

Tethys Oil Sustainability Report 2019

Contents

Letter from the Managing Director	2
Mission, Vision & Values	4
Tethys Oil's business model	5
Tethys Oil Policy Framework	6
2019 in Brief: Production, Reserves and Financials	7
Health, Safety and Environment	8
Health & Safety	9
Environment & Emissions	10
Social Responsibility & Our Relations to Society	12
Our People	14
Human Rights	15
Anti-Corruption, Fraud and Whistleblower Protection	15
Significant Risks	16
Auditor's report	19
Address	20

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 is responsible for the preparation of the report.

Letter from the Managing Director

Dear stakeholders,

2019 marked yet another successful year for Tethys Oil operationally. Production and reserves are up, financials are strong with record cash position and no debt. On our operated Block 49 onshore Oman, the field operations, albeit limited in 2019, continued with zero HSE related incidents and our CSR activities in relation to that block picked up. On our non-operated Blocks 3&4, CSR activity continued at a high level and HSE incidents continued to decrease from an already low level.

But with all production and financial measurements pointing the right way, that is to say up, we unfortunately also have an environmental gauge pointing up when it should be down. Our carbon dioxide (CO₂) emissions more than doubled compared to 2018. The increase is primarily due to increased flaring of associated natural gas following higher levels production in one of the newer fields in Oman, the Ulfa field. CO₂ emissions have



now reached a level which is not acceptable in the long run. There is, however, a positive side-effect of the increase in associated gas. We now have sufficient associated gas production that it makes economic and environmental sense to utilize gas for large scale power generation, and thereby reducing emissions and improving energy efficiency. As we explain in more detail in this report, the Operator of the Blocks has implemented several projects to assess and evaluate the feasibility of options aimed at reducing CO₂ emissions significantly over the coming years.

During 2019, society's demands of increased sustainability, reduced environmental impact and improved transparency from companies in the oil and gas sector has continued to become increasingly clear, and the pressure on us to improve our performance is increasing. Equally, the financial markets are becoming increasingly socially and environmentally aware as they look to invest sustainably and back the

leaders in this new environment. Tethys Oil has every intention to rise to the challenge and prove to be one of the leaders in this field. Tethys Oil has stated an objective to create shareholder value by operating across the entire oil and gas upstream lifecycle. About a third of the world's energy needs are satisfied by oil 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 contribute to satisfy that demand in an economically, socially, and environmentally responsible and sustainable way and to be both a respected corporate citizen and an attractive investment. 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 meet the world's demand for energy. And 2019 has presented direct challenges for us to show that we 'are up to the job'. After all, we are a company with strong Swedish heritage, and as such have always taken pride in our environmental consciousness.

So, stay with us. "We are in this world together". A statement which at times may seem like a rather lofty cliché but which at the time of writing, April 2020, has become very apparent. The world facing a major challenge and going through a period of unprecedented uncertainty following one of the worst HSE related crises we have experienced for a long time. We are confident the measures taken by the world community will result in a return to normality in time – and that the current situation will further underscore the need for sustainability in all human activities.



Magnus Nordin
Managing Director

Mission

Tethys Oil AB (publ) and the entirety of its group (together, “Tethys Oil” or the “Group”) 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 belief in Tethys Oil’s business model is to explore for and produce oil and gas in an economically, socially, and environmentally responsible way. The Group applies the same standards to its activities worldwide to satisfy both its commercial and ethical requirements as per Tethys Oil’s Code of Conduct.

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

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 emanates from the Group’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 Group 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 Group 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.



Mission
Vision
Values

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 Group'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 Group's day-to-day operations of operating systems, policies and procedures developed in previous years.

Tethys Oil has, during the past year, provided updates for all its employees on the Group's Code of Conduct and policies.

Overview of Tethys Group Policy Framework



The scope of Tethys Oil's 2019 Sustainability Report

Tethys Oil's 2019 sustainability report covers its operations as consolidated in the 2019 Annual report. This includes its

non-operated 30 percent interest in Blocks 3&4, its operated interest in Block 49, both in Oman, and its corporate activities. The operations on Block 56 in Oman, which was acquired at the end of 2019, are

not included as the Group had no influence over the activities during the year. Tethys Oil's associated interest in the Lithuanian assets due to its limited exposure to its operations is also not included.



