our satisfaction without incident.

Environment & Emissions



Tethys Oil has a stated ambition to explore for and produce oil and gas with a minimum of environmental impact. As a 30 percent interest holder in Blocks 3&4, Tethys Oil has advocated for improved environmental focus in operations and proactive work to minimise environmental impact, not least the risks for spills and damage.

On Block 49, which is an exploration license, the main environmental challenge is not related to emissions but rather the impact of operations on the surface environment in conjunction with seismic acquisition. Seismic activity onshore does not typically entail high environmental impact, nevertheless Tethys Oil spent considerable time and effort to ensure a minimum of environmental impact.

Before the commencement of the seismic acquisition programme on Block 49, Tethys Oil commissioned external consultants to perform a comprehensive Environmental Impact Assessment (EIA), which

was submitted to the Sultanate of Oman's Ministry of Environment and Climate affairs. The report included assessments of impacts, risks for and recommendations regarding terrestrial ecology, hydrology, cultural heritage and archaeology, socio-economics and noise.

In addition to providing valuable data to enable the seismic programme be optimised from an environmental point of view the EIA also discovered a number of previously unrecorded Palaeolithic archaeological sites. These have been reported to the Ministry of The Heritage and Culture and will be further investigated by professional archaeologists.

With regards to emissions, the majority of the Company's atmospheric emissions come from its 30 percent interest in Blocks 3&4 where the main sources of emissions arise from the flaring of associated gas produced in conjunction with the recovery of oil and the use of diesel-run power generators

used to power production facilities, camps, downhole pumps and drilling rigs.

Oman has been committed to the World Bank Zero Routine Flaring Initiative since 2016. The aim of this initiative is to reduce routine flaring to zero by the year 2030. During 2018 the Sultanate of Oman's Ministry of Oil and Gas formed the Oman Gas flaring Reduction Task Force with industry participants in order to address the steps needed to improve gas conservation and utilisation in order to reduce flaring by the target year of 2030. Tethys Oil participates and is represented in the task force.

Gas produced and flared as well as the resulting atmospheric emissions were reduced somewhat during 2018 partly as a result of slightly lower production but also due to limitations in gas handling facilities at fields with high gas/oil ratios (GOR) which has acted as a production bottleneck for oil but also held back produced gas.

Tethys Oil's share of atmospheric emissions from Blocks 3&4, Oman

Emissions via flaring and/or utilisation (tonnes equivalent)	2018	2017
Sulphur Dioxide	61	108
Nitrogen Dioxide	21	23
Carbon Monoxide	154	166
Carbon Dioxide	66,474	73,155
Methane	891	981
Nitrous Oxide	2	2
Combined Stationary and mobile emissions from Diesel Fuel (tonnes equivalent)		
Carbon Dioxide	26,828	28,545
Methane	1	1
Nitrous Oxide	0	0
Carbon Intensity – CO2 (kg per barrel produced)	21.7	22.9

Actions 2018

During 2018 work continued on improving environmental conditions on Blocks 3&4, in particular with regards to asset integrity.

Work continued to investigate the handling of associated gas with the ultimate aim of reducing flaring and diesel-related emissions. By utilising the associated gas

for power generation instead of flaring it, the diesel-powered generators could be replaced with a significant decrease in diesel consumption and related emissions as a result. Economic feasibility studies were conducted and a dialogue regarding different development options with the Ministry of Oil and Gas was initiated during 2018. During 2018 a project was initiated to put the stationary diesel generators in power

generation clusters in order to rationalise usage, improve redundancy and reduce diesel consumption. The project was a success and will be implemented across the area of operations. Gas powered generators will also be installed at the Shahd field and camps in place of diesel generators. Projects of this nature are expected to accelerate during 2019 with expected impact in the years to come.

Water Usage on Blocks 3&4

On Blocks 3&4 water is produced as a by-product of oil extracted and can be used for pressure support through reinjection or evaporated.

(cubic metres)	2018	2017
Total Produced Water	2,182,474	1,465,208
Produced water – reinjected	1,900,904	1,313,289
Produced water – Evaporated	303,008	154,088

Hydrocarbon releases

During 2018 there were four recorded incidents of unplanned hydrocarbon releases compared to two in 2017.



Social Responsibility & Our Relations to Society



Tethys Oil's activities shall strive to create shared prosperity between stakeholders. It seeks to respect and gain the respect of the people and governments of countries in which it operates. Good relations with host countries are prerequisites to Tethys Oil's business. Wherever operations are conducted, the sovereignty of the state is respected and the rule of law is to be observed and promoted.

The Company aims to optimise local content in all aspects of its business and to promote the creation of in-country value.

