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Report for the period 1 January 2006 – 31 December 2006

HIGHLIGHTS FOR THE FOURTH QUARTER

- Drilling preparations in Oman with an aim to conduct drilling operations during the second quarter 2007
- Drilling preparations in Spain with an aim to conduct drilling operations during the first quarter 2007

HIGHLIGHTS FOR THE YEAR

- Acquisition of 40 per cent in Block 15 onshore Oman
- Issue of units raise MSEK 53
- Farm out of 20 per cent interest in Danish licences for 40 per cent of well cost
- Planning, construction and drilling of Karlebo-1 exploration well
- As at 31 December 2006 there have been no sales of oil and gas in Tethys Oil, nor for the equivalent period of last year
- Net result for 2006 amounted to TSEK – 29,802 (TSEK – 14,368 for the corresponding period last year) and TSEK – 24,162 (TSEK – 1,901) for the fourth quarter. Write downs of TSEK 22,382 have negatively affected the result of the fourth quarter. The write downs mainly regard licence 1/02 in Denmark as a consequence of the negative results from the exploration well drilled during the fourth quarter
- Earnings per share amounted to SEK – 5.83 (SEK – 3.28) for 2006 and SEK – 4.21 (SEK – 0.43) for the fourth quarter
- Cash and cash equivalents as per 31 December 2006 amounted to TSEK 58,085 (TSEK 41,101)

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Tethys Oil AB (publ)

Tethys Oil is a Swedish company focused on exploration for and production of oil and natural gas. Tethys Oil aims to maintain a well balanced portfolio of high risk/high reward exploration opportunities coupled with lower risk exploration and appraisal development assets. The company has interests in licences in Oman, Denmark, Morocco, Spain, Turkey and France. The shares are listed on First North (TETY) in Stockholm.

## OPERATIONS

### Overview

Tethys Oil has interests in licences in Oman, Denmark, Morocco, Spain, Turkey and France.

Country	Licence areas	Tethys Oil, %		Total area, km <sup>2</sup>	Operator	Investments 1 Jan-31 Dec 2006, TSEK	Investments 1 Oct-31 Dec 2006, TSEK	Book value 31 Dec 2006, TSEK
Oman	Block 15	40%		1,389	Tethys Oil	26,700	1,199	26,679
Denmark	Licence 1/02	50%		533	Tethys Oil	14,553 <sup>1</sup>	12,847	687
	Licence 1/03	50%		1,655	Tethys Oil			
Morocco	Bouanane	*2		*2	Tethys Oil	2,359	436	2,912
Spain	Valderredible	50%		241	Ascent Resources	214	109	1,878
	Huermeces	50%		121	Ascent Resources			
	Basconillos	50%		194	Ascent Resources			
Turkey	Ispandika	10%	25%	965	Aladdin Middle East	735	58	1,270
	Thrace			897	Aladdin Middle East			
France	Attila	40% <sup>3</sup>		1,986	Galli Coz	343	146	1,033
New ventures						1,304	193	612
<b>Total</b>				<b>7,981</b>		<b>46,208</b>	<b>14,988</b>	<b>35,072</b>

### Oman

Preparations on the block have gradually intensified during the fourth quarter of 2006. With Tethys as operator, drilling operations are expected to commence during the second quarter of 2007. Necessary permits, including environmental permits, have been obtained. A drilling rig has been identified and final terms are currently being negotiated with the rig contractor. Contracting for associated services is also ongoing. The company's operations office in Muscat has been fully staffed in anticipation of further increased activity.

In parallel to drilling preparations, comprehensive geological and geophysical work has continued, including petrophysical evaluations, reprocessing and interpretation of seismic lines and studies of lithology and reservoir distribution. The result of the studies is now being incorporated with existing information. The combined data will be the basis for the upcoming work programme with a view to optimize the drilling programme further.

Block 15 is an appraisal project with more than 50 million barrels of estimated oil in-place from structures already drilled. In addition the block has substantial exploration upside. Tethys Oil has 40 per cent interest in the block.

### Denmark

With Tethys Oil as operator, the drilling of exploration well Karlebo-1 on Licence 1/02 onshore Zealand north of Copenhagen in Denmark started in the end of the third quarter 2006. The partner group also includes Star Energy Group plc., DONG Energy A/S and Odin Energi A/S.

<sup>1</sup> Investments in Denmark are reduced as a consequence of the farm out to Star Energy Group plc. during the third quarter and their payment of back costs.

<sup>2</sup> Under negotiations. See operations Morocco.

<sup>3</sup> Tethys Oil pays 44 per cent of costs through an exploration well.

On November 14 the well had reached its final depth of 2,489 metres. Wireline logs were run in the hole, but no significant amounts of hydrocarbons were detected. A decision to plug and abandon the well was taken on November 17.