2019 in Brief: Production, Reserves and Financials

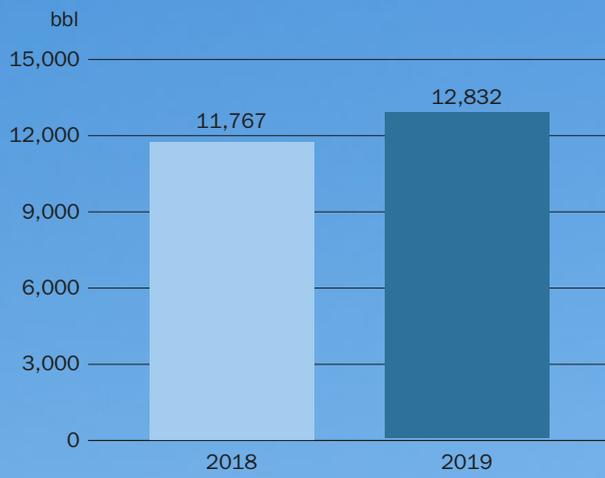
2019 was once again a successful year for Tethys Oil. The Group produced an average of 12,832 barrels of oil per day, its highest annual production ever. Revenues and other income reached MUS\$ 150.8,

and EBITDA MUS\$ 92.9 with an end of year net cash balance of MUS\$ 75.1.

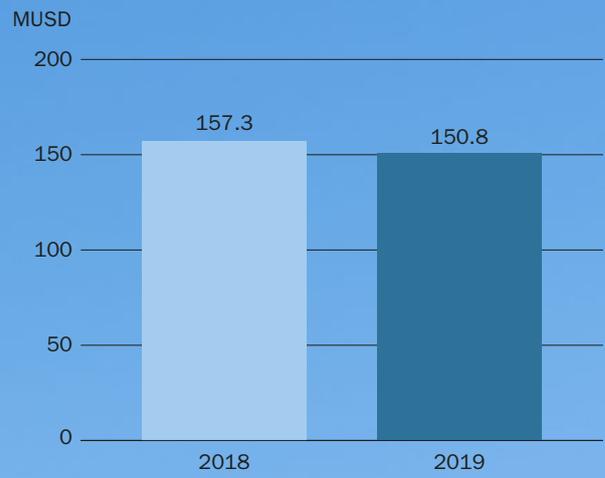
At the end of the year, Tethys Oil reported 2P reserves of 26.1 million barrels, a

reserve replacement ratio (RRR) of 116% – the eighth consecutive year with positive reserves growth. The increasing reserves and reserve life underlines the economic sustainability of Tethys Oil's asset base.

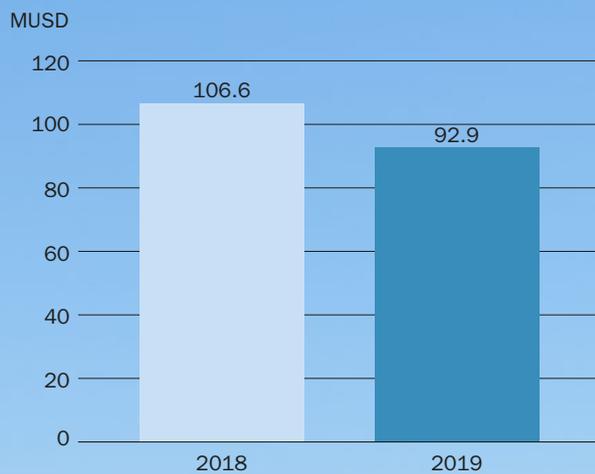
Net daily production from Oman, Blocks 3&4 before government take



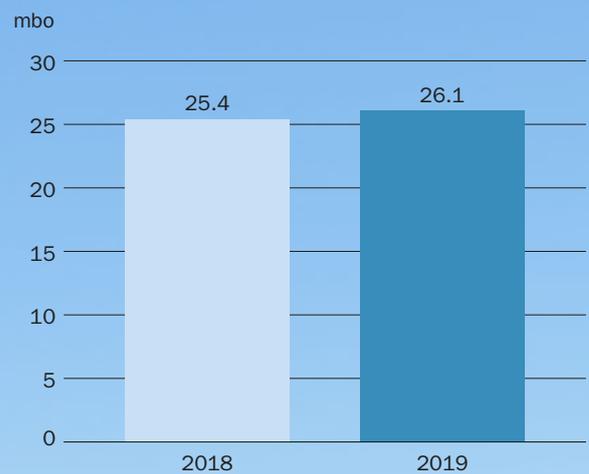
Revenue and other income



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 Group 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 Group'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 Group, and shall be transparent through all Tethys Oil's plans and actions. It is the Group'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 Group 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 comprehensive policies, procedures and instructions within, amongst other things, HSE matters. The 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 Group 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 Group 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's operations but Group representatives should work to ensure that the same standards are applied in all projects and joint ventures where the Group has an interest.