The Company is committed to achieving a beneficial impact on its host communities by engaging in a dialogue with the Company's stakeholders, whether these are local communities or relevant interest groups, such as local governments and civil society. Tethys Oil engages in an active relationship with stakeholders in order to understand the concerns surrounding the Company's operations and to set mutually beneficial goals. This is to ensure local stakeholders needs and priorities are considered and avoid that the Company's operations disrupt the livelihood of the local population and has a detrimental effect on their quality of life.

Local people and their traditions are respected. Tethys Oil strives to encourage local employment and, where appropriate, work with local communities to improve their health, skills and welfare. Tethys Oil endeavours, where appropriate, to engage in capacity building, through the transfer of skills and technologies. Tethys Oil shall refrain from any implications in tribal, internal, or other armed conflicts or acts of violence.

Tethys Oil's Corporate Social Responsibility (CSR) activities are focused and conducted in-country and in Oman is headed by the Director of Corporate Affairs.

CSR Activities

Tethys Oil's CSR activities in 2018 were solely focused on Oman as a result of the

Company's increased commitment to the country, not least following the award of operatorship of the Block 49 license at the end of 2017.

Main activities were:

- Block 49 stakeholder engagement
- The development of a comprehensive CSR program for Block 49
- Continued engagement in the governance of Blocks 3&4 CSR activities
- Selective CSR projects
- Master in Geosciences Scholarships

Block 49

Block 49 stakeholder engagement included identifying and establishing contact with all key stakeholders relating to Block 49 on a national, regional and local level. This includes several ministries, the Royal Omani Police, the military, the governate of Dhofar and the Wilayats of Maqshin and Thumrait.

The Block 49 CSR program was developed and established with focus areas on providing education and training opportunities for the local population through scholarships, contribute to sustainable development of the local economy, encourage local employment opportunities and minimise any potential negative effects of Tethys Oil's operations. If Tethys Oil is to operate with the support of the local community, they must also perceive to benefit from the investments being made. A loss of support from the local community could lead to increased difficulty for Tethys Oil and its subcontractors to operate efficiently and safely.

At the end of 2018 Tethys Oil sponsored the fourth annual Wilayat of Maqshin Heritage Festival. The aim of the festival is to promote Omani heritage. It attracts tourists from across the country and allows locals to display and sell local produce and handicrafts. The festival provides a boost to the local economy and raises awareness of the town and region across Oman.

Blocks 3&4

The joint venture partnership holding Blocks 3&4 has an active Corporate Social Responsibility (CSR) programme. During 2018 the joint venture partnership spent a total of USD 501,335 on various CSR projects, including investments in improvements of local communities such as sunshades for schools, provision of medical equipment for the hospital in Adam and access to fresh water in Mahout – both communities on or near Blocks 3 and 4.

Tethys Oil has participated in the further development of the Blocks 3&4 partnership's CSR programme and has, together with the other partners, increased its engagement in CSR activities which is expected to yield tangible results in 2019.

National & Regional Activities

In May 2018 the Dhofar region was severely impacted by the effects of tropical cyclone Mekunu. The storm was classified as an Extremely Severe Cyclonic Storm and wind speeds reached over 185 km/hour. The effects were severe with two fatalities, 10,000 people evacuated into temporary shelters and significant damage to homes and infrastructure. Tethys Oil provided financial support in the form of a donation of USD 13,000 to the Governate of Dhofar as support to the Omani Government Relief Aid.

Tethys Oil has, since 2015, provided scholarships to a select number of students at the Sultan Qaboos University pursuing a masters degree in geosciences. During the two-year program Tethys Oil offers, aside from financial support, mentorship and access to data, tools and practical methods. To date, the Company has sponsored four students of which two are currently employed by Tethys Oil. The Company currently sponsors and provides supervisory support to two female geology students who are expected to graduate in summer 2020.

Our People

Tethys Oil recognises that its performance as a company is dependent upon the performance of its employees as individuals. The Company's employees are its principle asset and therefore aims to achieve high employee satisfaction and high standards of performance. Tethys Oil shall respect and promote its employee's rights, including freedom of association and the right to collective bargaining. Tethys Oil shall offer rewarding working conditions and realise each employee's individual potential through training and job promotion. The use of underaged bonded or forced labour, direct or indirect should never occur.

Tethys Oil has implemented a diversity and non-discrimination policy to ensure that the diversity of its staff is respected

and that all forms of discrimination are prevented.

