

**Tethys Oil AB (publ)**  
**Annual Report 2005**

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## Annual Meeting

The Annual Meeting will be held at Van der Nootska Palatset, S:t Paulsgatan 21, Stockholm, at 3 p.m. on Thursday, May 4, 2006. Shareholders intending to participate in the Annual Meeting must be entered as shareholders in the share register as per April 27, 2006. In addition to the requirements listed above, shareholders shall provide notice of attendance, not later than 4.00 p.m. April 27, 2006, to:

### Tethys Oil AB

Corporate Legal

Blasieholmsgatan 2A  
SE-111 48 Stockholm  
Sweden

Telephone: +46 8 679 49 90  
Fax: +46 8 678 89 01  
E-mail: [agm@tethysoil.com](mailto:agm@tethysoil.com)

### Proxy

In order to attend and vote as proxy on behalf of a shareholder at the Meeting, a power of attorney must be presented to the company, preferably at the above address not later than April 27 2006.

## Financial information

### The company plans to publish the following financial reports:

Three month report (January – March 2006) on May 4, 2006

Annual Meeting on May 4, 2006

Six month report (January – June 2006) on August 15, 2006

Nine month report (January – September 2006) on October 31, 2006

Year end report (January – December 2006) on February 15, 2007

Cover: Artist's impression of poor space among the grains of sand in the Karlebo reservoir rock.

## Tethys Oil in brief

Tethys Oil is a Swedish company focused on exploration for and production of oil and natural gas. Tethys 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 exploration licenses in Denmark, France, Morocco, Spain and Turkey and in a production license in Spain. The shares are listed on Nya Marknaden (TETY) in Stockholm.

## 2005 in brief

### Highlights

- During 2005, activity in Denmark gradually increased, and Tethys has moved closer to the drilling of the company's first exploration well in Denmark. An exploration well is planned for the summer of 2006
- Tethys signed a farm-in agreement with Aladdin Middle East regarding two onshore exploration licenses in Thrace, Turkey. Seismic work is planned for 2006
- Tethys was awarded a reconnaissance license regarding the Bouanane license in Morocco
- The final interpretation and evaluation of existing data over the Ispandika licenses in Turkey has been completed using radar data and satellite imagery

### Subsequent events

- French government has awarded Tethys a 40 percent interest in an exploration permit in Paris basin
- Gravimetrical field work has commenced on the Bouanane license in Morocco

# Letter to the shareholders

## Dear friends and investors,

The year 2005 was a good year for oil companies. Oil prices reached levels not seen for 25 years (in inflation adjusted terms). The price environment seems demand driven, with most producers producing close to or at capacity. At the time of writing there are few, if any, signs that current prices will slow the energy appetite of the fast growing Chinese and Indian economies or dramatically affect the economic health of the OECD countries. Any price relief from slackening demand therefore seems unlikely in the near to medium term.

The same goes for the supply side of the price equation. For the oil industry to materially increase production, vast amounts of money and time need to go into both additional development of known fields and, even more importantly, into exploration for new reserves of oil and natural gas.

Exploration was put on the back burner following the oil price collapse of 1998-1999. Similarly investments in producing fields were scaled back and the first five years of the new millennium were marked by under investment throughout the upstream sec-

tor. The results were as could be expected. Without exploration, the amount of new discoveries fell and over the last decade and the world, on a yearly basis, has consumed a lot more oil than has been found. Serious investments in exploration did not return until 2005.

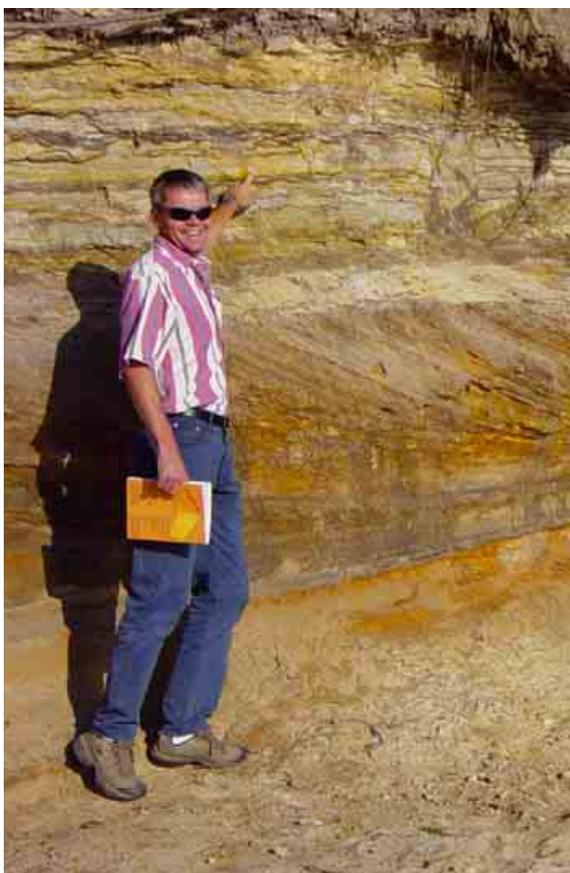
For Tethys, the strengthening of the oil price has led to certain adjustments in strategy. Already in January 2005, we predicted an increased focus on exploration and therefore increased our own efforts in obtaining additional exploration licenses. We also expected the increased exploration appetite to include an appetite for larger, high risk high reward plays, which led us to increase our geographical focus.

The change in oil price environment has also affected Tethys' strategy towards production and acquisitions. Apart from exploration, Tethys also wants to offer exposure to production and development. In order to fast track such an approach Tethys has during 2005 evaluated a number of opportunities involving current production. The oil price development has however made it increasingly difficult to close any production deal, as the seller's expectations for acquisition price has become, in our opinion, unrealistic and the competition from cash rich, price aggressive competitors has increased.

We do not wish to make an acquisition with upside based solely on oil price increase. There must also be value in associated development and exploration. Our focus has therefore gradually shifted to evaluation of development opportunities with known reserves but in need of development capital and /or application of new technology.

Substantial effort was put into identifying and evaluating such opportunities during 2005, and the effort will continue during 2006.

Our efforts to obtain additional exploration acreage showed results faster. In July we signed a reconnaissance license in Morocco. The Bouanane license is a good example of Tethys' innovative approach to data. The geological concept behind Bouanane combines input from Algeria as well as Morocco in defining a play which is now starting to attract some interest among potential partners.



The same approach was used by Tethys in defining the Karlebo play in Denmark, where we combined source-and oil show data from Sweden, with excellent reservoir and seal data from Denmark.

Our next license addition was in Turkey, where in October, we were delighted to add license interests in the highly gas prolific Thrace region (Marmara) to our Turkish portfolio. Especially following the relinquishment of the Hoto license outside Diyarbakir, the Thrace license was a very welcome complement to our high risk/high reward Turkish Ispandika license.

Third but not least, our efforts to obtain a license interest in the Paris basin in France, which commenced during spring of 2005 was finally crowned with success in February 2006 when the French authorities awarded Tethys and partner Galli Coz S.A. the Attila license.

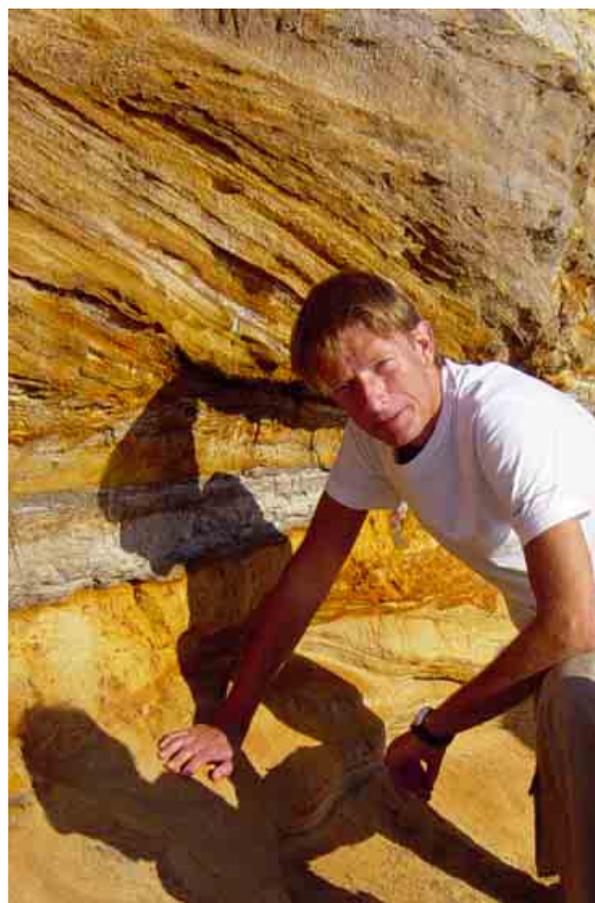
After these successful additions to our exploration portfolio, we now consider the portfolio quite well balanced and almost complete.

So while 2005 was a year of primarily work behind the scenes where the geological and legal work in both new and old licenses was less visible from a public point of view, the year 2006 promises to show more activity in appraising licenses and testing our exploration concepts, both by the drill bit and by finding partners to share in our exploration efforts.

Year 2006 could see Tethys participate in up to three exploration wells. Drillable prospects have to date been defined in Denmark; France and Spain. In Denmark Tethys operates license 1/02 onshore Zealand where the Karlebo prospect is ready to drill. Final preparations are underway involving local authorities in Karlebo and at the time of writing rig tenders are being evaluated. If no unforeseen events occur we should be able to test the Karlebo natural gas prospect with an exploration well later this summer.

The relevant source- and reservoir rocks are present at surface on the Danish island Bornholm in the Baltic Sea. Tethys' board of directors were impressed by the amount and quality of the rocks.

As oil prices remain high and Tethys strategy adjusts itself to the world around us in a mildly cyclical manner, we believe we can offer interesting sailing ahead. Most of our ideas remain untested, but we should see a few tested this year. For an upstream company nothing quite beats the excitement of exploration.



The moment of truth after years of hard work and preparations. The satisfaction of contributing to the world's energy needs. And of course the joy of creating shareholder value.

Tethys is still a young company. So stay with us, we believe we can offer an interesting and exciting journey.

Stockholm in March 2006

**Vincent Hamilton**  
*Chairman and  
Chief Operating Officer*

**Magnus Nordin**  
*Managing Director*

# Oil and natural gas exploration

## Oil and natural gas exploration

The oil industry is divided into two main categories, upstream and downstream. Upstream includes such operations as exploration and production of crude oil and natural gas. Downstream operations include refining and distribution of oil as fuel, heating oil or as raw material for the petrochemical industry. Oil companies can operate in both segments, or in parts of these segments. Tethys Oil operates in the upstream side of the business.

## Property rights to oil and natural gas discoveries

In general, oil and natural gas resources are the property of the government of the country in which they are located. As a consequence, an oil company generally does not own the rights to discovered oil and gas but instead receives permissions to explore for and produce oil from the government of the country in question. These permissions are typically called concessions and licenses.

A license is usually divided into two parts – an exploration license and a production license. A company normally has to undertake certain work within an area during a specified period of time in order to receive an exploration license. These work commitments are normally geological, geochemical or geophysical studies (seismic studies) and drilling operations. Oil companies do not necessarily have to pay money in order to receive exploration licenses. Payment is instead the commitment of work. In some cases, a license fee to the host country is statutory.

If commercial volumes of oil or natural gas are discovered, the exploration license converts into a production license, where a royalty and/or a tax is applicable, or a production sharing agreement, where a certain share of the recovered oil or natural gas goes directly to the country. The division of oil and natural gas between the licensee and the country in a production license varies widely throughout the world. The duration of a production license is usually 20–30 years.

## Co-operation and partners

Because exploration costs are high, oil companies often co-operate. A typical oil concession could be held by five different companies with 20 percent each in the license. The company first awarded the license is usually inviting other companies to participate. Invited companies thereafter pay for all or for part of the undertaken work commitments. In return, they receive part of potential future earnings. This is called to »farm out« or »farm in«.

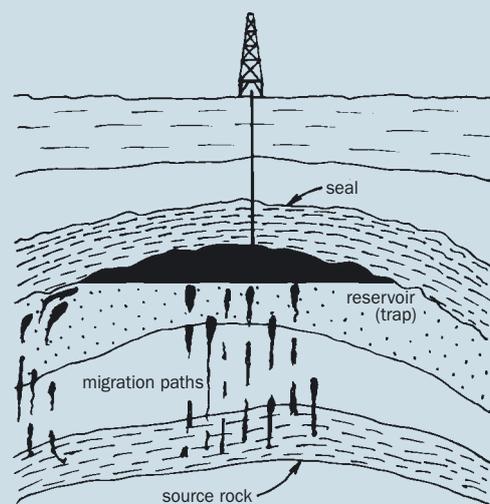
The company with the operating responsibility, called the operator, can either carry out the work themselves or acquire the services on contract.

## Development of geological models to locate oil and natural gas prospects

The aim of a geological model is to locate potential reserves of oil and natural gas by the development of a model, which aims to explain why an area contains an appropriate geological prospect. For oil and natural gas to be present, a number of conditions must be fulfilled. The geological models should explain:

1. rocks capable of generating oil and/or natural gas – **the source rock**;
2. rocks capable of holding oil and/or natural gas – **the reservoir**;
3. rocks capable of keeping oil and/or natural gas in the reservoir – **the seal**; and
4. configuration of rocks in the subsurface that combine the above elements – **the structure**.