In 2019, Tethys Oil continued to strengthen its HSE capabilities and preparedness by executing risk assessments and risk mitigation plans for the upcoming activities in Block 49. Tethys Oil HSE staff has been seconded to CCED during the year to both learn from and follow the operator's HSE work, both in the office and the field. General HSE training and awareness sessions have been conducted during the year for all staff in Oman.

Blocks 3&4 Health and Safety

2019 saw the same number of Lost Time Incidents (LTI) as in 2018 and a substantial decrease in Total Recordable Cases (TRC), which by itself is a very positive development. Both LTI and TRC should also be seen in the light of increased man hours – decreasing incidents while increasing activity. A clear indication of positive developments, Road Traffic Accidents (RTA) decreased during the year. At the same time the number kilometers driven increased, a very positive development.

	Unit of measure	2019 Actual	2018 Actual	2017 Actual	2016 Actual
Fatalities	Number	–	–	1	–
Lost Time Incidents	Number	2	2	5	3
Lost Time Incident Frequency	#/mm Hrs	0.24	0.28	0.94	0.58
Total Recordable Cases	Number	4	10	8	8
Total Recordable Case Frequency	#/mm Hrs	0.49	1.42	1.51	1.56
Road Traffic Accidents	Number	3	4	4	3
Road Traffic Accident Frequency	#/mm km	0.15	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 2019

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 haz-

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

Block 49 Health and Safety

Following the seismic acquisition at the end of 2018, there have been limited field operations on Block 49 during 2019. Main

activity has been focused on the preparation of a well site for the drilling of a first exploration well on the block in 2020. A well site survey was conducted to identify possible routes to the proposed drilling location. An Environmental Impact Assessment (EIA) of the well site and access road will be conducted in 2020.





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 field operations such as seismic acquisition and exploration drilling. During the year, neither seismic acquisition or drilling was performed on the block. In 2019, focus was on preparation for drilling through the identification

of a suitable drilling location for the 2020 exploration well. This had minimal environmental implications.

With regards to emissions, the majority of the Group'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 Min-

istry 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 utilization 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 increased significantly during 2019 due to increased total production but primarily due to the increased proportion of production from fields with high gas/oil ratios (GOR). During the year, the Ulfa EPF was commissioned which allowed increased production from the Ulfa and Samha fields which have higher GOR than the older fields. The result has been an increase in carbon intensity.

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

Emissions via flaring and/or utilisation (tonnes equivalent)	2019	2018	2017
Sulphur Dioxide	-	61	108
Nitrogen Dioxide	-	21	23
Carbon Monoxide	-	154	166
Carbon Dioxide	148,145	66,474	73,155
Methane	2.8	891	981
Nitrous Oxide	0.2	2	2
Combined Stationary and mobile emissions from Diesel Fuel (tonnes equivalent)			
Carbon Dioxide	28,814	26,828	28,545
Methane	1.5	1	1
Nitrous Oxide	0.2	0	0
Carbon Intensity – CO ₂ (kg per barrel produced)	37.8	21.7	22.9

Actions 2019

During 2019, work continued on improving environmental conditions on Blocks 3&4, in particular with regards to asset integrity. One particular action has had a visible effect on emissions. The installation of increased flaring capacity resulted in reduced emissions through cold vent. The effects of this can be seen in the reduced emission of a number of gasses most notably Carbon Monoxide, Nitrous Oxide and Methane.