A detailed analysis of all available data is now being carried out, including the data from Karlebo-1. The analysis will be incorporated in Tethys' geological models. A decision about any future work on Tethys Danish licences, 1/02 on Zealand and 1/03 on Zealand and Jutland, will be taken during the second quarter of 2007.

### **Morocco**

During 2006, Tethys Oil as operator completed the required work programme for the Bouanane Reconnaissance Licence in Morocco. The results confirmed the prospectivity of the area, in particular for natural gas and better defined the potential of the giant Tafejart structure.

In September, 2006, Tethys and partner Eastern Petroleum (Cyprus) Limited signed an agreement with UK oil and gas company Dana Petroleum Plc, for Dana to acquire a 50 per cent working interest in the Exploration and Production agreement resulting from the Bouanane Reconnaissance Licence area, onshore Morocco, Dana will pay Tethys' and Eastern's share of the costs in relation to the licence in return for being assigned the interest. Subsequent to the end of the Reconnaissance Licence, Tethys and Eastern have the exclusive right to enter into an agreement for Exploration and Production in the Bouanane area. Dana is currently leading the negotiations with Moroccan state oil company, ONHYM, over a Petroleum Agreement for the Exploration and Exploitation of Hydrocarbons in the Bouanane area. Following completion of the transaction and the signing of a Petroleum Agreement, Dana will assume operatorship. Tethys will then have a 12.5 per cent interest in the licence.

### **Spain**

The operator Ascent Resources is continuing with the last preparations for the drilling of the Hontomin-4 appraisal well in the Huermeceles exploration licence and the Tozo-1 re-entry in the Basconcillos-H exploration licence. Tethys is partner in the licences with 50 per cent. Both wells are planned to be drilled during the first quarter of 2007. The rig to be used for the Hontomin-4 well has been used by Ascent Resources for their Italy drilling programme. The Tozo-1 re-entry will use a workover rig from the nearby Ayoluengo field operated by Ascent Resources.

During the fourth quarter, Tethys agreed to exchange its interest in the La Lora concession including the Ayoluengo field for interests in the Cameros project. Therefore the company is no longer part of costs for or income from the oil production from Ayoluengo.

The Cameros project is located in the Ebro basin of northern Spain within the state of Rioja. The project is of interest for a large natural gas prospect that has been identified in it through the reprocessing of existing seismic data. Gas fields have produced in the Ebro basin before. In February 2007, the Cameros project expanded when the government awarded the partner group a second licence, Cameros-2, in an area surrounding the original licence. Tethys will have 26 per cent in both licences subject to final documentation. Operator of the licences is the Basque oil company SHESA. The other partners include the Spanish energy companies Union Fenosa and Nuegas.

On Valderredible exploration licence, a company has been contracted to conduct a study on several possible leads in the licence. The aim is to drill an exploration well later this year.

### **Turkey**

Existing seismic data shows two strong leads in the Thrace licences. Additional seismic will however be required to confirm the presence of drillable prospects. The seismic programme has been agreed with partners and a seismic contractor has been engaged. Due to a shortage of crews in the area, and the onset of winter, seismic acquisition will likely take place in spring 2007. Drilling will then take place in summertime.

In the Ispandika area onshore southeastern Turkey, Tethys and operator Aladdin Middle East Ltd were in the fourth quarter 2006 joined by US group Terralliance as a new partner. Tethys maintains a 10 per cent interest in the licence. Given the comparative shortage of seismic data, a shallow stratigraphic (geological research) well is being drilled in order to gain a better knowledge of the near surface lithology in the area.

## **France**

The comprehensive work programme in 2006 confirmed the structural integrity of the prospect and the prospectivity of the area. A decision to carry on with an exploration drilling was taken, and a drilling location was contracted. The work with obtaining relevant local permits is now ongoing. The tender process with drilling rig contractors and other associated services has also been initiated.

## **Potential licence areas – Gotland and Latvia**

In connection with the Oman acquisition in 2006, Tethys Oil received options to acquire a 30 per cent interest in an exploration concession on the Swedish island of Gotland and an 11 per cent interest in the Dunalka production licence onshore Latvia. The options have been prolonged and expire in February 2007. Tethys Oil is evaluating these opportunities.

## **RESULT AND CASH FLOW**

The consolidated financial statements of the Tethys Oil Group (Tethys Oil), where Tethys Oil AB (publ) with organisational number 556615-8266 is the parent company, are hereby presented for the year ended 31 December 2006. The amounts relating to the comparative period (equivalent period of last year) are shown in parenthesis after the amount for the current period. Up until 31 December 2006, Tethys Oil has not reported any sales of oil and gas, which is why there is no segmental information below. Also due to the fact that there have been no sales in Tethys Oil, seasonal variations do not impact the result.