Tethys Oil's Position on Diversity and Discrimination

- Tethys Oil seeks to recruit and retain the best possible candidates for all positions on the basis of merit regardless of gender, sexual orientation, age, disability, nationality, race or religion.
- The cultural diversity of the Group's employees is an asset and shall be respected. Furthermore, Tethys Oil will not accept any form of harassment or discrimination of its employees for any reason.
- Tethys Oil's staff shall always act with the utmost integrity and respect when dealing with colleagues, partners and society.

- Tethys Oil's employees, partners and contractors should feel free to voice concern or report instances of discrimination without fear of recrimination or harassment.

Tethys Oil's employees shall always act with the utmost integrity and respect when dealing with colleagues, partners and society.

As per 31 December 2018 Tethys Oil had 20 full-time employees of seven nationalities, ranging in age from early twenties to mid-seventies of which 35% were female and 65% male. A majority of the staff have graduated from universities and colleges, primarily with geosciences, engineering or business administration.



Human Rights

Tethys Oil has committed firmly to the United Nations Global Compact (stated further in the Code of Conduct), and adheres to the United Nations Guiding Principles on Business and Human Rights. The Company has made a commitment to support internationally recognised human rights wherever it operates.

Human Rights are to be understood as those referred to in the Universal Declaration of Human Rights (UDHR), the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights and in the International Labour Organisation's (ILO) Conventions, and in relations to business activities, in the Global Compact, the OECD Guidelines for Multinational Enterprises, and the UN Guiding Principles.

The Company recognises the importance of respecting the rights of local communities, and thus prior to any new investment or operational activity, it analyses potential impacts on human rights. While the Company respects all human rights, it focuses primarily on those human rights that potentially may be most impacted by its operations. Typically, those most impacted are the populations and communities in the countries where Tethys Oil is active or within its license areas where it operates.

The Company furthermore expects all its affiliated partners to respect human rights and to observe highest standards of professional integrity.

The nature of Tethys Oil's operations as a highly skilled upstream oil and gas opera-

tor in Oman means that the risk for child labour or bonded and forced labour is limited. There are potential risks in the use of subcontractors in some cases but Tethys Oil's stringent policies and the transparent process for procurement minimises any such risks.

From a wider perspective Tethys Oil seeks to minimise the risk of Human Rights violations as a result of its business by strictly implementing its code of conduct in all aspects of its dealings.

During 2018 Tethys Oil has had no reports of Human Rights incidents relating to its operations.

Anti-Corruption, Fraud and Whistleblower Protection

Anti-Corruption

Tethys Oil has zero tolerance for corruption. It is strictly prohibited for Tethys Oil staff or contractors to give, authorise, offer, promise, request, agree or receive gifts, hospitality and entertainment to improperly influence or reward acts or decisions, or as an actual or intended compensation for any improper benefit.

In order to prevent the misuse of public office or company position or power for private gain, or the misuse of private power in relation to business, Tethys Oil has adopted an anti-corruption policy and clear procedures for employees to report suspected cases of corruption. The policy and procedures have been drawn up in accordance with Transparency International's Business Principles for Countering Bribery.

Tethys Oil recognises that accepting or offering gifts or hospitality of moderate value is customary and in accordance with local business practice in many of the countries that it operates. As a result

of this, Tethys Oil has implemented a policy requiring all staff, or contractors who receive or offer gifts on behalf of Tethys Oil should seek approval from their supervising manager and that a record is kept of donor, recipient as well as value.

To date, Tethys Oil has not had any reports of involvement in corruption or suspected corrupt activity.

Anti-Fraud and Protection of Group Assets

Tethys Oil has strict anti-fraud policies, aimed at safeguarding the Company and its staff from fraud and dishonest behaviour. For the purposes of the policy Tethys Oil has defined fraud as:

"The theft or misuse of Tethys Oil's funds or other resources, by an employee or a third party which may or may not involve the misstatement of financial records to conceal theft or misuse."

The implementation of the policy is aimed at improving all Tethys Oil staff's

knowledge and understanding of what constitutes fraud, how to prevent, detect and report suspected fraud and where the responsibilities for investigation lies. The policy also aims to assist in creating an atmosphere of openness and trust where staff feel comfortable and able to raise concerns and sensibly and responsibly.

Whistleblower

Employees are encouraged to report suspected or known cases, which they believe may be illegal or a violation of the Company's Code of Conduct or any Company policies and as a result Tethys Oil has implemented a Whistleblower Policy. The aim of the function is to provide an avenue for staff to raise concerns about improper, unethical or illegal conduct and to obtain reassurance that they will be protected from reprisals or victimisation for whistleblowing in good faith.

There have been no incidents or activities reported through the whistleblower function during 2018.

Operational Risks

Varying Production

Tethys Oil is dependent upon production from one license in Oman and variations of production and export from this license would have significant effect on the company's revenues and cash flows.