In addition, the model should support a case that these properties are correlated properly to have formed a trap and that they have occurred in an appropriate sequence in time before hydrocarbons have been generated.



## Exploration

Oil and natural gas are found in sedimentary rocks at depths of less than 10 kilometres. These rocks have been deposited through particles, carried by air or by water and then buried and cemented into rocks. In order to locate geological structures that are advantageous for oil and natural gas accumulations, different types of tests are conducted, of which the most common is geophysical seismic. The principal behind seismic is that sound waves are transported at different speed in different materials and that the sound waves, at the transition between different materials, partly bend and reflect back to the surface. Since rocks have different compositions, it is possible based on variations in the speed of the sound wave and angle, to estimate the location of structures that could hold oil and/or natural gas reserves in an exploration area.

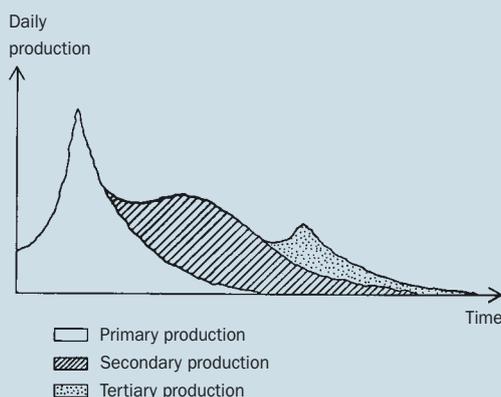
Seismic is acquired onshore or offshore by geophysical crews or seismic vessels, respectively. Single linear lines of seismic provide information about the subsurface rocks directly beneath the seismic equipment. This type of seismic data is referred to as two-dimensional or 2D seismic, because it provides data along two axes, length and depth. If seismic acquisition is done across multiple lines simultaneously, the third dimension of width is gained, hence referred to as three-dimensional seismic, or 3D seismic. 3D seismic offers much greater density of information about the subsurface but is much more costly and covers a smaller area.

The only way to conclude that a chosen structure contains commercially recoverable quantities of hydrocarbons is to drill a well. To drill a well into a structure without known reserves is called a wildcat or exploration well. During the drilling, rock and fluid are recovered from the hole at the surface for analysis. At the completion of drilling, the hole is logged whereby electrical sensors are lowered into the hole and measurements are made of the rock and of fluids and gases contained in the rock. If the analysis of the drilled rocks and the logging shows positive indications, a production test of the drilled hole is executed, whereby potential oil and natural gas zones are allowed to flow into the hole and up to the surface for measurement and analysis. Both the production rate and the amount of reserves can be calculated through logging and testing.

### Calculation of reserves

The reserves are an estimate of the volume of crude oil and natural gas of a discovery that is viewed as commercially recoverable under present economical conditions. The reserves are divided into two groups, proven and unproven reserves. In turn, the unproven reserves are divided into probable and possible reserves. Proven reserves are located in areas where drilling has been completed with positive test results, and in areas surrounding where drilling has not been

done, but based on geophysical and geological data are considered commercially recoverable. Probable reserves are less certain than proven reserves, but the probability of producing commercially recoverable reserves is still in excess of 50 percent, which is to be compared with possible reserves where the probability of discovering commercially recoverable reserves is estimated to be less than 50 percent.

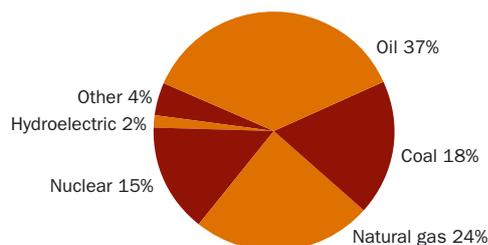


# The oil and gas market

As natural resources, oil and gas are a series of coincidences and the result of numerous positive events during millions of years. Today's world is heavily dependent on those natural resources. Oil-derived products surround us, from asphalt, computers, gasoline, bicycle helmets and pencils to shoes. The oil and gas market is the world's largest market of natural resources and appears to remain as such in the foreseeable future. The price of this natural resource is constantly changing in the global market. The market consists of thousands of companies, but no one is dominant enough to affect the global market price. Competition lies therefore not in the market price but in finding the oil.

## Sources of energy

Energy comes from a number of sources, the dominant ones being oil, coal and natural gas. Alternative energy sources such as wind and wave power, solar energy and biofuels are relatively insignificant. Oil and natural gas account for more than half of all primary energy sources.



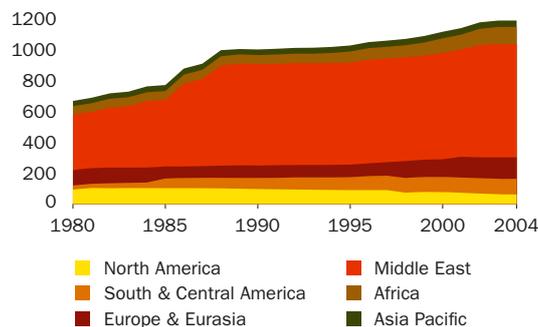
## The oil market

### Oil price – trends and variables

Oil price analysis is in principle not different from any other price analysis, that is to say it is a matter of trying to understand a supply demand relationship where the price simply is a measurement and manifestation of the equilibrium between supply and demand at any particular point (or points) in time. Oil price prediction, accordingly, is an exercise in identifying and understanding future trends affecting the development of oil supply (production, remaining reserves, exploration success, cost of exploration and cost of production, supply cartels like OPEC, politically caused supply disruptions to name a few) and demand (development of energy substitutes, world wide economic growth, more efficient uses of energy, etc).

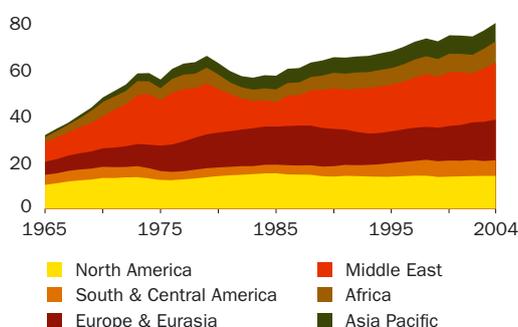
The amount of variables that can affect oil supply and demand are vast and much resources and brain power is devoted to create dynamic models aiming to explain past developments, understand the current

### 1. Known global oil reserves, thousand million barrels



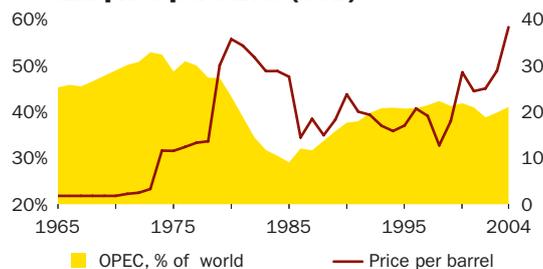
Source: BP Statistical Review of World Energy 2005.

### 2. Global oil production, thousand barrels per day



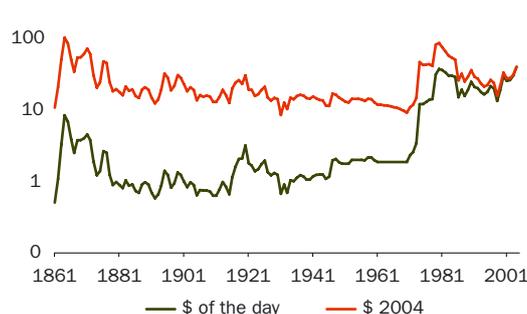
Source: BP Statistical Review of World Energy 2005.

### 3. OPEC share of global oil production and price per barrel (USD)



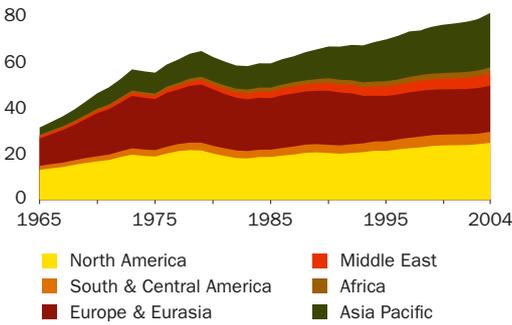
Source: BP Statistical Review of World Energy 2005.

### 4. Oil price development since 1861



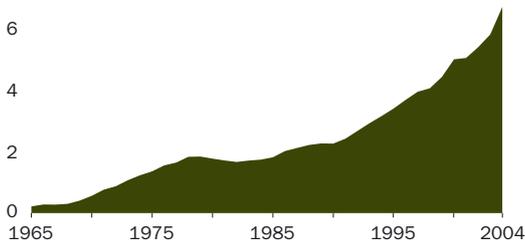
Source: BP Statistical Review of World Energy 2005.

**5. Global oil consumption, thousand barrels per day**



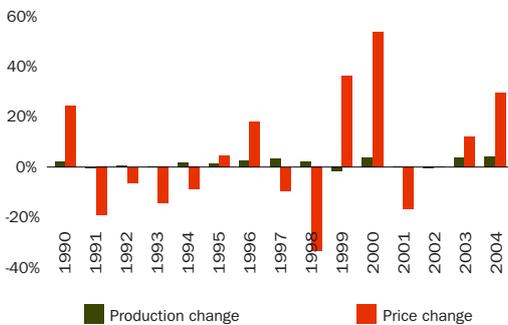
Source: BP Statistical Review of World Energy 2005.

**6. Oil consumption – China, thousand barrels per day**



Source: BP Statistical Review of World Energy 2005.

**7. Production change and price change**



Source: BP Statistical Review of World Energy 2005.

**8. Oil price development since 1985**



Source: Wall Street Journal

situation and, by creating rules based on the past, to try to predict the future. Any such attempt goes well beyond the scope of this report but in this section we will try to highlight a few variables we believe are important for understanding oil price formation and what could be possible useful conclusions from these observations.

A first variable to consider is the available amount of oil. Figure 1 shows that the increase in available reserves has fallen over the last 20 years. Add to this that new discoveries tend to be smaller and further in between than in the past and the trend seem to be towards an eventual limit to available supply. A possibly more immediate observation regarding reserves however is the distribution of reserves. More than 70 percent of known reserves are located in the Middle East and reserve growth in other areas of the world over the last 20 years has been marginal.

After the first of the supply shocks caused by the OPEC driven price increases in the 70's, resulting in strong declines in consumption, as well as spurring a sharp increase in non-OPEC spending on exploration, development and production the oil price has been primarily demand driven. Consumption has increased and the long term trend has been for price and production to follow. Increases in Chinese consumption over the last decade stand out as a case in point.

Small changes in demand and supply can however have dramatic effects on price in the short run. A notable example is the effects of the Saudi production increase in 1998 which came to coincide with the downturn in Asia. Note however, that Chinese consumption never actually declined. Only the rate of increase dropped. Note also that a very small adjustment of less than 2 percent decrease in supply restored the price within a year.

OPEC's share of world production, and more importantly share of available excess supply, determines OPEC's influence over price. As is evident from the 80's where non-OPEC supply increased dramatically and in spite of large cuts within OPEC to mitigate the supply increases, the price dropped sharply. As long as OPEC controls the marginal barrel produced, it is likely that OPEC will be able to exercise significant influence over the oil price. And as long as no other regions significantly increase reserves and production capacity this state of affairs is likely to prevail.

## Natural gas market in Europe

### Overview

Natural gas has become an increasingly important source of energy in Western Europe accounting for 24.3 percent of total primary energy supply in 2004. If current trends continue, natural gas is expected to continue to increase in relative importance in the European Union compared with other energy sources. The market for natural gas is in many ways different to that of the oil market. Even though gas is created in much the same ways as oil, the fact that it is a gas makes it more difficult to transport. Pipelines play an important role in transporting natural gas (pipelines account for 84 percent of gas transport in Western Europe) and therefore prices are being set locally and in comparison with oil, prices of natural gas are less homogenous. The natural gas market is not global in the same way as the oil market is and therefore this natural gas section will focus on the natural gas market of Europe. (Source: Eurogas Annual Report 2004–2005)

### Pricing of natural gas

The price of natural gas is partly determined by the energy content. Price is expressed in USD per thousand cubic feet (USD/mcf) or in euros per thousand cubic metres (€/mcm), where one cubic metre of natural gas is equivalent of 35.3 cubic feet. Transportation of natural gas is more difficult and costly than transporting oil. As a consequence, natural gas is often priced in the local markets where it can be transported.

In order to enable a comparison between the value of oil and natural gas, the concept of oil equivalents was introduced. The energy content in 150 cubic metres (5,600 cubic feet) of natural gas is comparable to the

energy content of one barrel (bbl) of oil, and hence constitutes one barrel of oil equivalent (boe).

Between July 2004 and July 2005, industrial consumers across the EU spent an average of € 203 per mcm of natural gas. The price received by producers is less due to transportation and marketing costs. Details of natural gas sales contracts between producers and buyers are normally held confidential for commercial reasons. Therefore, it is difficult to estimate what producers of natural gas could expect to receive for their production. (Source: Eurostat)

### Environment

Compared with oil and coal, natural gas has less negative environmental impact. There are practically no emissions of sulphur, heavy metals, ashes and particles. In the combustion process, natural gas causes less emissions of carbon dioxides compared with oil (25 percent less per unit of energy) and coal (45 percent less per unit of energy). In comparison, natural gas therefore contributes relatively little to the green house effect. (Source: Svenska Gasföreningen)

### Pipeline infrastructure

The natural gas pipeline network of Europe is a great technological and business achievement. Over 1,800,000 kilometres of pipeline extend across the European Union and thousands of kilometres of pipeline interconnections and extensions are being built or planned, to ensure a secure and reliable supply of energy. (Source: Eurogas Annual Report 2003–2004) EU legislation has provided for both third party access to transportation networks and transparency of transport tariffs.