## **Acquisition of GotOil Resources (Oman) Ltd**

The Group acquired 100 per cent of the share capital of GotOil Resources (Oman) Ltd, now name changed to Tethys Oil Oman Ltd, on 24 May 2006 from Maha Resources Ltd. Tethys Oil Oman Ltd (Tethys Oman), registered in Gibraltar, has 40 per cent interest in an Exploration and Production Sharing Agreement in Block 15, Oman. As consideration for the acquisition Tethys Oil paid USD 600,000 (SEK 4,383,900) in cash and issued 400,000 new shares of Tethys Oil. The value of the shares is based on the market price of SEK 49.50 for the Tethys Oil share at the effective date of acquisition, 24 May 2006 as from which date Tethys Oman is consolidated. The total value of the consideration therefore amounts to SEK 24,183,900. The share issue was registered on 5 June 2006.

## **Net profit and sales**

Tethys Oil reports a net result for 2006 of TSEK – 29,802 (TSEK – 14,368 for last year) and TSEK – 24,162 (TSEK – 1,901) for the fourth quarter 2006, representing earnings per share of SEK – 5.83 (SEK – 3.28) for 2006 and SEK – 4.21 (SEK – 0.43) for the fourth quarter 2006. Write downs of oil and gas properties of TSEK 22,382 has negatively affected the result of the fourth quarter of 2006. TSEK 18,985 of the write downs regards licence 1/02 in Denmark. This write down is a consequence of the results from the exploration well Karlebo-1 drilled during the fourth quarter, showing no significant signs of hydrocarbons. Other write downs have been Tethys Oil's interest in the production licence La Lora in Spain where Tethys Oil no longer hold any interest and write downs of new venture projects. These write downs are made after impairment testing and in line with Tethys Oil's accounting policies. Cash flow from operations before changes in working capital for 2006 amounted to TSEK – 7,157 (TSEK – 5,315) and TSEK – 1,784 (TSEK – 1,651) for the fourth quarter 2006.

The net result for 2006 has not been significantly impacted by net foreign exchange losses or gains.

Tethys Oil has not recorded any sales or production of oil and gas for the twelve month period ended 31 December 2006. Accordingly, there has been no depletion of oil and gas properties.

## **Costs of administration and depreciation**

Costs of administration and depreciation amounted to TSEK – 9,000 (TSEK – 6,609) for 2006 and TSEK – 2,576 (TSEK – 1,775) for the fourth quarter 2006. Depreciation amounted to TSEK 125 (TSEK 35) for 2006 and TSEK 17 (TSEK 13) for the fourth quarter. Costs of administration are mainly salaries, rents, listing costs and outside services. These costs are corporate costs and are accordingly not capitalised. Depreciation is referable to computers, phones etc. The increase in costs of administration is related to an increased overall corporate activity during 2006 compared to 2005 as well as new administration costs referable to the acquired company Tethys Oman.

### **Movement in oil and gas properties**

Oil and gas properties as at 31 December 2006 amounted to TSEK 35,072 (TSEK 11,404). Investments in oil and gas properties of TSEK 46,208 (TSEK 6,420) were incurred for the 12 month period ending 31 December 2006. Investments during the year have mainly been the acquisition of Tethys Oil Oman Ltd. (previously GotOil Resources (Oman) Ltd.) and investments referable to the exploration well Karlebo-1 in Denmark. The total consideration for the acquisition in Oman and the acquisition costs less fair value of acquired net assets amounts to TSEK 24,933 is allocated to oil and gas properties and is therefore the largest part of the investments during 2006. In Denmark licence 1/02 Tethys Oil drilled the exploration well Karlebo-1 during mainly the fourth quarter. Total investments in Denmark during the year amounted to TSEK 14,553 and the largest part of these investments were drilling expenditures of which Tethys Oil paid 30 per cent and 70 per cent were contributed by partners. As no significant amounts of hydrocarbons were detected these and previously incurred investments in the licence have been written down. The total write downs in Denmark amounted to TSEK 18,985 during 2006. Other write downs of oil and gas properties have mainly been in Spain and are referable to the production licence Ayoluengo where Tethys Oil no longer hold any interest. Total write downs during 2006 amounted to TSEK 22,519.

### **Prepayment of oil and gas properties**

Prepayment of oil and gas properties amounted to TSEK 8,723 (TSEK -) as at 31 December 2006. Prepayments of oil and gas properties are mainly related to joint ventures where Tethys Oil is not operator. Most part of the prepayment of oil and gas properties regard cash calls paid for wells to be drilled in Spain.

### **Liquidity and financing**

Cash and bank as at 31 December 2006 amounted to TSEK 57,112 (TSEK 657). Short-term investments as at 31 December 2006 amounted to TSEK 973 (TSEK 40,445). The short-term investments are investments in mutual bond funds with short durations, less than three months from acquisition date.