Tethys Oil Risk Management

Tethys Oil holds a net cash position allowing it to mitigate variations in revenues and cash flows resulting from variation in oil production and exports. The company has engaged in exploration in a new license in Oman, and is also pursuing potential acquisitions of producing assets in order to diversify production and sources of revenue.

Outcome 2018

Production in 2018 has remained stable in comparison to earlier years.

Decline in reserves

Tethys Oil's production will decrease over time as current reserves are utilised unless new reserves are discovered or added through exploration, acquisition or development.

Tethys Oil Risk Management

Tethys Oil and its partners continue to invest in exploration on Blocks 3&4, recently added Block 49 and continually searches for new exploration opportunities and possible acquisitions.

Outcome 2018

Tethys Oil reported a reserves replacement ratio (RRR) of 177% for 2018, the seventh year of a RRR of over 100% in a row.

Fluctuations in the price of oil and gas

Oil prices have shown significant volatility in recent years and are influenced by a myriad of factors that are difficult to predict and that are beyond the control of the Company.

Tethys Oil Risk Management

Tethys Oil continually evaluates the need to hedge the price of its oil deliveries. As a result of operating onshore the Company and its partners can be very responsive in adapting their investments to price fluctuations and market outlook changes if needed. Also as a result of having a solid balance sheet with low cash flow breakevens the Company has significant headroom if oil prices were to fall significantly.

Outcome 2018

In 2018 Tethys Oil experienced both a significant increase in oil price of up to USD 85 per barrel only to be followed by a 40% fall. Due to the low cash flow breakeven levels and strong balance sheet the Company saw no need to hedge its oil price exposure.

Natural disasters

The Company's operations could be impacted by natural disasters such as earthquakes, storms, flooding, drought and extreme temperatures. This could have a devastating impact on the Company's facilities, employees, ability to operate and the value of its assets

Tethys Oil Risk Management

Tethys Oil is primarily active in Oman, a country which historically has had limited exposure to significant natural disasters. The Company holds the customary property and liability insurance policies but these cannot cover all eventualities resulting from potential natural disasters. There is a risk that the combination of the Company's insurance policies and financial resources will not be enough to mitigate all possible outcomes of natural disasters.

Outcome 2018

The Company has not suffered the effects of any natural disasters in 2018.

Significant RISKS

Accidents resulting in damage to Facilities, the Environment and personal injury.

The oil and gas industry is prone to significant risks as a result of accidents resulting in damage to facilities, the environment and personal injury. This can be caused by, amongst other things, poor maintenance, low risk awareness, poor training, underinvestment and adverse weather conditions.

Tethys Oil Risk Management

Tethys Oil has implemented a strict Health, Safety and Environmental (HSE) policy framework to be adhered to by all employees, partners and contractors. By creating a culture of risk awareness including high level of training and information the Company seeks to minimise the frequency and impact of accidents in respect of facilities within the Company's control. Where the facilities are operated by one of the Company's partners, Tethys Oil aims to be actively involved in reviewing and contributing to HSE policies, initiatives and actions taken within areas in which the Company has an interest.

Outcome 2018

There were no accidents in the Company's operated activities in 2018 and there was a decreased frequency of Lost Time Incidents (LTI) in its non-operated activities.

Geological risks

Estimations of reserves, resources and production rates involve a certain degree of uncertainty. The degree of certainty regarding recoverability of reserves and resources can vary. Oil and gas exploration is an inherently risky enterprise with low probability of discovery of commercially viable deposits.

Tethys Oil Risk Management

Tethys Oil has a skilled technical team with extensive experience of exploration and production of oil and gas in the regions in which the Company is active. In the estimation of reserves, resources and production potential, the Company uses an independent third party consultant which applies accepted industry standard practices and methods. Given the low cost of exploration in onshore Oman the negative financial effects of dry exploration wells are limited.

Outcome 2018

The Company has seen continual increase in reserves and high success rate in exploration, which has continued in 2018.

Competition

Tethys Oil competes with other industry peers including state-owned national oil companies and multi-national major corporations for licenses, assets, investors and skilled staff.

Tethys Oil Risk Management

Tethys Oil's strategy is to focus on assets and areas overlooked by major oil companies thus reducing the amount of competition and entry cost for such assets. By fostering an open and creative environment with limited hierarchies and bureaucracy Tethys Oil hopes to attract skilled staff. As a nimble and disciplined niche player with a focused strategy that delivers above industry returns on capital the company hopes to attract long-term investors.