### Natural gas grid in Europe

1970



2004



(Source: Eurogas Annual Report 2004–2005)

Natural gas can be converted into a liquid form called liquefied natural gas through a cooling and compression process. Liquefied natural gas is transported in special ocean tankers for re-gasification in consuming countries. LNG represents around 14% of total EU gas imports.

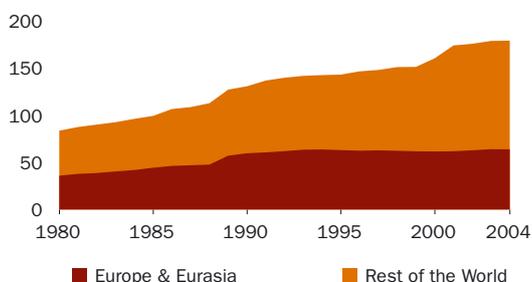
### Natural gas market reform in Europe

Until recently, legal or de facto monopolies had control of the natural gas markets within their respective countries. Reform in the EU was initiated with the EU Gas Directive (98/30/EC) (the “1998 EU Gas Directive”), adopted in 1998, which required a phased approach to market liberalization for all members of the EU. In 2003, the EU adopted Directive 2003/55/EC (the “2003 EU Gas Directive”) repealing the 1998 EU Gas Directive with the aim to establish common rules and promote the creation of a single European natural gas market. In summary, the 2003 EU Gas Directive provides:

1. that markets open for the choice of supplier as from 2004 (i.e. industrial and commercial), and from July 2007 with regard to all customers;
2. third-party access and legal separation of transmission activities (i.e. the operation of pipelines, etc) from July 2004 and of distribution activities (i.e. the delivery of natural gas to customers) from July 2007;
3. legal but not ownership unbundling; and
4. provisions concerning public service obligations, customer protection and security of supply. The liberalization of the EU natural gas and power markets will improve market access, which is expected to create business opportunities for independent natural gas producers.

### Known natural gas reserves, tcm

The proven natural gas reserves in Europe and Eurasia of 64.0 trillion cubic metres (tcm) by the end of 2004 represents 36 percent of total global reserves. Russia accounts for 75 percent of the total reserves in Europe and Eurasia.

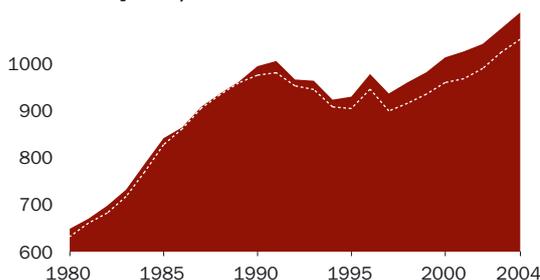


Source: BP Statistical Review of World Energy 2005.

### Natural gas demand and supply

Consumption in Europe and Eurasia in 2004 amounted to 1,109 billion cubic metres (bcm), accounting for around 42 percent of global natural gas consumption.

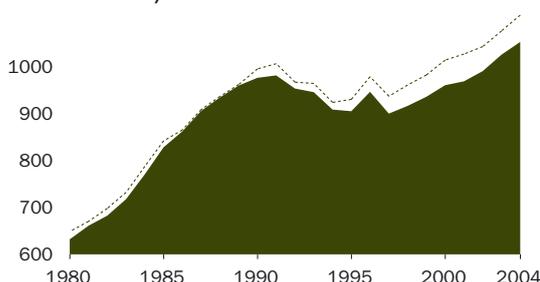
### Consumption, bcm



Source: BP Statistical Review of World Energy 2005.

Dashed line indicates Production.

### Production, bcm



Source: BP Statistical Review of World Energy 2005.

Dashed line indicates Consumption.

European demand for natural gas is projected to reach 901 bcm representing about 33 percent of the total primary energy demand in 2020, compared with 482 bcm in 2000 or 22 percent of the total primary energy demand. Most of the increase in demand is expected to come from power generation, where natural gas is particularly cost-effective. The residential sector is currently the largest source of demand, followed by the commercial, electricity and industrial sectors.

Natural gas production in Europe is expected to amount to approximately 300 bcm a year until 2020 and then decrease slightly to 276 bcm in 2030. However, production could turn out to be higher depending on technological developments and price. Nevertheless, given the stable production of natural gas and the prospect of rising demand, the European imports are expected to continue to increase for the foreseeable future. Russia is the largest external supplier to Europe, providing during 2004 about a quarter of total supply by pipeline. Algeria, with 10 percent, is the second largest exporter of natural gas to Europe via pipeline and as liquefied natural gas. In the future other regions, such as North Africa, the Caspian Sea and the Middle East are expected to increase exports to Western Europe. (Source: Eurogas Annual Report 2004–2005)

# Tethys Oil



## Overview

Tethys Oil is a Swedish company focused on exploration for and production of oil and natural gas. Tethys 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 exploration licenses in Denmark, France, Morocco, Spain and Turkey and in a production license in Spain. The shares are listed on Nya Marknaden (TETY) in Stockholm.

## Asset portfolio

Tethys Oil's strategy is to create value for its shareholders through exploration as well as acquisition of assets in different development phases. Tethys Oil will continue to evaluate opportunities to acquire both exploration licenses and producing assets.

## Organization

Tethys Oil's head office is located in Stockholm, Sweden. Currently the company has four employees, of which three persons operating out of Stockholm and one person operating out of the company's technical office in Geneva, Switzerland. The relatively small organization allows Tethys Oil to have a fast network organization based on contracting independent consultants in specialized fields. Through this organization Tethys Oil accesses local competence with years of experience which would otherwise take several years to build in-house.

## History

Tethys Oil was founded in 2001 by Hamilton, Hoey and Nordin, and was awarded its first Danish license in 2002. In 2003, interests in three Spanish licenses were acquired. Subsequently opportunities in Turkey were evaluated resulting in the signing of an agreement covering three Turkish licences in December 2003. A second Danish license was awarded in 2003 and an application for an additional exploration license in Spain was filed. Tethys Oil conducted an IPO in March 2004 and was listed for trading on Nya Marknaden in Stockholm on April 6 2004. Since then, Tethys Oil has increased the project portfolio with further license interest in Turkey and Spain as well as new license interests in Morocco and France.

Country	License areas	Tethys Oil, %	Total area, km <sup>2</sup>	Operator
Denmark	License 1/02	70%	533	Tethys Oil Denmark
	License 1/03	70%	1,655	Tethys Oil Denmark
France	Attila	40%	1,986	Galli Coz S.A.
Morocco	Bouanane	50%	2,100	Tethys Oil
Spain	La Lora	22.5%	106	Ascent Resources Plc.
	Valderredible	50%	241	Ascent Resources Plc.
	Huermeces	50%	121	Ascent Resources Plc.
	Basconillos	50%	194	Ascent Resources Plc.
Turkey	Ispandika	10% – 45%	965	Aladdin Middle East Ltd.
	Thrace	25%	897	Aladdin Middle East Ltd.
<b>Total</b>			<b>8,798</b>	

## Areas

Tethys Oil's primary focus is on fields where infrastructure is available and/or consumers are located in near proximity. Consequently, the company primarily focuses on areas with pre-existing infrastructure. Tethys Oil will further exploit technological developments that are applied in geophysical analysis and drilling. This can reduce expenses and make it possible to evaluate and develop interesting areas that have previously been considered sub-economic.

## Denmark

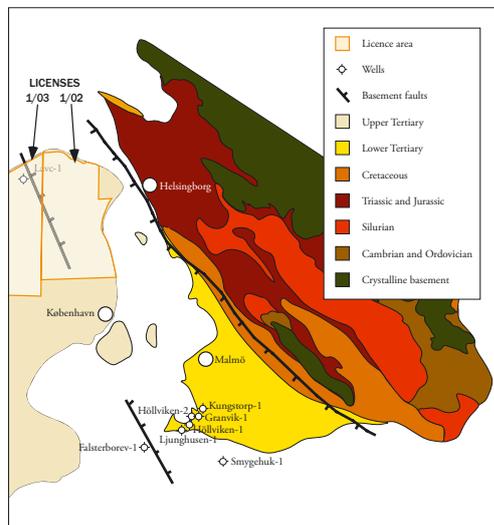
Tethys Oil's most imminent exploration drilling is the one on the Danish license 1/02. The drill site is located in Karlebo, between Copenhagen and Elsinore. This is one of Tethys' project portfolio's high risk/high reward projects. With Tethys as operator, the drilling will commence during the summer of 2006.



## Exploration history and geological overview

Denmark is Europe's third largest producer of oil and natural gas with all production coming from offshore in the North Sea. Onshore Denmark and in particular Zealand is comparatively under-explored. Only two exploration wells have been drilled on Zealand, both relatively long ago, and proving excellent reservoir and seal properties. The seismic coverage, mainly from American companies in the 80's is comprehensive to identify good traps in the Karlebo area within Tethys' License 1/02.

The geology of north eastern Denmark, Zealand, Öresund and Kattegatt, is dominated by the north west–south east trending Törnquist fault zone, which forms the border between the Baltic shield to the north and the European basins to the south. In northern Zealand the geology is similar to, and on trend with, the outcropping rocks in south western Sweden. The rocks at the surface in Scania contain Cambrian age oil source rocks in the Alum Shale. The same rocks were encountered in some of the wells drilled around Malmö, offshore south and west of Falsterbo in 1972 and offshore in the Falsterboev well drilled in 1973. By correlating the wells to regional seismic lines, this source rock is predicted to be present in the subsurface in northern Zealand. Unlike in Scania, these source rocks are buried at sufficient depths for the generating of oil and/or natural gas.



## Tethys Oil's geological model over the Danish licenses

The company's primary reservoir objective is layers of sandstone deposited during the lower Cretaceous time period. Cretaceous sandstone deposits in nearby regions including the North Sea and Irish Sea Basins

are of high quality and currently produce oil and natural gas. Secondary reservoir objectives are sandstone deposited during Jurassic times and the Triassic sandstone. Those reservoirs produce natural gas in northern Germany and had hydrocarbon shows in south west Scania. In the Lavo-1 well located in the 1/03 license area, Cretaceous, Jurassic and Triassic sandstone were encountered with good porosity (around 20 percent). Furthermore, good porosity was encountered in all of these sandstones in the Margretheholm geothermal well located in Copenhagen.

For any reservoir, a seal made out of an almost impermeable rock layer is necessary to prevent oil or natural gas from leaking out of the reservoir. Tethys Oil believes that the seal, for the Lower Cretaceous sandstone reservoir would be chalk deposited later during Cretaceous times. Chalk is an excellent seal due to its density and very low porosity. Seals for other potential reservoirs should be formed by impermeable shale overlying the sandstone.

There are a number of potential source rocks in this area including the Cambrian Alum shale, Triassic coal and Jurassic marine shale. The extremely organic-rich Cambrian Alum shale outcrops in southern Sweden. The Alum is the primary oil source rock for oil and gas fields in the Baltic area, i.e. Gotland, Lithuania, Kaliningrad and north western Poland. Jurassic source rock is present in the region but has so far not been encountered at sufficient depth to have generated oil. However, some recent work indicates that it may have been buried at sufficient depth in the region during Tertiary times, i.e. some 10 to 60 million years ago, to have generated oil. In Tethys's geological model, the Alum source rock is buried at such a depth, that natural gas is considered to be more likely discovered than crude oil.

Both simple structural closures and fault traps are possible traps of hydrocarbons in the license areas. Normal downthrown faults could have formed traps in the region at various times given that these basement features have existed since Precambrian times and have been reactivated. The simple closure identified on the Karlebo prospect is interpreted to have resulted from compressive forces related to the Laramide orogeny (mountain formation) in the latest Cretaceous and Early Tertiary periods. Therefore this trap would have been formed prior to peak gas generation that was taking place in the deeper parts of the license area. Tethys Oil's primary prospect, Karlebo, is a simple closed structure at a depth corresponding to the base of the chalk layers. This closure, and others on

Licenses	Tethys Oil, %	Total area, km <sup>2</sup>	Partner	Operator
License 1/02	70%	533	DONG, Odin	Tethys Oil Denmark
License 1/03	70%	1,655	DONG, Odin	Tethys Oil Denmark
<b>Total</b>		<b>2,188</b>		

trend, is controlled by movements along deeper faults starting from the regional basement fault. Based on a depth conversion of the seismic time-structure map, it is calculated that the Karlebo prospect has at least 60 metres of simple closure at the base of Cretaceous chalk, which overlies reservoir sandstone.

### Main risks and potential of the reservoir

A successful exploration well on license 1/02 in Denmark would be quite significant for Tethys Oil. The reservoir has potential to hold a very large amount of gas. Any commercial discovery would be favorable given the Karlebo areas location only 30 kilometres from Copenhagen and less than 8 kilometres from the pipeline that supplies Sweden with natural gas. Compared to the estimated well cost of around MSEK 20, the risk/reward ratio is very favorable.