At an Extraordinary General Meeting of Tethys Oil on 19 May 2006 a resolution was made to issue new shares with associated warrants carrying preferential rights for existing share holders. Five existing shares entitled the holder to subscribe for one Unit, which consisted of one newly issued share and one newly issued warrant. The price for each Unit was set to SEK 60 per Unit. On 22 June 2006 Tethys Oil announced the rights issue fully subscribed. Through this rights issue the company raised around MSEK 52.6 before issue costs and increased the number of shares with 876,960 shares. The issue costs amounted to approximately MSEK 4.5.

### **Current receivables**

Current receivables amounted to TSEK 16,853 (TSEK 1,681) as at 31 December 2006. Current receivables are mainly remaining receivables from partners regarding operations. In particular the high levels of current receivables regard the operations in Denmark on licence 1/02 where Tethys Oil Denmark is the operator of the licence. Part of the current receivables is Danish VAT which has been built up during the fourth quarter when the exploration well was drilled.

### **Current liabilities**

Current liabilities as at 31 December 2006 amounted to TSEK 23,752 (TSEK 2,458), of which TSEK 22,282 (TSEK 2,055) relates to accounts payable, TSEK 787 (TSEK 116) relates to other current liabilities and TSEK 684 (TSEK 286) relates to accrued expenses. Accounts payable make up for most of the current liabilities and mainly regard costs relating to the exploration well Karlebo-1 where Tethys Oil was operator.

### **Parent company**

The parent company reports a result amounting to TSEK - 28,178 (TSEK - 12,391) for 2006 and TSEK - 25,937 (TSEK - 1,264) for the fourth quarter. Write down of shares in group companies of TSEK 26,546 has negatively affected the result of the twelve month period. This is an effect of the group write down of oil and gas properties described above. Costs of administration and depreciation amounted to TSEK - 7,742 (TSEK - 6,598) for the twelve months of 2006 and TSEK - 2,022 (TSEK - 1,764) for the fourth quarter. Net financial income amounted to TSEK - 23,689 (TSEK - 8,605) during 2006 and TSEK - 24,957 (TSEK - 304) for the fourth quarter. The write down of shares in group companies are included in the net financial income. Investments during 2006 amounted to TSEK 52,350 (TSEK 5,874). Investments are mainly related to the acquisition of Tethys Oman. Apart from the acquisition, financial investments are financial loans to subsidiaries for their oil and gas operations. The turnover in the parent company relates to chargeouts of services to subsidiaries.

**Board of Directors and management**

At the Annual Meeting of shareholders on 4 May 2006 Håkan Ehrenblad, Vincent Hamilton, John Hoey, Carl-Gustaf Ingelman, Magnus Nordin and Jan Risberg were re-elected members of the board. No deputy directors were appointed. At the same meeting Vincent Hamilton was appointed Chairman. At the Extraordinary General Meeting of shareholders on 19 May 2006 Jonas Lindvall was newly elected member of the board. Mr. Lindvall is a petroleum engineer with over 20 years experience from the oil and gas industry. He is also an employee of the group and will be in charge of the group's operations in Oman.

**Share data**

The number of shares in Tethys Oil amount to 5,741,760 (4,384,800), with a quota value of SEK 0.50 (SEK 0.50). The number of shares includes 400,000 shares from the non-cash issue in connection with the acquisition of Tethys Oman that were registered on 5 June 2006. It further includes 876,960 shares from the rights issue that were registered on 10 July 2006. For the weighted number of shares calculation they were included from the issue date, 28 June 2006. A directed issue to Maha Resources of 80,000 shares is also included in the number of shares and in the weighted number of share calculation they were included from 7 August 2006.

In the rights issue described above, Tethys Oil issued a warrant for every issued share, amounting to 876,960 warrants. These warrants were listed on First North on 17 July 2006. The warrants could be exercised during two fixed periods. The first period was between 1 December 2006 – 31 January 2007 and had a subscription price of SEK 72 and the second period is between 1 September 2007 – 30 September 2007 and has a subscription price of SEK 78. As the share price at the end of the reporting period was below subscription prices, these warrants are not included in the fully diluted number of shares.

**Dividend**

The Directors propose that no dividend be paid for the year.