Outcome 2018

Tethys Oil has observed an increasing interest from major industry players in its core markets resulting in increased competition for assets, skilled staff and licenses. While this can mean short term challenges it also can have long term positive effects.

Shared ownership and partners

Tethys Oil is a minority partner in Block 3&4 and does not operate the asset limiting the Company's influence over operations and exposing it to potential partner risk.

Tethys Oil Risk Management

The Block 3&4 has been in the current partnership since 2010 and has established governance and conflict resolution mechanisms. All partners are in good standing with significant organisational and financial resources.

Outcome 2018

Tethys Oil has experienced no issues or material disputes arising from shared ownership of Blocks 3&4 during 2018.

Other operational risks

Tethys Oil's business operations are subject to a variety of known and unknown operational risks.

Tethys Oil Risk Management

Tethys Oil looks to mitigate unexpected operational risks by maintaining an active risk awareness and establishing an environment and culture of openness and transparency.

Financial risks

Financing risk

Tethys Oil has from time to time been in need of raising external funds to finance development projects and acquisitions. The Company cannot be certain that these sources of funds are available when necessary depending upon, amongst other things, macroeconomic conditions.

Tethys Oil Risk Management

Tethys Oil has not required external financing for several years. Nonetheless the Company keeps an active dialogue with banks, advisors and the equity investors to ensure that it has access to external financing and capital should the need arise.

Outcome 2018

Tethys Oil has not required external financing for its operations during 2018.

Liquidity risk

Tethys Oil's operations are capital intensive and requires sufficient cash on hand in order to fulfil commitments and maximise value in the assets and capture business opportunities. Delays in payments or budget overruns could create risks relating to liquidity.

Tethys Oil Risk Management

Tethys Oil has had a policy of holding a significant cash buffer in order to mitigate any difficulties arising from liquidity. The Company has, however, not experienced any difficulties arising from delayed receipts or budget overruns.

Outcome 2018

Tethys Oil has enjoyed sufficient liquidity in 2018.

Other Financial Risk

Tethys Oil is exposed to a variety of financial risks including currency risk, counterparty risk and transaction risks.

Tethys Oil Risk Management

While exposed to a variety of financial risks the majority of these risks have minor potential impact on the Company.

Outcome 2018

Tethys Oil has experienced no adverse effects from financial risks during 2018.

Political Risks

Political and economic instability and corruption

Tethys Oil conducts business in a politically unstable and conflict ridden region in an industry that is heavily regulated and dependent upon a functioning institutional and security framework. This also opens up for the risk of potential corruption.

Tethys Oil Risk Management

While the wider Middle-East has been subject to conflict and political instability Oman is and has consistently been politically stable with a well functioning institutional framework and high level of security. Oman's oil and gas industry and regulatory framework is well established and transparent thus minimising the potential for corrupt practices. Nonetheless Tethys Oil has well developed policies and zero tolerance with regards to corruption.

Outcome 2018

Tethys Oil has experienced no adverse effect as a result of political, economic instability or corruption during 2018.

Negative changes in fiscal terms

The fiscal regime and framework has a significant impact on the value and returns of Tethys Oil's operations and has material impact on capital allocation decisions and sustainability as a going concern.

Tethys Oil Risk Management

Oman has a stable fiscal and regulatory environment with no history of unexpected changes or reforms. Tethys Oil mitigates any potential risk by maintaining good relations with the relevant government ministries and institutions, fulfilling all its commitments and following any political developments closely.

Outcome 2018

Tethys Oil has seen no adverse effects of any changes of the fiscal or regulatory regime in its business during 2018.

Environmental regulatory risks

With increasing awareness and concern regarding climate change and the role played by the use of fossil fuels in driving these changes there is an increased risk of increased regulation, decreased demand for oil and gas as well as divestment of the sector from major financial investors.

Tethys Oil Risk Management

Tethys Oil aims to produce oil and gas in an environmentally responsible way with a minimum of environmental impact. By reporting its environmental impact in a transparent way and joining in industry initiatives to reduce its emissions the company looks to mitigate the risks as much as possible.

Outcome 2018

Tethys Oil has seen no material impact of increased regulation, decreased demand or divestment as a result of environmental risks during the course of 2018.

Auditor's report

Auditor's report on the statutory sustainability report

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

Engagement and responsibility

It is the board of directors who is responsible for the statutory sustainability report for the year 2018 and that it has been prepared in accordance with the Annual Accounts Act.

The scope of the audit

Our examination has been conducted in accordance with FAR's auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of

the statutory sustainability report is substantially different and less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

Opinion

A statutory sustainability report has been prepared.

Stockholm, 3 April 2019

PricewaterhouseCoopers AB

Ulrika Ramsvik
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