As always with big rewards, there are also many main risks. Three of the four necessary criteria, seal, reservoir and trap are very well defined. The main risk concerns source, and the standard opinion is that any source rock present in the area is over-mature, i.e. has already expelled its hydrocarbons. However the academic argument for this position is rather weak and especially if well data from offshore and onshore Scania are incorporated, several cases of hydrocarbon shows must be explained. Notably a live oil show in the Hollviken-2 well, and gas shows from the bottom of the Falsterborev-1 well. Organic-rich Alum shales of Cambrian are most likely to be present below the Karlebo structure, and given hydrocarbon shows from this source on- and offshore Falsterbo, and the fact that no wells have penetrated deep enough to evaluate the state of the source below Zealand, Tethys believes that the area has valid possibilities for hydrocarbon accumulations.



### Licenses and work program

Tethys Oil has interests in two licenses in Denmark, license 1/02 in Zealand and license 1/03 in Jutland and Zealand. License 1/02 was awarded by the Danish government during the summer of 2002 and license 1/03 was awarded by the end of 2003. Both licenses were awarded in accordance with the so called Open Door procedure. Tethys Oil is the operator of the licenses with 70 percent interest.

### Peter Willumsen – Tethys' man in Denmark

Peter Willumsen is Tethys Oil's country manager for Denmark. He has been working for the company since beginning of 2002 and successfully handled the work with Tethys' Danish licenses.



Peter Willumsen has more than twenty-five years of international exploration, appraisal, development, operations and management experience.

Since 1998, Willumsen is owner and director of weXco in Denmark. The company is active within general exploration consulting. Willumsen also gives external lectures in Petroleum Geology at the University of Ålborg in Denmark.

From 1990 until 1998, Willumsen worked for Lapindo Brantas Inc. and Huffco Brantas Inc. in Jakarta, Indonesia. He held positions as exploration manager, general manager and chief geologist.

Willumsen was from 1984 to 1990 exploration manager for DONG (the Danish national oil company). Pervious to that, he was Huffco Indonesia's senior geologist at Borneo in Indonesia between 1981 and 1984. Willumsen has also work as geologist and area supervisor for Gulf Canada Resources from 1975 to 1981.

Willumsen holds a Master of Science in Geology (micropaleontology) from the University of Copenhagen. He speaks several languages including Danish, English, Indonesian, German and French. Willumsen has also published a number of books and articles on geology.

### License 1/02

The work program for the license is divided into three periods, each with duration of two years and comprises the following:

- Period 1: Geological studies to integrate all available data followed by a specialized 2D seismic reprocessing, which was completed by mid-2004.
- Period 2: The drilling of an exploration well to a depth of at least 2,500 metres or 50 metres below the bottom of the Triassic Gassum formation, whichever is reached first. The well must be completed and evaluated before the end of 2006.
- Period 3: A second exploration well by July 2008.

The work program is sequential, and consequently period 2 and 3 are contingent on the results of the previous phase(s). The license can be relinquished after the completion of the work programs in period one and two, respectively.

The Operating Committee of the license group has approved Tethys Oil's recommendation to enter into the second phase of the license which includes a drilling commitment. Approval to do this was subsequently received by the Danish Energy Agency, with Tethys Oil being nominated the Operator of the exploration well.

The seismic acquisition commitment from the first phase of the license was waived in exchange for having tested a new seismic reprocessing technique on one of the existing seismic lines over the Kar-



Expected Karlebo stratigraphic column

lebo prospect. This resulted in the Wavelet Energy Absorption (WEA) technique which is described in the WEA summary box. The WEA technique identified amplitude anomalies corresponding to the structural closure of two of the prospective reservoir horizons. Although not confirming that hydrocarbons are present in the structure, these anomalies are one additional indicator supporting Tethys' view that the area is prospective for hydrocarbons. The Technical Committee agreed that additional seismic lines were not needed to define the limits of the prospect, and therefore drilling could proceed based on the existing seismic database.

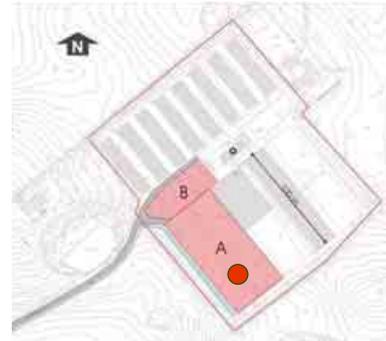


Aerial view of Karlebo well site

## 2005

During 2005, activity in Denmark gradually increased, and Tethys has moved closer to the drilling of the company's first exploration well in Denmark. A contract for the drill site land was signed in March 2005, and applications with local authorities concerning permits associated with the drilling have been filed. In May, an open public hearing was conducted in the municipality of Karlebo, where the drill site is located.

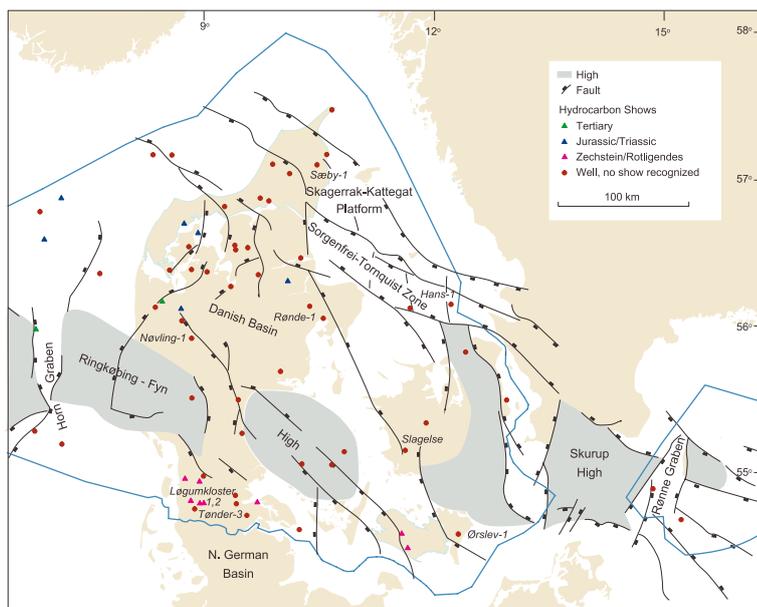
Preparations for the Karlebo-1 well continued during 2006, and in January a contract for the construction



Expected pad location

The Karlebo exploration well will be designed to test all three potentially hydrocarbon bearing zones that have been identified from the seismic studies carried out to date. The three potential reservoir zones consist of sandstones at depths ranging from 1,800 metres to 2,400 metres below surface. The well location has been chosen using 291 kilometres of 2D seismic data and regional stratigraphic correlations.

of the drilling site was signed. The first phase of the tendering for a rig has been finalized, and a shortlist of contractors has been established. Casing has been received and tendering for other long-lead items is in progress. A public meeting, originally scheduled for late January, has on the initiative of the Karlebo Municipality been moved forward, closer to the construction date of the well site. In the meantime, the constructive dialogue with the Karlebo authorities has continued, and a meeting was held in January 2006. Tethys expects to be able to drill the well during the summer of 2006. According to the license from the Danish Energy Authority the well must be completed and evaluated before the end of 2006.



## License 1/03

The work program for the license is divided into three periods, each with a duration of two years, and comprises the following:

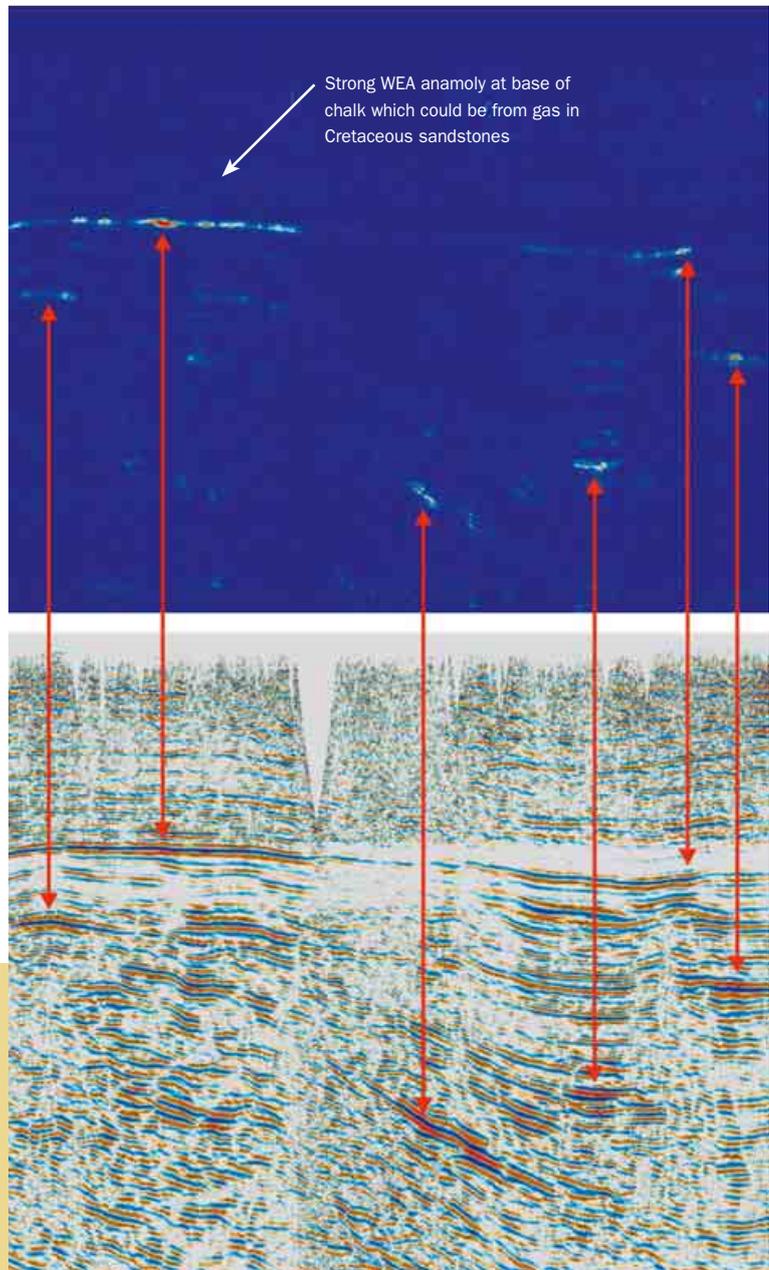
- Period 1: Geological studies to integrate all available data followed by a specialized 2D seismic reprocessing. This will be followed by a surface geochemical survey.
- Period 2: Acquisition of new seismic data.
- Period 3: Drilling of an exploration well.

The work program is sequential, and consequently period 2 and 3 are contingent on the results of the previous phase(s). The license can be relinquished after the completion of the work programs in period one and two, respectively.

Tethys Oil has previously finished the reprocessing of seismic lines from the area. All of the existing onshore seismic data has been reprocessed and combined with the offshore seismic data.

**2005**

The surface geochemical survey of license 1/03 over onshore Jutland in Denmark was finalized during 2005. The survey can detect even minute quantities of hydrocarbon gases in the soil. The interpretation of the data will now be initiated. Positive results from this study would indicate the presence of an active petroleum system working in the area.



**WEA Technology Summary**

The Wavelet Energy Absorption (WEA) is a new geophysical seismic processing technique designed to directly detect hydrocarbons in the subsurface. It is intended to improve upon existing processing methods such as bright spot analyses and amplitude versus offset (AVO). Although these earlier technologies can work very well in known areas and trends, they all suffer from significant technical limitations that can lead to false indications of hydrocarbons and lowered success rates. WEA substantially avoids these limitations by extracting the necessary hydrocarbon indicator information directly from the physical traveling wavelet. This process of extracting the hydrocarbon indicator information directly from the physical travelling wavelet is unique in the industry (Apex Metalink, Inc. patent pending), and represents the solution to a series of long standing theoretical and technical problems.

In simple terms, WEA works by the following process – as the seismic wave propagates through the subsurface, the high frequency component of the seismic wave attenuates (i.e., the high frequency energy is absorbed and) to a much greater extent in a gas filled sand than in a water filled sand or a

shale. This effect produces a WEA energy absorption anomaly, the strength of which is proportional to the net thickness, bulk volume of gas, the wave traverses. After using state of the art Apex Metalink proprietary noise reduction processing techniques to preserve the signal and decrease the noise in the seismic data, the WEA algorithms extracts the absorption information from the reprocessed seismic data so that it can be mapped and interpreted via a computer workstation.

Thus, all WEA anomalies in the dataset are examined and those which have the greatest magnitude and which are most consistent with geological conditions associated with oil and gas fields are considered to be lower risk natural gas prospects.

*WEA anomalies correlated with seismic reflector*

## Morocco

In 2005, Tethys Oil expanded the company's operating area to Northern Africa. In July, a contract was signed relating to a one year reconnaissance license over an exploration area in central Morocco, known as Bouanane. The license is located in the south east sector of Morocco, on the Saharan side of the Atlas Mountains. Tethys, as Operator, has a 50% interest in the license.



**Geology**

Over 400 million years ago broad oceans covered much of the planets continents. These oceans were rich in life. The resulting sedimentary rocks deposited at the bottom of these oceans were therefore rich in organic carbon. In many places around the world, in particular North Africa, these sediments form the famous Silurian oil source rocks (known in industry parlance as “hot shales”). These source rocks are present at the surface in the Moroccan Atlas mountains. In the subsurface in and around the Bouanane license, they have been buried and heated, thus releasing their organic carbon content in the form of hydrocarbons, which is oil and natural gas.