## CONSOLIDATED INCOME STATEMENT

TSEK	1 Jan 2006 - 31 Dec 2006 12 months	1 Oct 2006 - 31 Dec 2006 3 months	1 Jan 2005 - 31 Dec 2005 12 months	1 Oct 2005 - 31 Dec 2005 3 months
Net sales of oil and gas	-	-	-	-
Depreciation of oil and gas properties	-	-	-	-
Write off of oil and gas properties	-22,519	-22,382	-8,412	-216
Other income	543	283	23	24
Administration and depreciation	-9,000	-2,576	-6,609	-1,775
<b>Operating result</b>	<b>-30,976</b>	<b>-24,674</b>	<b>-14,998</b>	<b>-1,968</b>
Financial income and similar items	2,204	919	774	126
Financial expenses and similar items	-1,030	-407	-144	-59
<b>Net financial income</b>	<b>1,174</b>	<b>512</b>	<b>630</b>	<b>67</b>
<b>Result before tax</b>	<b>-29,802</b>	<b>-24,162</b>	<b>-14,368</b>	<b>-1,901</b>
Income tax	-	-	-	-
<b>Net result</b>	<b>-29,802</b>	<b>-24,162</b>	<b>-14,368</b>	<b>-1,901</b>
Number of shares outstanding	5,741,760	5,741,760	4,384,800	4,384,800
Number of shares outstanding (after full dilution)	5,741,760	5,741,760	4,384,800	4,384,800
Weighted number of shares	5,109,599	5,741,760	4,384,800	4,384,800
Earnings per share, SEK	-5.83	-4.21	-3.28	-0.43
Earnings per share (after full dilution), SEK	-5.83	-4.21	-3.28	-0.43

## CONSOLIDATED BALANCE SHEET

TSEK	31 Dec 2006	31 Dec 2005	31 Dec 2004
<b>ASSETS</b>			
<b>Fixed assets</b>			
Oil and gas properties	35,072	11,404	14,002
Other fixed assets	145	195	158
Prepayment of oil and gas properties	8,723	-	-
<b>Total fixed assets</b>	<b>43,940</b>	<b>11,599</b>	<b>14,160</b>
<b>Current assets</b>			
Other receivables	16,853	1,681	766
Prepaid expenses	105	451	139
Short term investments	973	40,445	53,525
Cash and bank	57,112	657	513
<b>Total current assets</b>	<b>75,043</b>	<b>43,234</b>	<b>54,942</b>
<b>TOTAL ASSETS</b>	<b>118,983</b>	<b>54,833</b>	<b>69,102</b>

## SHAREHOLDERS' EQUITY AND LIABILITIES

<b>Shareholders' equity</b>			
Share capital	2,871	2,192	2,192
Other contributed equity	143,071	71,071	71,071
Retained earnings	-50,711	-20,888	-6,520
<b>Total shareholders' equity</b>	<b>95,230</b>	<b>52,375</b>	<b>66,743</b>
<b>Non interest bearing current liabilities</b>			
Accounts payable	22,282	2,055	751
Other current liabilities	787	117	95
Accrued expenses	684	286	1,513
<b>Total non interest bearing current liabilities</b>	<b>23,752</b>	<b>2,458</b>	<b>2,359</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>118,983</b>	<b>54,833</b>	<b>69,102</b>
Pledged assets	-	780	-
Contingent liabilities	18,193	14,527	14,527

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

TSEK	Share capital	Paid in capital	Retained Earnings
Opening balance at 1 January 2005	2,192	71,071	- 6,520
Net result	-	-	- 14,368
<b>Closing balance at 31 December 2005</b>	<b>2,192</b>	<b>71,071</b>	<b>- 20,888</b>
Opening balance at 1 January 2006	2,192	71,071	- 20,888
Period result first quarter 2006	-	-	- 1,256
Non- cash issue	200	19,600	-
Rights issue	438	52,179	-
Issue costs	-	- 4,539	-
Directed issue	40	4,760	-
Period result second quarter 2006	-	-	- 2,443
Period result third quarter 2006	-	-	- 1,940
Period result fourth quarter 2006	-	-	- 24,162
Currency translation difference	-	-	- 21
<b>Closing balance at 31 December 2006</b>	<b>2,871</b>	<b>143,071</b>	<b>- 50,711</b>



## CONSOLIDATED CASH FLOW STATEMENT

TSEK	1 Jan 2006 - 31 Dec 2006 12 months	1 Oct 2006 - 31 Dec 2006 3 months	1 Jan 2005 - 31 Dec 2005 12 months	1 Oct 2005 - 31 Dec 2005 3 months
<b>Cash flow from operations</b>				
Operating result	-30,976	-24,674	-14,998	-1,968
Financial income and similar items	2,204	919	774	126
Financial expenses and similar items	-1,030	-407	-144	-59
Adjustment for write down of oil and gas properties	22,519	22,382	8,412	216
Adjustment for depreciation	125	-4	640	33
<b>Total cash flow used in operations before change in working capital</b>	<b>-7,157</b>	<b>-1,784</b>	<b>-5,315</b>	<b>-1,651</b>
Decrease in receivables	-14,825	-3,689	-1,228	-1,390
Increase in liabilities	21,294	16,026	99	1,581
<b>Cash flow used in/from operations</b>	<b>-689</b>	<b>10,573</b>	<b>-6,444</b>	<b>-1,460</b>
<b>Investment activity</b>				
Investment in oil and gas properties	-46,208	-14,967	-6,420	-1,458
Investment in other fixed assets	-75	-	-72	-63
Prepayment of oil and gas properties	-8,723	-8,723	-	-
<b>Cash flow used for investment activity</b>	<b>-55,007</b>	<b>-23,711</b>	<b>-6,491</b>	<b>-1,521</b>
<b>Financing activity</b>				
Share issue	72,679	20	-	-
<b>Cash flow from financing activity</b>	<b>72,679</b>	<b>20</b>	<b>-</b>	<b>-</b>
<b>Period cash flow</b>	<b>16,983</b>	<b>-13,118</b>	<b>-12,936</b>	<b>-2,981</b>
Cash and cash equivalents at the beginning of the period *	41,102	71,203	54,037	44,083
Cash and cash equivalents at the end of the period *	58,085	58,085	41,102	41,102

\* Presented as cash and bank and short term investments in the balance sheet.