During 2019, work progressed on developing a broad and long-term solution for handling the associated gas that is produced together with the oil. A concept has been selected that includes utilising some of the gas for power generation in the field and thus replacing the diesel-powered generators. Additional gas would be exported and sold. The effect of the gas utilisation project would be to significantly reduce Blocks 3&4's atmospheric emissions as flaring would be minimised, diesel consumption reduced and excess gas sold to be consumed

Water Usage on Blocks 3&4

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

(cubic metres)	2019	2018	2017
Total Produced Water	2,690,881	2,182,474	1,465,208
Produced water – reinjected	2,304,675	1,900,904	1,313,289
Produced water – Evaporated	343,451	303,008	154,088

Hydrocarbon releases

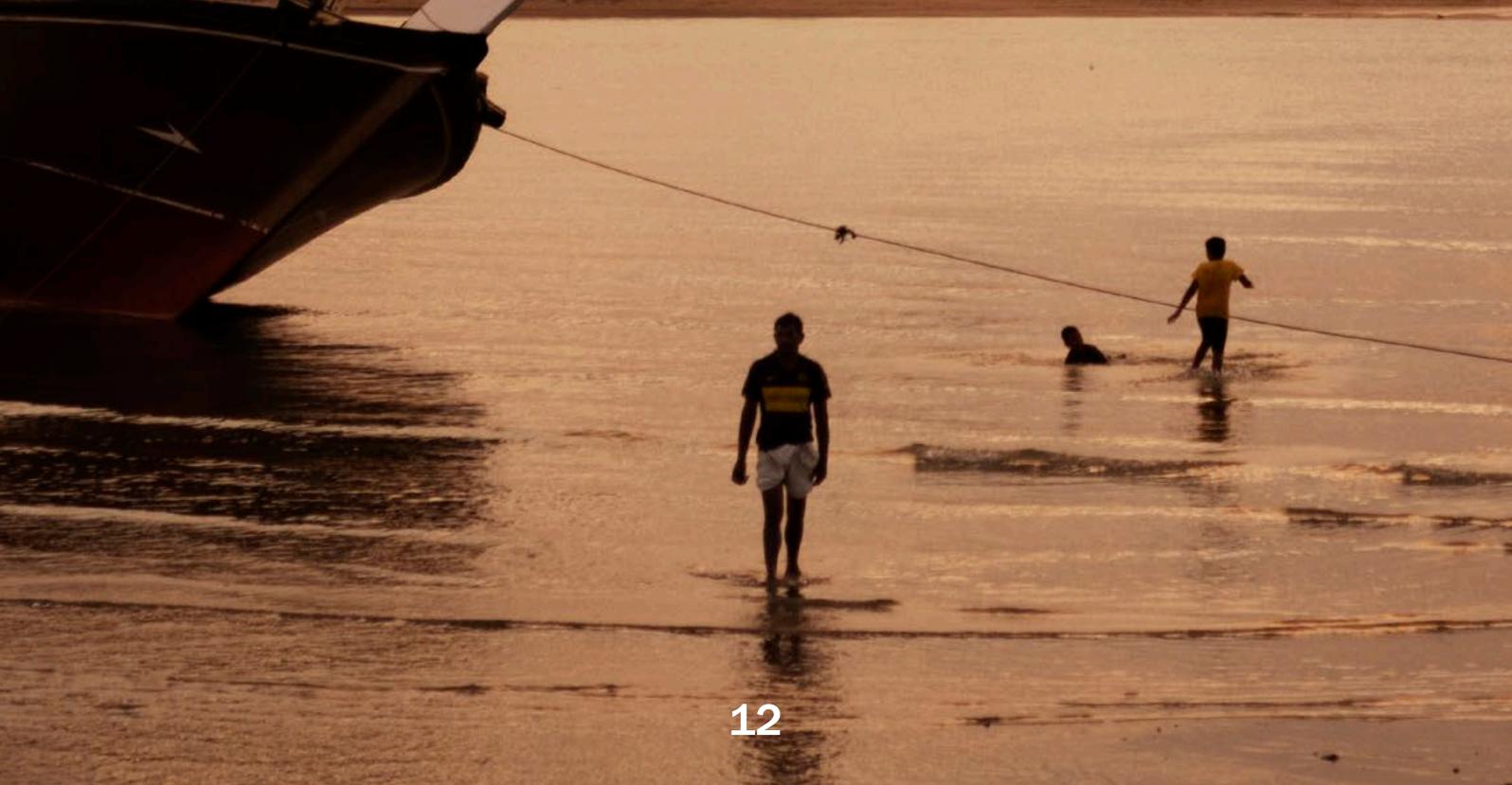
The number of Tier 1 hydrocarbon releases (more than 1 barrel of oil spilled) remain unchanged in 2019 versus 2018 at 4 recorded incidents of unplanned hydrocarbon releases.

elsewhere rather than burned off to no benefit. A Front-End Engineering and Design (FEED) study will be conducted in parallel with commercial discussions between partners and government authorities.