Going further back in time, to the Ordovician time periods, some 450 million years ago, these great oceans had not yet completely flooded the continents. Instead vast sandy beaches were present that resulted in the deposition of high quality reservoirs, perfectly made to hold the hydrocarbons later generated out of the Silurian.

A third piece of the exploration puzzle requires the presence of a geological feature that could concentrate and trap hydrocarbons. The Tafejjart prospect is suitably placed to have received any migration of hydrocarbons in its direction. Existing technical data shows that the Tafejjart structure was formed, that is uplifted, after the Ordovician reservoirs and Silurian source rocks were deposited, and most importantly, before there was sufficient burial of the source rocks. In other words the prospect is not too old to be lacking reservoirs on top of it, and not too young to have missed the hydrocarbon expulsion from the source rocks.

Finally, later in time during the Carboniferous period, some 300 to 350 million years ago, the entire area was blanketed with thick deposits of shale and mudstone. These types of rocks are excellent for their ability to seal hydrocarbons into reservoirs.

All of the geological evidence supports our idea that the Bouanane license could contain oil or natural gas fields similar to those found to date in nearby Algeria.

**Main risks and potential of the reservoir**

A successful exploration well in Morocco could show very large quantities of natural gas, and a large discovery could be tied back to the trans-Morocco gas pipeline that supplies domestic markets and exports to Spain.



*Bouanane seismic lines*

In the present situation however, there is not enough information for a decision to drill an exploration well. Many studies and analysis remain to be conducted. It should also not be excluded, that further information might lead to an abandonment of the license.

Licenses	Tethys Oil, %	Total area km <sup>2</sup>	Partner	Operator
Bouanane	50%	2,100	Eastern Petroleum	Tethys Oil
<b>Total</b>		<b>2,100</b>		





### License and work program

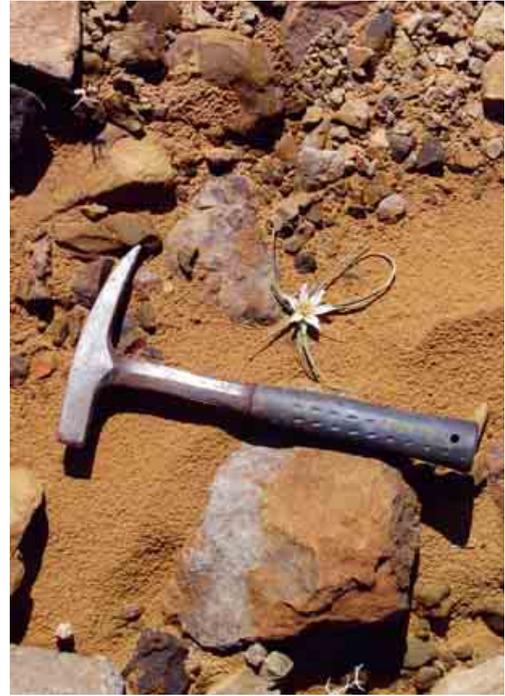
The Bouanane license covers an area of 2,100 square kilometres. The license gives Tethys, as operator with a 50 percent interest, the exclusive right for one year to investigate the license area and grants Tethys the right during this time to elect to convert the license into a regular eight year exploration license on terms and conditions to be negotiated. The private oil company Eastern Petroleum holds the remaining 50 percent interest of the license.

The purpose of the program is to determine a drill site in order to test the large Tafejjart prospect/structure. The work programme for the license period includes:

- Satellite and radar acquisition and interpretation;
- Gravity and magnetic acquisition and interpretation;
- Reprocessing and interpretation of 2D seismic data;
- Integration of surface geology and final interpretation report.

The work program started in February 2006 with a gravity-magnetic survey, and geology field work. Tethys personnel along with ONHYM (Office National des Hydrocarbures et des Mines) geologists have started re-examining the geology at the surface, and collecting rock samples for source rock and reservoir properties.

Tethys, as the license operator, has contracted a geophysical survey of gravity and magnetic data acquisition over a 1,536 square kilometre area. ONHYM is the contractor for the gravity-magnetic survey. A total of 429 gravity measurements and over 1,700 magnetic measurements will be made over the survey area.



The purpose of this survey in the Bouanane license is to further help in defining the extent of the Tafejjart prospect/structure, and the depth of the deepest possible reservoir targets. This survey will complement the existing seismic data over the main prospect of Tafejjart, especially to the north east where there is a lack of seismic lines. Additionally there are other parts of the license without sufficient seismic coverage and where other prospects are expected.

### Gravity and magnetic studies

Gravity data consists of measurements of the earth's gravitational field at various locations over an area using an instrument called a gravimetre. The objective in exploration work is to measure variations and distributions of rock densities. These data give information about the type of rocks in the subsurface and particularly useful for finding features of dense rocks, like granitic basement, or light rocks, like salt domes. Magnetic data, similar to gravity, are measurements of the earth's magnetic field. The objective is to locate concentrations of magnetic materials in the subsurface. Magnetic data readily identifies areas of volcanic rocks as well as basement rocks. Together the two datasets are used to define geological structures and the depth to basement rocks.

The gravity data acquisition is carried out by a crew consisting of engineers and technicians on the ground with magnetometres and one gravimetre. They are traversing the license area at regular two kilometre intervals. Every 500 metres along these traverse lines, they stop to take two magnetometre measurements. These magnetic readings are easily made with the handheld equipment, requiring only minutes at each location. Every two kilometres a gravity reading is made, which are more involved and require that the instrument be perfectly level and still. Also the geographical coordinates and elevation at the instruments location must be known to an accuracy of centimetres.

## Spain

The production in Tethys Oil's production license, the Ayoluengo oil field in Spain, remains small but some positive cash contribution was achieved for 2005. The field got a new operator during 2005, who has indicated that new investment proposals may be forthcoming. If so, Tethys will consider such proposals when accessing its overall strategy for Spain. Discussions are ongoing with the new operator for the exploration blocks regarding an increased work programme in the Huermece, Valderredible and Basconcillos exploration licenses which could include the drilling of one to two exploration wells during 2006.



### Background and Geological overview

Spain has limited proven domestic oil reserves and oil production has decreased significantly during the last decade. Spain has five major offshore oil fields including Lora, Casablanca-Montanazo, Rodabello, Chipirón and Angula-Casablanca, of which Chipirón produced the most oil in 2002 with close to 3,000 bbls per day.

Domestic natural gas production only covers 1.5 percent of Spain's total consumption of natural gas. In the twelve month period ended August 2003, domestic production was 0.37 bcm, while total consumption was 25.2 bcm. Four natural gas fields – El Ruedo, Las Barreras, Maismas, and Poseidon – accounted for the production during this period. Spain is therefore very dependent on natural gas imports.

Tethys Oil's interest areas are located south of the Cantabrian Mountains in northern Spain within the Duero basin between the cities of Burgos and Bilbao. The Cantabrian Mountains are made up of Paleozoic rocks, which extend southward underneath the interest areas. These are composed of limestone, sandstone and coal seams, which are important gas source rocks. Younger Mesozoic sandstone of Triassic age overlay the Paleozoic rocks which are in turn covered by marine shale that is the source rock for the oil found in the Ayoluengo field, which is reservoired in sandstone of Cretaceous age.

### La Lora – Ayoluengo production license

The Ayoluengo oil field was discovered by the US oil company Chevron in 1964. To date, the oil field has produced 16 million bbls of oil. The current oil reservoir is located at an average depth of 1,200 metres. Infrastructure at the Ayoluengo field consists primarily of oil and natural gas transportation and processing facilities. On site are four oil storage tanks, with a joint capacity of 21,000 bbls.

The production in the Ayoluengo oil field remains small and unless new investments are made, production will continue to slowly decline. The decline is however offset by higher oil prices and a small positive cash contribution was achieved for the full year 2005. However, following the overall disappointing results from the field, Tethys has sought other projects in the area and has, in this regard, signed an agreement with one of its partners in the Ayoluengo field, La Lora

Concession, for an exchange of license interests. In return for its 22.5 percent beneficial interest in La Lora Tethys will receive a 20 percent working interest in an existing exploration license elsewhere in Spain. This exchange of interest is subject to that license being granted an extension by the government, and the approval of license partners. This exploration license contains a large natural gas prospect that has considerable potential for the company. Until all conditions of the exchange have been satisfied, Tethys keeps its interest in the field.

### Valderredible license

The Valderredible exploration license contains the Huidobro discovery that was made by Chevron in the 1960s. The previous operator has proposed to redrill the Huidobro anticline using modern technology and improved drilling practices aiming at achieving a commercially viable oil field. In addition, deeper structural prospects have been identified based on existing seismic data.

### Huermeces license

The Huermeces exploration license contains the Hon-tomin discovery, which was drilled by Chevron in 1960s and produced an average of 113 bbls per day. It is noteworthy that although this well produced oil, it missed the original target and only penetrated the flank of the structure. This area is separated from the primary location by a geological fault that places the reservoir rocks at a shallower depth.

### Basconcillos-H license

The Basconcillos-H area is located to the south west of the Ayoluengo field. The area includes the Tozo wells that were drilled from 1965 to 1967. These wells encountered oil saturated sandstone at shallow depths of less than 500 metres.

### Technical work

For all of the licenses a comprehensive database was built. The purpose of this was to input all available geological, geophysical and drilling data into an electronic form for using on a computer workstation. This database formed the foundation for all interpretation of the Ayoluengo field and prospects in surrounding exploration licenses.

On all exploration wells within the licenses, petrophysical analyses were conducted. This task uses the

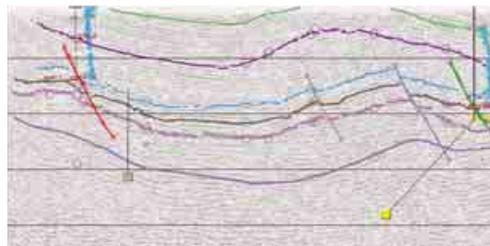
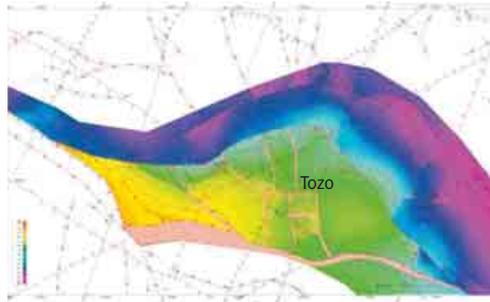
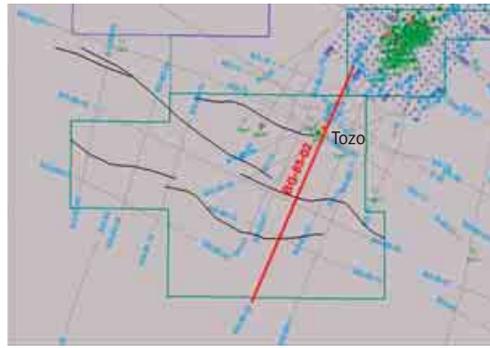
Licenses	Tethys Oil, %	Total area km <sup>2</sup>	Operator
La Lora	22.5%	106	Ascent Resources Plc
Valderredible	50%	241	Ascent Resources Plc
Huermeces	50%	121	Ascent Resources Plc
Basconcillos-H	50%	194	Ascent Resources Plc
<b>Total</b>		<b>662</b>	

well logs and any production test data to determine reservoir properties, such as porosity and permeability, and oil or gas saturation levels in the rocks. Through this process, zones that previously tested positive for oil and gas can be better understood, and sometimes new pay zones can be identified. Pay zones were confirmed in wells Hontomin-2, Huidobro-1&2, and Tozo-1&4.

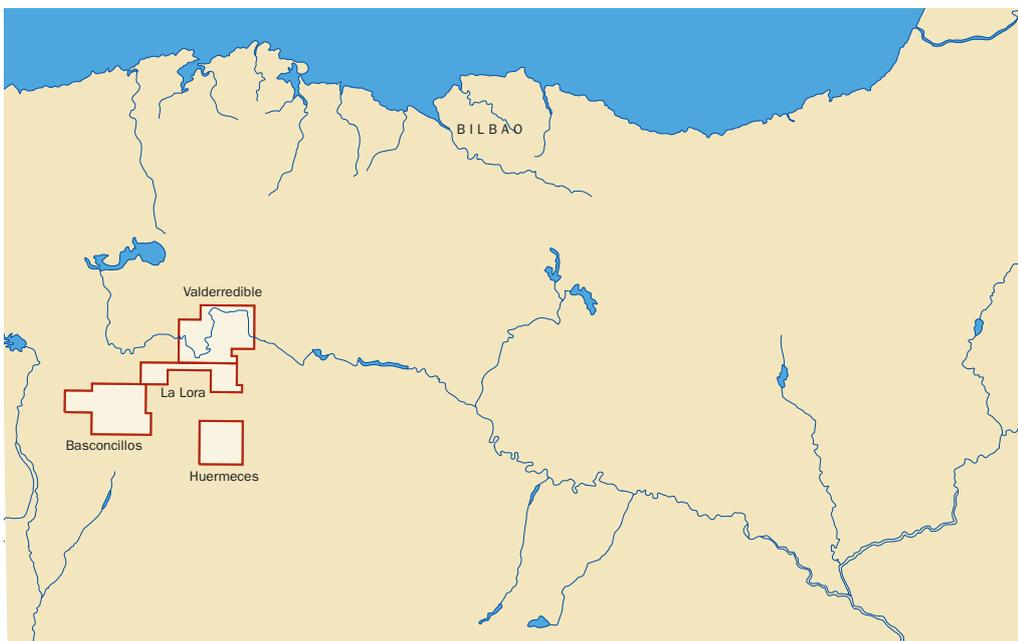
Using the database, all two-dimensional (2D) seismic lines in the exploration licenses were interpreted. The purpose of this was to make new structure maps on existing prospects and to find new prospects. In this way, the Hontomin prospect on the Huermeceas licenses was confirmed, however with an increased risk of a trap for the oil. The Huidobro prospect in the Valderredible license was mapped to be smaller than originally thought. The Tozo prospect remains unchanged.