## PARENT COMPANY INCOME STATEMENT CONDENSED

TSEK	1 Jan 2006 - 31 Dec 2006 12 months	1 Oct 2006 - 31 Dec 2006 3 months	1 Jan 2005 - 31 Dec 2005 12 months	1 Oct 2005 - 31 Dec 2005 3 months
Net sales of oil and gas	-	-	-	-
Depreciation of oil and gas properties	-	-	-	-
Write off of oil and gas properties	-	-	-	-
Other income	3,253	1,042	2,812	804
Administration and depreciation	-7,742	-2,022	-6,598	-1,764
<b>Operating result</b>	<b>-4,488</b>	<b>-980</b>	<b>-3,786</b>	<b>-960</b>
Financial income and similar items	3,503	1,471	1,226	226
Financial expenses and similar items	-646	-23	-139	-56
Write down of shares in group company	-26,546	-26,405	-9,692	-474
<b>Net financial income</b>	<b>-23,689</b>	<b>-24,957</b>	<b>-8,605</b>	<b>-304</b>
<b>Result before tax</b>	<b>-28,178</b>	<b>-25,937</b>	<b>-12,391</b>	<b>-1,264</b>
Income tax	-	-	-	-
<b>Net result</b>	<b>-28,178</b>	<b>-25,937</b>	<b>-12,391</b>	<b>-1,264</b>
Number of shares outstanding	5,741,760	5,741,760	4,384,800	4,384,800
Number of shares outstanding (after full dilution)	5,741,760	5,741,760	4,384,800	4,384,800
Weighted number of shares	5,109,599	5,741,760	4,384,800	4,384,800
Earnings per share, SEK	-5.51	-4.52	-2.83	-0.29
Earnings per share (after full dilution), SEK	-5.51	-4.52	-2.83	-0.29

## PARENT COMPANY BALANCE SHEET CONDENSED

TSEK	31 Dec 2006	31 Dec 2005	31 Dec 2004
<b>ASSETS</b>			
Total fixed assets	145	195	158
Total financial assets	70,272	17,997	12,196
Total current assets	50,814	40,789	57,993
<b>TOTAL ASSETS</b>	<b>121,232</b>	<b>58,981</b>	<b>70,346</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
Shareholders' equity	100,945	56,444	68,835
Total non interest bearing current liabilities	20,287	2,538	1,511
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>121,232</b>	<b>58,981</b>	<b>70,346</b>
Pledged assets	-	780	-
Contingent liabilities	4,696	-	-

## PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

TSEK	Restricted equity		Unrestricted equity	
	Share capital	Share premium Reserve	Retained Earnings	Net result
<b>Opening balance at 1 January 2005</b>	<b>2,192</b>	<b>71,071</b>	<b>- 1,458</b>	<b>- 2,970</b>
Transfer of prior year net result	-	-	- 2,970	2,970
Net result	-	-	-	- 12,391
<b>Closing balance at 31 December 2005</b>	<b>2,192</b>	<b>71,071</b>	<b>- 4,428</b>	<b>- 12,391</b>
<b>Opening balance at 1 January 2006</b>	<b>2,192</b>	<b>71,071</b>	<b>- 4,428</b>	<b>- 12,391</b>
Transfer of prior year net result	-	-	- 12,391	12,391
Period result first quarter 2006	-	-	-	- 402
Non-cash issue	200	19,600	-	-
Rights issue	438	52,179	-	-
Issue costs	-	- 4,539	-	-
Directed issue	40	4,760	-	-
Period result second quarter 2006	-	-	-	- 1,186
Period result third quarter 2006	-	-	-	- 653
Period result fourth quarter 2006	-	-	-	- 25,937
<b>Closing balance at 31 December 2006</b>	<b>2,871</b>	<b>143,071</b>	<b>-16,820</b>	<b>-28,178</b>

## NOTES

### General information

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

The Company is a limited liability company incorporated and domiciled in Stockholm, Sweden. The Company is listed on First North (*previously called Nya Marknaden*) in Stockholm.

These consolidated financial statements have been approved for issue by the Board of Directors on 15 February 2007.