As part of a pilot project gas powered generators were installed and commissioned on the Shahd field at the end of 2019. The power generated will be used to power the production infrastructure as well as the camps. A similar project will be conducted on the Saiwan field during 2020.



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

The Group is committed to achieving a beneficial impact on its host communities by engaging in a dialogue with the Group'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 Group's operations and to set mutually beneficial goals. This is to ensure local stakeholders needs and priorities are considered and avoid that the Group'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. In Oman they are headed by the Director of Corporate Affairs.

CSR Activities

Tethys Oil's CSR activities in 2019 were solely focused on Oman as a result of the Group's increased commitment to the country, not least following the award of operatorship of the Block 49 license at the end of 2017.

Tethys Oil's CSR activities in Oman are organized around its own CSR initiatives around Block 49, as well as its participation in the CSR programme for Blocks 3&4.

Main activities were:

- Continued Block 49 stakeholder engagement
- The execution 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 has included a continuous dialogue 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. It is of vital importance to maintain support from the local community in order for Tethys Oil and its subcontractors to operate efficiently and safely. Below follows a selection of the CSR activities Tethys Oil was engaged in during 2019:

Scholarship Program in Business

A two-year scholarship program was created for two students from the Wilaytes of Maqshin and Thumriate in the Governate of Dhofar who belong to a family on Social Security or Low-income schemes to obtain diploma in Business from University of Dhofar.

Scientific and Technological Forum at Maqshin School

An educational workshop was held at the Maqshin School for pupils in the age of 6–18 years in the village of Maqshin. The program objective was to introduce, teach and share with students in this remote area of Oman about matters such as health and safety precautions at home and school, as well as an introduction to the oil and gas industry and innovation.

Support for Salalah Khareef festival

Tethys Oil provided support to the Wilayate of Maqshin and Thumraite by spon-

soring resting areas for families, providing health and safety signs related to safe driving in a region when traffic increases due to the popular Salalah Khareef Festival.

Reviving cultural traditions at Wilayate of Maqshin and National day celebrations

Tethys Oil sponsored and participated in celebrating the Sultanate of Oman's National Day with the local community in four villages in the traditional way with the objective of preserving reviving cultural traditions in the Governorate of Dhofar.

Training Entrepreneurs during the 4th Entrepreneurship Skills Week with University of Dhofar

A workshop was conducted with the University of Dhofar with the aim of providing marketing skills to Entrepreneurs. Tethys Oil sponsored the event and also held a presentation on business management and an introduction to the oil and gas industry.

Blocks 3&4

The joint venture partnership holding Blocks 3&4 has an active Corporate Social Responsibility (CSR) programme. During 2019, the joint venture partnership increased its CSR expenditure from USD 501,335 in 2018 to just over USD 1,000,000 in 2019. A total of 21 projects were identified and planned. Over 50% of the CSR spending was on community development followed by educational initiatives, HSE and finally sponsorships. Roughly 60% of the spend was on projects on the license area with the remainder being national and regional projects.

Tethys Oil has taken an active part in the selection and approval of the projects throughout 2019.

National & Regional Activities

Tethys Oil has, since 2015, provided scholarships to a select number of students at the Sultan Qaboos University pursuing a master's degree in geosciences. During the two-year programme, Tethys Oil offers, aside from financial support, mentorship and access to data, tools and practical methods. To date, the Group has sponsored four students of which two are currently employed by Tethys Oil. The Group 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 Group'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 reprimand or harassment.

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

During 2019, Tethys Oil had an average of 23 full-time employees of seven nationalities, in a broad age range, 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 Group 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 Multina-

tional Enterprises, and the UN Guiding Principles.

The Group 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 Group 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 Group 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 operator 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 2019, 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 the region 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 Group 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 openly and without the risk of repercussions

Whistleblower

Employees are encouraged to report suspected or known cases, which they believe may be illegal or a violation of the Group's Code of Conduct or any Group 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 2019.

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 Group'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 Group has engaged in exploration in new licenses in Oman, and is also pursuing potential acquisitions of producing assets in order to diversify production and sources of revenue.

Outcome 2019

Production grew to record levels in 2019 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. Tethys Oil is ready for exploration drilling on Block 49 and recently farmed-in to the exploration and appraisal license Block 56 in Oman. In addition, the Group continually searches for new exploration opportunities as well as possible acquisitions.