Subsequently, a reservoir engineering study of the exploration prospects was conducted. Its function was to determine the oil production potential of the exploration wells in the licenses. Some results are as follows: Hontomin-2 produced from a limited oil pool; Huidobro-1&2 had thick oil pay zones at shallow depth and no deeper reservoirs; and Tozo-1&4 could be economic oil producers.

The new operator for the exploration blocks, Ascent Resources Plc, and Tethys are discussing an increased work programme in the Huermeceas, Valderredible and Basconillos exploration licenses which could include the drilling of the Hontomin and Tozo structures during 2006.

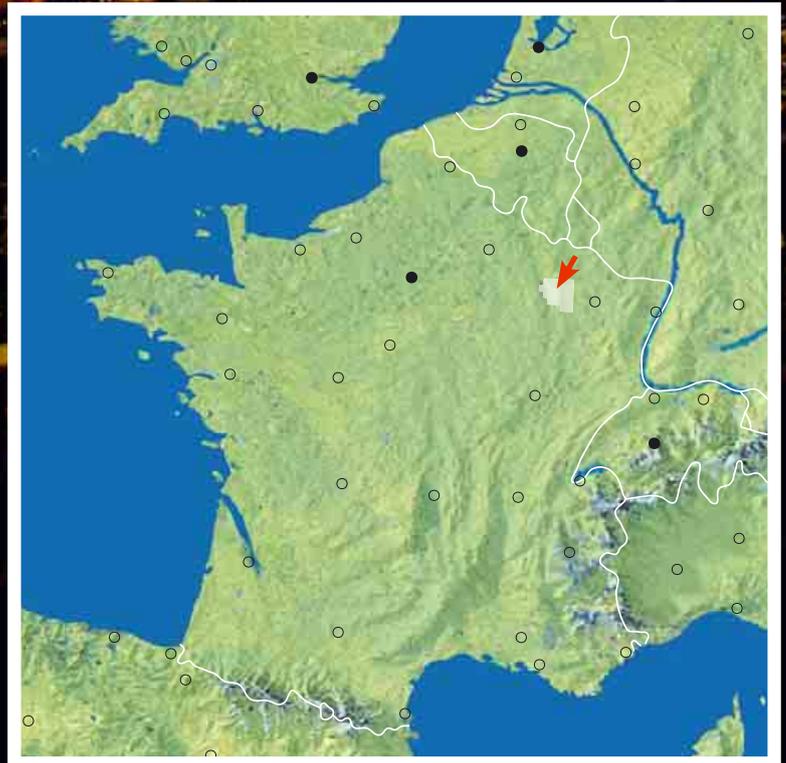


Hontomin



# France

Tethys Oil's project portfolio has been expanded, and now includes a French exploration license. The Attila License covers 1,986 square kilometres of the Department of Meuse in north eastern France, about 250 kilometres east of Paris. Tethys has a 40% interest in the license with private French oil company Galli Coz S.A. having 60% and operatorship. A drilling program is under construction with a view to drill an exploration well during 2006.



## Background

The Attila license area is located in the eastern part of the oil and gas producing Paris basin. The license is valid for a period of five years.

A natural gas discovery, Montplonne, was made by Esso within the license in 1984. The Montplonne discovery was however non-commercial at the time due to lack of infrastructure. Since then a 36 inch (0.90 metre) natural gas pipeline has been constructed across the middle of the license area

## Geology

Tethys' objective in France is to find natural gas accumulations similar to the adjacent gas field called Trois-Fontaines. In general, the Paris basin is an oil basin because the depth of burial of the source rock is enough to generate oil but not deep enough, i.e. hot enough, to make natural gas. However to the east, starting under the Trois-Fontaines field and extending into Germany, there are gas generating source rocks present in the subsurface.

These gas source rocks are of Carboniferous age, between 300 and 360 million years old. The reason this geological time period is called Carboniferous is because rocks of this age are throughout the world dominated by coal (carbon). In addition to being valuable sources of energy when mined at the surface, they are also excellent natural gas-generating source rocks. For example, all of the gas produced in the southern North Sea, United Kingdom and Netherlands, were derived from these coals.

The presence of a gas field in this region of France is encouraging because it shows that there is in existence a working system to generate and trap natural gas. Tethys' belief is that there has simply not been sufficient exploration to find more fields. Within the near 2,000 square kilometre Attila license area, only 12 wells have been drilled deep enough to penetrate the Triassic-aged reservoirs that contain gas in Trois-Fontaines. One of those wells, Montplonne-2, discovered a small gas field. This drilling density, 1 well per 166 square kilometres, could be compared with the average drilling density for Europe with one exploration well for every 116 square kilometres and in the USA with one per 28 square kilometres.

## Main risks and potential of the reservoir

The objective with the Attila license is to find gas generated from the Carboniferous migrating directly upwards into Triassic age sandstone reservoirs. A trap is required to make a gas field. In this case, the trap is geological faults, sudden breaks in the rock, which

displace impermeable rocks up against porous reservoir rocks. Those geologic faults are causing a seal against which the migration of gas through the rock layers is stopped. However, herein lies the greatest risk. Are there faults and do they provide a sealing mechanism? As for potential reserves, they are in the order of magnitude between 10 and 100 bcf, depending on the amount of seal along the fault and the amount of porosity in the reservoir rocks.

## Work program

The technical work program has been conducted on the license. Satellite and radar data was acquired and analyzed to identify fault trends. About 180 kilometres of existing seismic data has been reprocessed. Geochemical surface samples were collected and have been analyzed confirming the prospectivity of the area.

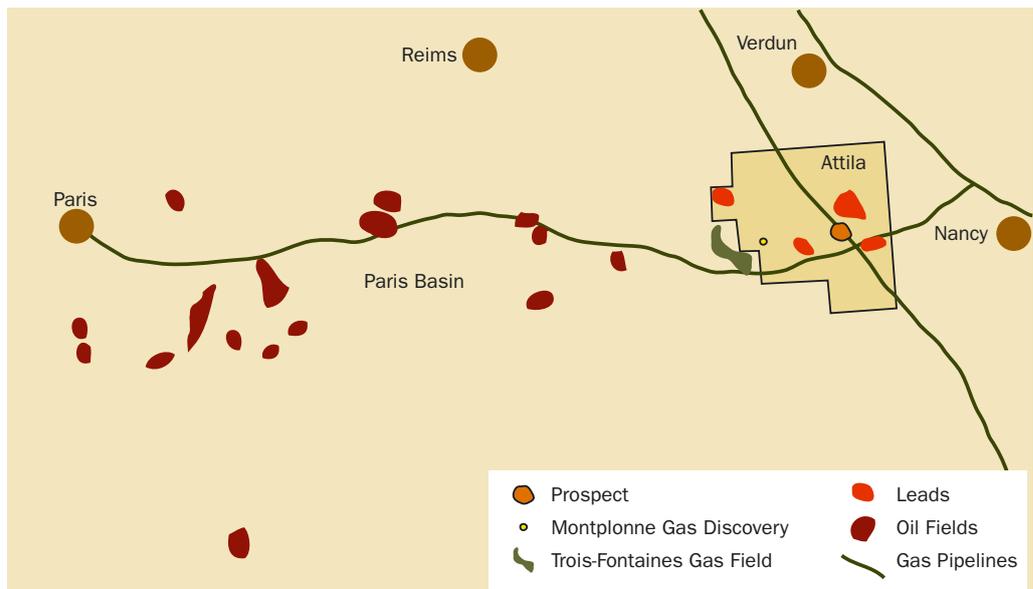
**GALLI COZ** is a privately-owned French company, created in June 2004. Its unique object is to explore for gas in the east of the Paris Basin, a zone abandoned by the main operating companies for 15 years. GALLI COZ, in a partnership with TETHYS OIL AB, applied for an exploration license in July 2004, and the partnership obtained the license in February 2006. GALLI COZ is the operator of the license.

The idea behind the permit application was to look for gas fields like the neighbouring 100-bcf Trois-Fontaines field, fed by a prolific underlying Carboniferous source-rock. Methods to identify potential such fields combine conventional (seismic reprocessing and interpretation) and less conventional techniques (radar imaging, surface geochemistry, negative temperature anomalies).

Philippe LABAT, GALLI COZ founder, is a 52-year petroleum engineer with 10 years experience with ELF, 3 years with BP, and 15 years experience as an international consultant. Among other activities, he participated with the Canadian explorationist, Peter MEY, to the building of the portfolio of the French company MAUREL & PROM, who made a good success in the Republic of Congo (Brazzaville). Peter MEY is now acting as the exploration manager of GALLI COZ.

The seismic interpretation of 180 kilometres of reprocessed seismic data has been completed and the results integrated in the geological model of the Attila license. The interpretation has focused on a prospective area in the central part of the license, where a geochemical survey and other data have indicated the presence of natural gas. The seismic interpretation defines a closed geological feature in this part of the license, bound by a fault to the east. The benefit of the seismic reprocessing was an enhanced resolution of the data that allowed for accurate mapping of this fault and the structure. Combined with data previously acquired, the additional information provided by the seismic study was sufficient to upgrade the lead in question to a drillable prospect.

Licenses	Tethys Oil, %	Total area km <sup>2</sup>	Partner	Operator
Attila	40%	1,986	Galli Coz S.A.	Galli Coz S.A.
<b>Total</b>		<b>1,986</b>		



This is the first of a total of five leads within the license area to have been upgraded to drillable status. The future of the other leads will be determined by the result of the coming exploration well on the first structure. Based on the seismic interpretation three potential drilling sites have been identified on the prospect and work will now be directed to surface

surveys to select an optimal drilling location. A drilling program will be designed and tenders for suitable rigs will be carried out over the next couple of months with a view to drill an exploration well later during 2006. Estimated drilling depths are around 1,500 metres.

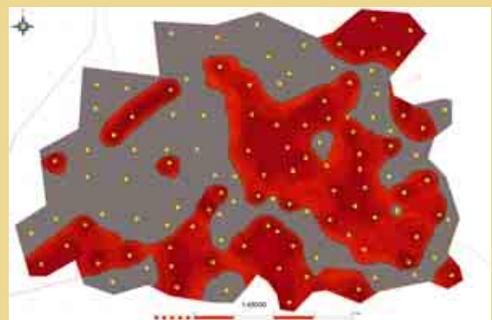
## Surface geochemistry

During 2005 Tethys Oil participated in two surface geochemical surveys, one in Denmark and one in France.

Surface geochemistry is a technique that uses the presence and character of hydrocarbons within the soil to indicate deeper hydrocarbon accumulations. This is possible because all oil and gas fields leak minute quantities of hydrocarbons towards the surface through a process called micro-seepage.

The Gore™ Survey technique used in two of Tethys Oil's 2005 surveys works by installing collectors in the soil in a grid with a sample spacing of ½-1 kilometres. The collectors are left in the ground for ca. 3 weeks and are subsequently analysed for a range of more than 90 hydrocarbon compounds using gas chromatography and mass spectroscopy. Each module may have absorbed as little as one billionth of a gram of hydrocarbons.

The grid samples are compared to a geochemical model that includes end-points with known results, i.e. wells that discovered either oil or gas or wells that were dry. The similarity of the grid points to the positive model end-point ( i.e. an oil or gas well) is expressed as a percentage and a contour map is generated based on these values.



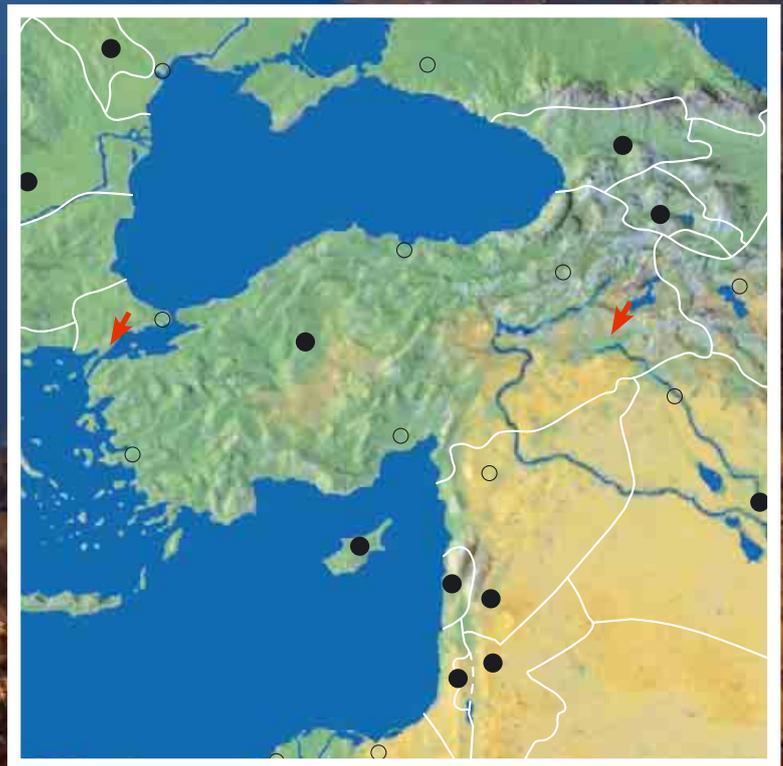
If the positive geochemical model endpoint for example is gas – like in the French survey – then areas similar to it can be expected to have a gas accumulation. The method does not say anything about the volume of gas there, only the area it occupies. However, if good model wells are available the method has been proven to be correct about 9 times out of 10, thus significantly reducing exploration risk.