### Accounting principles

The year end report 2006 of the Tethys Oil Group has been prepared in accordance with the Swedish Financial Accounting Standards Council’s RR31 and IAS 34. The year end report 2006 of the parent company has been prepared in accordance with the Annual Accounts Act and the Swedish Financial Accounting Standards Council’s RR32. The same accounting principles were used in the annual report 2005.

### Financial instruments

Tethys Oil has not during the period used any derivative financial instruments in order to hedge risks. This is mainly due to the relatively low exchange rate exposure in Tethys Oil’s current operations.

### Note 1) Oil and gas properties

Country	Book value 1 Jan 2005, TSEK	Investments 1 Jan-31 Dec 2005, TSEK	Write downs 1 Jan-31 Dec 2005, TSEK	Book value 31 Dec 2005, TSEK	Book value 1 Jan 2006, TSEK	Investments 1 Jan-31 Dec 2006, TSEK	Write downs 1 Jan-31 Dec 2006, TSEK	Book value 31 Dec 2006, TSEK
Oman	-	-	-	-	-	26,700	-	26,679
Denmark	1,707	3,412	-	5,119	5,119	14,553 <sup>4</sup>	18,985	687
Morocco	9	544	-	553	553	2,359	-	2,912
Spain	3,118	33	-	3,152	3,152	214	1,487	1,878
Turkey	8,897	615	-8,179	727	727	735	192	1,270
France	-	690	-	690	690	343	-	1,033
New ventures	270	1,125	-233	1,163	1,163	1,304	1,855	612
Total	14,002	6,419	8,412	11,404	11,404	46,208	22,519	35,072

<sup>4</sup> Investments in Denmark are reduced as a consequence of the farm out to Star Energy during the third quarter and their payment of back costs.

Oil and gas properties TSEK	Group			Parent		
	1 Jan 2006 - 31 Dec 2006	1 Oct 2006 - 31 Dec 2006	1 Jan 2005 - 31 Dec 2005	1 Jan 2006 - 31 Dec 2006	1 Oct 2006 - 30 Dec 2006	1 Jan 2005 - 31 Dec 2005
	12 months	3 months	12 months	12 months	3 months	12 months
<b>Investments in oil and gas properties</b>						
Opening balance	20,251	51,471	14,437	-	-	-
Investments in Denmark	14,553	12,847	3,412	-	-	-
Investments in France	343	146	690	-	-	-
Investments in Morocco	2,359	436	544	-	-	-
Investments in Oman	26,700	1,199	-	-	-	-
Investments in Spain	214	109	33	-	-	-
Investments in Turkey	735	58	615	-	-	-
Other investments in oil and gas properties	1,304	193	1,125	-	-	-
Closing balance	66,459	66,459	20,856	-	-	-
Reclassification of assets in Turkey	-	-	-605	-	-	-
<b>Depletion</b>						
Depletion	-	-	-	-	-	-
<b>Write down</b>						
Opening balance	8,847	8,984	435	-	-	-
Write down	22,519	22,382	8,412	-	-	-
Closing balance	31,366	31,366	8,847	-	-	-
<b>Net book value</b>	<b>35,072</b>	<b>35,072</b>	<b>11,404</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Note 2) Shareholders' equity

The number of shares in Tethys Oil amount to 5,741,760 (4,384,800), with a quota value of SEK 0.50 (SEK 0.50). The number of shares includes 400,000 shares from the non-cash issue in connection with the acquisition of Tethys Oman Ltd (previously GotOil Resources (Oman) Ltd. that were registered on 5 June 2006. It further includes 876,960 shares from the rights issue that were registered on 10 July 2006. For the weighted number of shares calculation they were included from the issue date, 28 June 2006. A directed issue to Maha Resources of 80,000 shares is also included in the number of shares and in the weighted number of share calculation they were included from 7 August 2006.

In the rights issue described above, Tethys Oil issued a warrant for every issued share, amounting to 876,960 warrants. These warrants were listed on First North on 17 July 2006. The warrants could be exercised during two fixed periods. The first period was between 1 December 2006 – 31 January 2007 and had a subscription price of SEK 72 and the second period is between 1 September 2007 – 30 September 2007 and has a subscription price of SEK 78. As the share price at the end of the reporting period was below subscription prices, these warrants are not included in the fully diluted number of shares.

## Note 3) Contingent liabilities

The contingent liabilities amount to TSEK 18,193 (TSEK 14,527). In Denmark, the Group has a contingent liability amounting to TSEK 1,210 regarding remaining work commitment on the Danish drill site according to the agreement with the landowner, in France the parent company has a financial work commitment of TSEK 4,696 and in Oman the group has a financial work commitment of TSEK 12,200.