Outcome 2019

Tethys Oil reported a reserves replacement ratio (RRR) of 116% for 2019. This was the eighth year of over 100% RRR.

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 Group.

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 Group 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 debt free balance sheet with low cash flow break-evens, the Group has significant headroom if oil prices were to fall significantly.

Outcome 2019

In 2019, oil prices were relatively less volatile compared to earlier years. Prices for the Brent benchmark started at a low point in January 2019 at USD 53 per barrel, peaking at USD 75 in April and ending the year at USD 67 giving an annual average of USD 64. Due to the low cash flow break-even levels and strong balance sheet, the Group saw no need to hedge its oil price exposure.

Natural disasters

The Group'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 Group's facilities, employees, ability to operate and the value of its assets

Tethys Oil Risk Management

The Group holds the customary property and liability insurance policies and has reviewed them during the course of 2019. However, these cannot cover all eventualities resulting from potential natural disasters to a reasonable premium. There is a risk that the combination of the Group's insurance policies and financial resources will not be enough to mitigate all possible outcomes of natural disasters. Tethys Oil is primarily active in Oman, a country which historically has had limited exposure to significant natural disasters.

Outcome 2019

The Group has not suffered the effects of any natural disasters in 2019.

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 Group seeks to minimise the frequency and impact of accidents in respect of facilities within the Group's control. Where the facilities are operated by one of the Group'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 Group has an interest.

Outcome 2019

There were no accidents in the Group's operated activities in 2019 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 Group is active, the Group also makes use of skilled advisors and consultants when necessary. In the estimation of reserves, resources and production potential, the Group 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 2019

The Group has seen continual increase in reserves during the year. Exploration activity was less successful during 2019 but the financial impact of these unsuccessful wells on the Group's financial position was limited.

Competition

Tethys Oil competes with other industry peers including state-owned national oil companies and multinational 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 Group hopes to attract long-term investors.

Outcome 2019

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. One example was the inability to complete the contemplated transaction to acquire an interest in the Mukhaizna field in Oman due to the operator utilizing its pre-emption right.

Shared ownership and partners

Tethys Oil is a minority partner in Block 3&4 and Block 56 in Oman and does not operate the assets limiting the Group'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. Tethys Oil is a new entrant in the Block 56 partnership which has been actively exploring since more than 5 years together.

Outcome 2019

Tethys Oil has experienced no issues or material disputes arising from shared ownership of Blocks 3&4 or Block 56 during 2019.

Environmental risks

As a company active in the oil and gas industry, Tethys Oil's operations, be they production operations or exploration, have an impact on the environment. The impact can be through disruption of the natural environment through drilling, environmental damage through leaks and spills, or the release of atmospheric emissions through the use of diesel or the flaring of associated gas.

Tethys Oil Risk Management

Tethys Oil and its partners commit significant resources to ensure a minimal environmental impact from its operations, be it on the environment around the area of operations, from spills and releases as well as emissions from the oil production. The operator of Blocks 3&4 uses a third-party specialist company to monitor and measure the environmental impact of the operations.

Outcome 2019

2019 saw an increase in emissions relating to greenhouse gases driven by an increase in production as well as an increase in gas/oil ratio of the increased production resulting in a higher amount of flared gas. This is being mitigated by a large-scale gas utilisation project which is expected to reduce emissions in the coming years. Spills and hydrocarbon releases remain at an unchanged level compared to earlier years.

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 Group 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 Group 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 2019

Tethys Oil has not required external financing for its operations during 2019.

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 Group has, however, not experienced any difficulties arising from delayed receipts or budget overruns.

Outcome 2019

Tethys Oil has enjoyed sufficient liquidity in 2019 to both invest and distribute a significant amount of funds to shareholders.

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 Group.

Outcome 2019

Tethys Oil has experienced no adverse effects from financial risks during 2019.

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 2019

Tethys Oil has experienced no adverse effect as a result of political and economic instability or corruption during 2019.

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 2019

Tethys Oil has seen no adverse effects of any changes of the fiscal or regulatory regime in its business during 2019.

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 Group looks to mitigate the risks as much as possible.

Outcome 2019

Tethys Oil has seen no material impact of increased regulation, decreased demand or divestment as a result of environmental risks during the course of 2019.

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 2019 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, 9 April 2020

PricewaterhouseCoopers AB

Ulrika Ramsvik
Authorised Public Accountant
Lead Partner

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