In the example from France the red areas are similar to the gas model end-point and can be expected to be gas bearing. The grey areas are expected to be dry.

Surface geochemistry is a relatively inexpensive exploration method that forms a good supplement to other exploration methods, like for example seismic data.

# Turkey

During 2005, Tethys Oil increased the company's presence in the both prospective and under-explored Turkey. In September, Tethys Oil signed an agreement regarding two onshore exploration licenses in Thrace, the European part of Turkey. Tethys Oil is already present in Ispandika, in the south east part of Turkey. The both operating areas represents different risk segments in Tethys Oil's project portfolio. Ispandika is located in an area with potential for very large discoveries, but with a high exploration risk. The geology of Thrace is more delineated and the risks are lower, but a potential successful exploration does not have the same potential.



## The Ispandika licenses

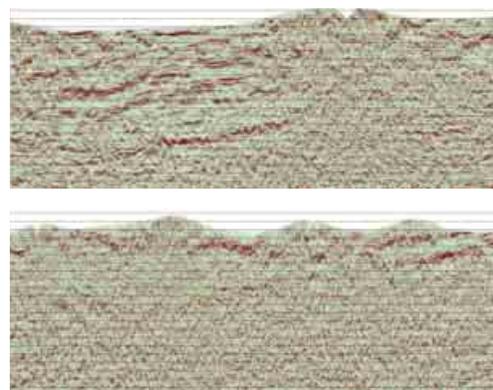
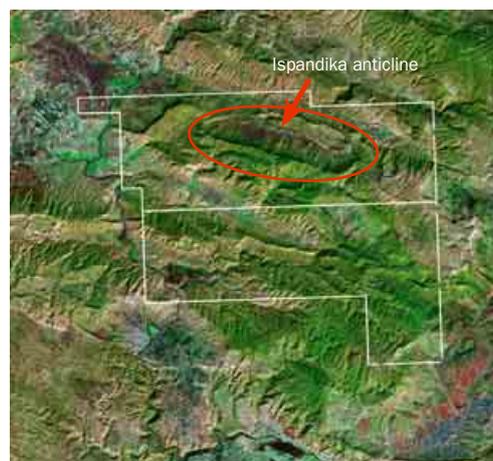
### Exploration history and geological overview

Tethys Oil's interests are located within the south east region on the flank of the Taurus-Zagros thrustbelt, an area of folded rocks. This thrustbelt extends several thousands of kilometres into Iraq and Iran and is one of the most important petroleum provinces of the world. The license areas are bounded to the south by the Mardin High bordering Syria which is the north east extension of the Arabian Plate, a highly oil reserve rich region extending across Iraq, Kuwait and Saudi Arabia. Within Turkey's thrustbelt, oil fields are typically found in east-west trending anticlines with Cretaceous reservoirs. Although trapping mechanisms and reservoir rocks in this part of the thrustbelt are similar to those found in the regions to the south described above, substantially smaller amounts of oil have been encountered in Turkey to date. The two main differences that seem to affect the northern part of the thrustbelt include the lack of substantial contact with the large source rock accumulations within the Arabian plate and the presence of post-trap formation faulting which has adversely affected trap integrity. Oil discoveries in Turkey have therefore been smaller than in those discovered in Iraq and Kuwait.

Most of the oil fields in south eastern Turkey have fractured limestone reservoirs of Cretaceous age. The oil is sourced from both Cretaceous and older Paleozoic marine shale. Overlying Cretaceous marls provide the seal to keep the oil trapped in the reservoirs. Recent exploration efforts in the region of Syria, southern Turkey and Iraq have focused on Paleozoic oil source rock. Most of the 60 commercial oil fields discovered in the south eastern region of Turkey have been sourced by this Paleozoic source rock.

### Tethys Oil's geological model over the licenses in Ispandika

Licenses 3794 and 3795 make up the Ispandika area in the Petroleum District X-Siirt. The Ispandika area, which is a frontier exploration area, is to a large extent unexplored for hydrocarbons and lies between the producing fields around Batman in Turkey and the producing fields in northern Iraq and northern Syria. The area has large surface anticlines related to thrust faults, and is an extension of the Zagros fold belt in Iran. The Ispandika anticline is visible on satellite photographs and is located about 50 kilometres east of the Raman fields, Turkey's largest oil fields. To date, a single well, Girdara-1, has been drilled in the license area. The well, which was drilled by Aladdin in 1965 to a depth of 2,233 metres, encountered oil shows in the Tertiary.



The exploration concept for Ispandika, also called a "play" in oil terminology, is for Paleozoic source rock to be generating oil that would be trapped in pre-Cretaceous reservoirs within the large anticlines. The Silurian oil source rock is present in outcropping rocks east of the license area. Oil produced from the Batman area oil fields west of the license area was derived from this Silurian source rock. The source rock should be present underneath the large surface anticlines within the licenses and would have generated and expelled oil. There is also proven reservoir from the Devonian Hazro formation in the Batman area, along with possible reservoirs in the Permian, like in Saudi Arabia, and Jurassic carbonates. To the south east, towards Iraq, the Permian is at the surface and in places saturated with tar.

The Ispandika licenses are located in an area with high risk, but the potential for very large discoveries are in proportion to the risk. The south eastern part of Turkey is an area for elephants though few have

Licenses	Tethys Oil, %	Total area km <sup>2</sup>	Operator
Trace	25%	897	Aladdin Middle East Ltd.
Ispandika	10-45%	965	Aladdin Middle East Ltd.
<b>Total</b>		<b>1862</b>	

been found due both to geographical and political difficulties. Activities in the area have only recently picked up after being out of bounds virtually since the 1980's. The geology is more complicated than that of Iraq and Iran although some features overlap. Seismic coverage and well density are both poor.

#### *Work program*

Together with Tethys' Turkish partner, the company has decided that the risks are to high in relation to the costs. Hence a decision to launch a farm out campaign was made. The preparations for the setup of a virtual computer room are underway. The cost of conducting a farm out campaign has dropped significantly with the communications possibilities offered by the Internet. This virtual data room will offer potential partners easy access to data for evaluation at a low cost.

#### **Thrace**

In September 2005, Tethys announced that the company increased the project portfolio with two onshore exploration licenses in Thrace, the European part of Turkey. By funding 50 percent of a data review and a 100 kilometre 2D seismic programme up to a maximum of USD 415,000, Tethys will earn a 25 percent interest in the licenses 3998 and 3999. Aladdin Middle East is the operator, and the UK oil and gas company JKK Oil & Gas Plc. has farmed-in to the same licenses under the same conditions as Tethys.

The licenses cover 897 square kilometres and are located in the middle of the Thrace basin. The target formations are Tertiary sands which produce gas from a number of fields in Thrace. Two strong leads have been identified within the license area, but additional seismic is required to confirm the presence of a drillable prospect. The seismic programme will commence during the summer of 2006 and a first exploration well may be drilled in 2007.



*Thrace prospect as seen on seismic*

#### *Geological overview of Thrace*

In the European part of Turkey, west of Istanbul and the Sea of Marmara, lies the Tertiary Thrace Basin which is a triangular-shaped mainly onshore basin. The Basin extends into Bulgaria, where some shallow production is recorded. The Basin is bounded by outcropping Palaeozoic/Mesozoic basement to the north and by the Northern Anatolian Fault Zone in the south. The area contain more than 300 bcf of proven gas plus some oil. The Tertiary Thrace Basin has produced more than 250 bcf of gas and over 400 thousand barrels of oil. Most of the gas is shallow and is located in highly productive deltaic sands.

Only three wells were drilled in the Basin before 1950. Thirty three wells were drilled in the period 1950 to 1970, mainly by Amoseas. Four of these wells were on the Edirne Licence. Although mainly targeting potential oil accumulations in the Sogucak Formation (limestone), this exploration period resulted in the discovery of Hamitabat Field, still the largest gas field in the Basin, plus a number of smaller discoveries. With little gas infrastructure nearby at the time, a power station was built near Hamitabat to utilize the gas. Many shallow water wells reported gas flows, some of them uncontrolled. These shallow occurrences of gas are anecdotal, however and have not been published.

The period 1970 to 1990 was a busy time in the Basin, with a total of 186 exploration and development wells drilled. A high level of exploration and drilling activity has continued with more than 150 wells drilled between 1990 and the present. A number of further discoveries have been made during this period.

Gas prices in the Thrace Basin are high by world standards, with most sales to local industry, thus negating expensive compression and trunk lines. Screening economics suggest fields as small as 10 bcf are commercially viable. Wells are relatively shallow and therefore relatively inexpensive.

#### *Tethys Oil's geological model over the licenses in Thrace*

The Eocene Hamitabat Formation is the dominant source rock in the Thrace Basin. The main kerogen is type III kerogen which is dominantly gas prone. Although gas is the dominant hydrocarbon phase, oil is produced on the flanks of the Basin (and on strike to the Edirne Licence) in the Devecatagi Field, which has produced more than 338,000 barrels of oil. Limited maturation data suggests that the top of the gas window is between about 2,500 metres and 3,000 metres in most of the Basin. The larger discovered gas accumulations are located in the northern part of the gas "kitchen" area.

A number of hydrocarbon bearing reservoirs are present in the Thrace Basin. The oldest known reservoirs are within the Lower Eocene Hamitabat Formation, productive in the Hamitabat field and also the

recently discovered Habiller field. The Sogucak reefal and shallow water fringing limestones are productive in a number of fields. The deltaic reservoirs of the Upper Eocene (Ceylan Formation) and the Oligocene (Mezerdere, Osmancik and Danismen Formations) are a series of coarsening upwards clastic cycles and are also productive, as are the Miocene Ergene Group sands.

In the known gas accumulations the top seal is deltaic shales and claystones. Generally these seals are laterally extensive. Presence of an effective topseal is thus one of the lowest risks in the Thrace Basin. Little has been published on structural styles in this area, but the main trapping mechanisms in the Basin are dip closed anticlines. These structures are believed to be related to reactivation of deep seated faults associated with Basin readjustment, possibly focused along pinch-out

edges of the underlying Hamitabat Sub-basin. It is likely, but is not documented, that some stratigraphic trapping also occurs in the Basin.

*Main risks and potential of the reservoir*

The primary target is anticlines located in the south eastern part of license 3999. Those structures were formed by regional compressive forces that caused the rocks to fold into their anticlinal forms. If they have the proper shape and were formed at the right time, they make excellent traps for hydrocarbons. Therefore the main risk for this play is this shape factor. The work program is designed to define the structure better. The structure is anticipated to contain natural gas, although oil is also a possibility.



*Tethys Oil represented at Swedish Business Day in Ankara, June 2005*

**Tethys' partner in Turkey – Aladdin Middle East Ltd.**

Aladdin Middle East, Ltd. (AME) is an independent American oil and gas exploration and production company organized in 1960 for oil exploration in Turkey. Outside the main office in Wichita, Kansas, the company's operational headquarters is located in Ankara, Turkey as well as field offices in Adana, Diyarbakir and in Adiyaman, where AME's production leases are being operated.

Today AME is the operator of Molla (1974), Kahta (1960), Zeynel (1989) Bulgurdag (1964) and Karakilise (2003) oil fields in Turkey. As of 2004, the company holds over 7,300 square kilometres of onshore exploration licenses mainly in south east Turkey Basin (North Arabian Shield) and in the Antalya Basin, which makes AME the largest con-



*Aladdin Middle East's Chairman Oyman Sayer and Executive Vice President Cem Sayer talking with Swedish Crown Princess Victoria at the Swedish Business Day in Ankara 2005.*

cession operator in the country among the foreign petroleum right holding companies.

In addition to AME's production and exploration activities, the company has an inventory of nine drilling and/or workover rigs of varying capacities ranging up to 7,600 metres depth. AME's contracting division has drilled more than 60 exploration and development wells in Turkey for major companies including Exxon-Mobil, Wintershall, Placid, Neste Oy and many other operators.

With over 200 employees, Aladdin Middle East, Ltd. is a well-established independent company with enormous experience in doing business in Turkey. Company's team consists of very highly skilled staff coming from various fields of oil industry.



*Tethys Oil with partner Aladdin Middle East*

# Environment

Like everything else, Tethys Oil, its employees, customers, partners and shareholders are part of our common Earth and environment. We, as individuals or companies may from time to time operate in different positions and play different roles but our fundamental dependence on our common environment never goes away. Being an oil company Tethys Oil knows this only too well, because the business of an oil company by definition impacts the environment. It is not possible to extract raw materials from the earth without in some way affecting the area where the extraction takes place. And this of course is true not only for the physical environment but also for the human environment where oil is found and produced.