## Note 4) Acquisition

The Group acquired 100 per cent of the share capital of Tethys Oman on 24 May 2006 from Maha Resources Ltd. Tethys Oman, registered in Gibraltar, has 40 per cent interest in an Exploration and Production Sharing Agreement in Block 15, Oman. As consideration for the acquisition Tethys Oil paid USD 600,000 (SEK 4,383,900) in cash and issued 400,000 new shares of Tethys Oil. The value of the shares is based on the market price of SEK 49.50 for the Tethys Oil share at the effective date of acquisition, 24 May 2006, from which date Tethys Oman is consolidated. The total value of the consideration therefore amounts to SEK 24,183,900. The share issue was registered on 5 June 2006.

Tethys Oman contributed revenues of TSEK 1,146 and net result of TSEK - 354 to the Group for the period from acquisition to 31 December 2006. If acquisition had occurred on 1 January 2006 consolidated revenue and consolidated net result for the twelve month period ended 31 December 2006 would have been TSEK 2,330 and

TSEK - 318 respectively. If acquisition had occurred on 1 October 2006 consolidated revenue and consolidated net result for the fourth quarter ended 31 December 2006 would have been TSEK 873 and TSEK - 87 respectively. Revenues in Tethys Oman are attributable to chargeouts to the joint venture regarding Block 15 in Oman.

Items	TSEK
Total purchase consideration	24,184
Costs related to acquisition	1,147
Fair value of assets acquired (see below)	-399
<b>Excess value over acquired net assets allocated to oil and gas properties</b>	<b>24,933</b>

The excess value over acquired net assets is allocated to oil and gas properties in the consolidated balance sheet and is referable to the Group's interest in Block 15 in Oman.

TSEK	Fair value	Acquiree's carrying amount
Capitalised costs	461	461
Receivables	17	17
Other current liabilities	-54	-54
Accrued expenses	-25	-25
<b>Net assets acquired</b>	<b>399</b>	<b>399</b>

#### Note 5) Related party transactions

In connection with the rights issue during the second and third quarter TSEK 819 was paid to the guarantors of the rights issue. The guarantors were Håkan Ehrenblad, Vincent Hamilton, John Hoey, Carl-Gustaf Ingelman, Jan Risberg, Magnus Nordin and Lorito Holdings Limited.

## KEY RATIOS

### Group

	1 Jan 2006 - 31 Dec 2006 12 months	1 Oct 2006 - 31 Dec 2006 3 months	1 Jan 2005 - 31 Dec 2005 12 months	1 Oct 2005 - 31 Dec 2005 3 months
<b>Items regarding the income statement and balance sheet</b>				
Gross margin before extraordinary items, TSEK	n.a.	n.a.	n.a.	n.a.
Operating result, TSEK	-30,976	-24,674	-14,998	-1,968
Operating margin, %	neg.	neg.	neg.	neg.
Result before tax, TSEK	-29,802	-24,162	-14,368	-1,901
Net result, TSEK	-29,802	-24,162	-14,368	-1,901
Net margin, %	neg.	neg.	neg.	neg.
Shareholders' equity, TSEK	95,230	95,230	52,375	52,375
Balance sheet total, TSEK	118,983	118,983	54,833	54,833
<b>Capital structure</b>				
Solvency, %	80.04%	80.04%	95.52%	95.52%
Leverage ratio, %	n.a.	n.a.	n.a.	n.a.
Adjusted equity ratio, %	80.04%	80.04%	95.52%	95.52%
Interest coverage ratio, %	n.a.	n.a.	n.a.	n.a.
Investments, TSEK	55,007	23,711	6,491	1,520
<b>Profitability</b>				
Return on shareholders' equity, %	neg.	neg.	neg.	neg.
Return on capital employed, %	neg.	neg.	neg.	neg.
<b>Key figures per employee</b>				
Average number of employees	5.2	6.0	3.5	4.0
<b>Number of shares</b>				
Dividend per share, SEK	n.a.	n.a.	n.a.	n.a.
Cash flow used in operations per share, SEK	neg.	neg.	neg.	neg.
Number of shares on balance day, thousands	5,742	5,742	4,385	4,385
Shareholders' equity per share, SEK	16.59	16.59	11.94	11.94
Weighted number of shares, thousands	5,110	5,742	4,385	4,385
Earnings per share, SEK	-5.83	-4.21	-3.28	-0.43

*For definitions of key ratios please refer to the 2005 Annual Report.  
The abbreviation n.a. means not available.*

## FINANCIAL INFORMATION

The Company plans to publish the following financial reports:

**Annual Report 2006 is expected to be available at Tethys Oil's office during April, 2007**

**Three month report** (January - March 2007) on 16 May 2007

**Annual meeting** on 16 May 2007 in Stockholm

**Six month report** (January - June 2007) on 23 August 2007

**Nine month report** (January - September 2007) on 13 November 2007

**Year end report 2007** (January - December 2007) on 15 February 2008

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

Stockholm, 15 February 2007

Magnus Nordin  
Managing Director

## Addresses

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