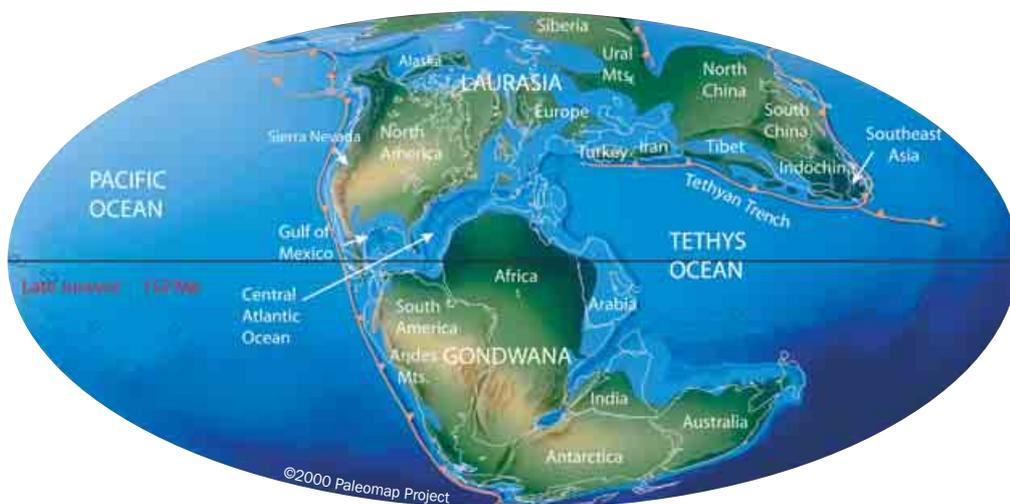


As long as there is a demand for the products that oil companies bring to market to satisfy that demand there will also be oil companies carrying out this business. And here lies a great opportunity. To look for and try to find and produce oil and natural gas is challenging in its own right, but an equally spurring challenge is to do this in a cost efficient minimum impact way. Tethys Oil will strive to use techniques and methodology that is the most efficient from an environmental impact point of view.

In practice Tethys Oil will not embark on any major industrial activity without commissioning appropriate environmental studies from suitable experts. Acquired assets not operated by Tethys Oil will be independently reviewed by Tethys Oil for environmental impact and Tethys Oil will closely monitor any contractor or operator for environmental record. Wherever changes can be favorably employed such will be recommended.

Most countries today have strong environmental laws and standards which of course are a great help to an oil company in assuring correct practices are followed. But Tethys Oil will aim to follow best available practices under all circumstances even if this will go beyond local laws.

To conclude, Tethys Oil will always be aware that it is part of our common environment and will do its utmost to preserve this in any way possible.



# Board of Directors, management and auditors

## Board of directors



**Vincent Hamilton**, born in 1963.

### *Geology*

Chief Operating Officer and Chairman of the Board since 2004 (member of the Board since 2001). Geologist Shell 1989–1991. Geologist Eurocan 1991–1994. President of Canadian Industrial Minerals 1994–1995, General Manager of Sands Petroleum UK Ltd. 1995–1998. President of Mart Resources 1999–2001.

Number of shares in Tethys Oil: 505,000.

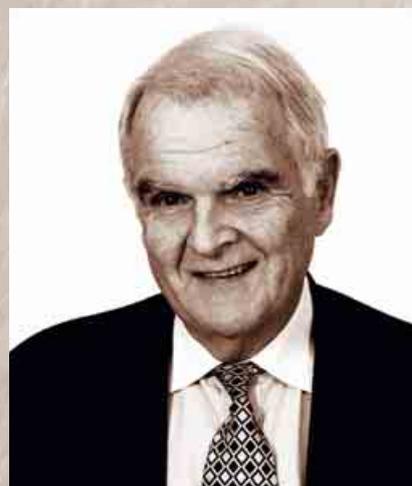


**Magnus Nordin**, born in 1956.

### *Strategy and information*

Chief Executive Officer and Member of the Board since 2001. CEO of Sands Petroleum 1993–1998. Deputy CEO Lundin Oil 1998–2000, Head of investor relations 2001–2004, (acting CEO October 2002–2003) Vostok Oil Ltd., CEO of Sodra Petroleum 1998–2000. Board member of Mino-taurus AB.

Number of shares in Tethys Oil: 334,327.



**John Hoey**, born in 1939.

### *Corporate governance*

Member of the board since 2001, and member of the Audit committee since 2005. John Hoey has a management background in corporate finance. Mr. Hoey was the President and Director of Hondo Oil & Gas Co. which was a publicly traded company, from 1993 to 1998. From 1985 to 1992, he was associated with Atlantic Petroleum Corp. of Pennsylvania. From 1972 to 1984, Mr. Hoey held various executive positions in commercial and investment banking in Saudi Arabia, England and the USA with Arab and American Financial Institutions.

Number of shares in Tethys Oil: 331,731.

## Management

**Magnus Nordin**, Chief Executive Officer  
Information above.

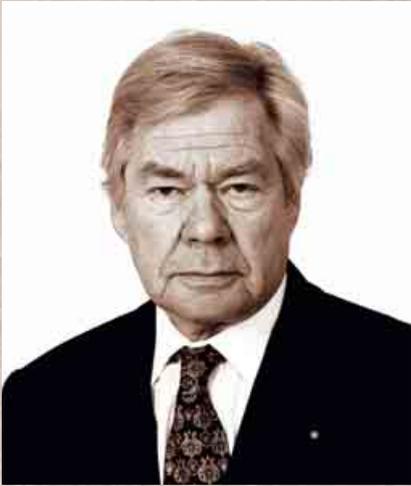
**Vincent Hamilton**, Chief Operating Officer  
Information above.

**Morgan Sadarangani**, born in 1975.  
Chief Financial Officer.

Employed since January 2004. Different positions within SEB and Enskilda Securities, Corporate Finance, between 1998–2002.

Number of shares in Tethys Oil: 1,000. Vincent Hamilton has issued 21,000 call options to Morgan Sadarangani, that can be exercised until April 30, 2006.





**Håkan Ehrenblad**, born in 1939.

*External relations and project management*

Member of the board since 2003, and member of the Audit committee since 2005. Mr. Ehrenblad served at various executive positions at Bonnier Magazine Group until 1984. Mr. Ehrenblad has been a pioneer in the fields of information concerning computer and internet security. He has also published several books on mainly finance and tax information. Today he is active in publishing and media and also as active investor, mainly in the global energy sector.

Number of shares in Tethys Oil: 11,000.

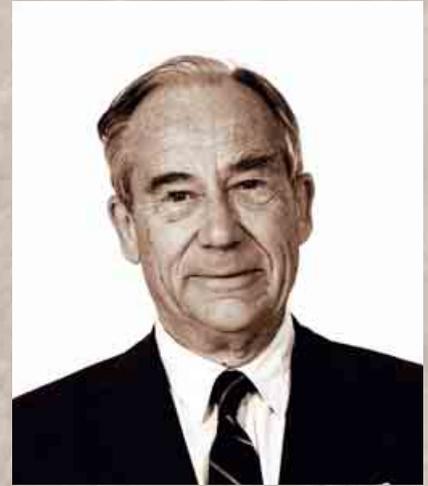


**Jan Risberg**, born in 1964.

*Corporate finance*

Member of the board since 2004, and member of the Audit committee since 2005. Jan Risberg has several years of experience from the financial sector. He has among other things worked for Aros Securities department of Corporate Finance between the years 1993-1996, at Enskilda Securities department of Corporate Finance between the years 1996-2000 and as Manager of Ledstiernan AB's London branch between the years 2000-2002. Jan Risberg is today active as an independent consultant in the financial sector.

Number of shares in Tethys Oil: 140,186.



**Carl-Gustaf Ingelman**, born in 1935.

*Investor relations*

Member of the board since 2005, and member of the Audit committee since 2005. Mr. Ingelman holds a master of engineering degree and a business degree. Until 1992, he was head of quality at Televerket Teletest. Previously he held executive positions at among others Swedish Telecommunication Consulting and The Swedish Bankers' Association. Nowadays Mr Ingelman is active as private investor at the Swedish stock market. He is a member of the management group of the Östermalm branch of the Swedish Shareholders' Association and Director in Nordic Holding AB.

Number of shares in Tethys Oil: 600,000.

#### **Auditor**

**Klas Brand**, Auditor

Born in 1956

Authorized Public Accountant

Company's auditor since 2001

PricewaterhouseCoopers AB, Gothenburg



# The Tethys Oil share

## Dividend policy

Tethys Oil has, since the foundation of the company, not paid any dividends. Future dividends are dependent on the result of Tethys Oil. In the event of future generated income, dividends can be paid if other conditions of the company allows. The size of future dividends will be determined by the company's financial position and growth opportunities by profitable investments, as well as overall tax considerations.

## Shares and options outstanding

Tethys Oil's registered share capital at December 31, 2005 amounts to TSEK 2,192 represented by 4,384,800 shares of quota value 0.50 which represents one vote each. All outstanding shares are common shares and carry equal rights to participation in Tethys Oil's assets and earnings. Tethys Oil does not have an incentive program for employees.

## Share data

Since the company's inception in September 2001 and up to December 31, 2005 the parent company share capital has developed as shown below:

Share capital development	Month and year	Quota value	Change in number of shares	Total number of shares	Total share capital (TSEK)
Formation of the company	September, 2001	100	1,000	1,000	100
Share issue	October, 2001	100	4,000	5,000	500
Share split 100:1	October, 2001	1	495,000	500,000	500
Share issue	December, 2003	1	250,000	750,000	750
Share split 1:2	February, 2004	0.50	750,000	1,500,000	750
Share issue	April, 2004	0.50	2,884,800	4,384,800	2,192

## Share ownership structure

The 10 largest shareholders in Tethys Oil as per February 28, 2006.

Shareholders as of February 28, 2006	Number of shares	Capital and votes, %
Carl-Gustaf Ingelman	600,000	13.68
Vincent Hamilton through company*	505,000	11.52
SIS Segaintersettle	395,330	9.02
Magnus Nordin	334,327	7.62
John Hoey through company**	331,731	7.57
Nordea Bank S A	212,800	4.85
Adolf H. Lundin through foundation***	187,020	4.27
Sydbank A/S	157,400	3.59
Akelius Insurance Public LTD	147,200	3.36
Neptunus Konsult AB	140,200	3.20
Other 1,344 shareholders	1,373,792	31.33
<b>Total</b>	<b>4,384,800</b>	<b>100.00</b>

\* Oceanus Investments Hamilton Family

\*\* Capge Ltd.

\*\*\* Lorito Holdings Ltd.

Source: VPC and Tethys Oil

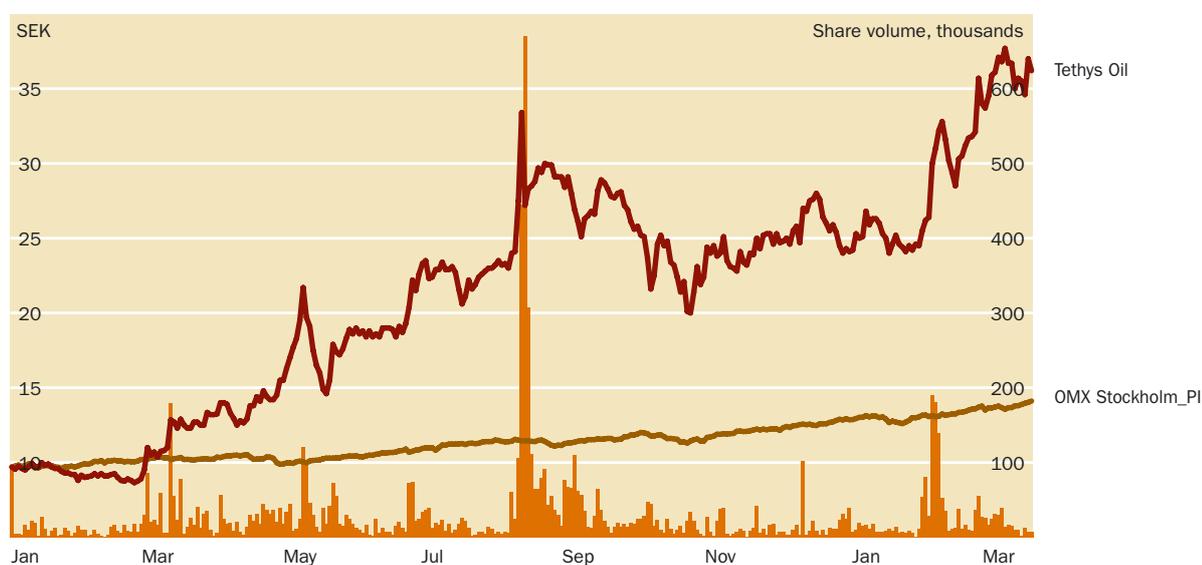
## Distribution of shareholdings

Distribution of shareholdings in Tethys Oil as per February 28, 2006.

Size categories as per February 28, 2006	Number of shares	Percentage of shares, %	Number of shareholders	Percentage of shareholders, %
1 – 500	215,616	4.92	902	67.11
501 – 10,000	735,090	16.76	422	31.40
10,001 – 50,000	217,000	4.95	11	0.82
50,001 – 100,000	0	0.00	0	0.00
100,001 –	3,217,094	73.37	9	0.67
<b>Total</b>	<b>4,384,800</b>	<b>100.00</b>	<b>1,334</b>	<b>100.00</b>

Source: VPC

## Share price development and turnover, January 2005–March 2006



Source: Stockholmsbörsen

## Share statistics 2005

The shares in Tethys Oil are traded on Stockholmsbörsen's Nya Marknaden and first day of trading was 6 April 2004.

Ticker name	TETY
Year high	39.40 (August 15, 2005)
Year low	8.60 (February 23, 2005)
Average turnover per day, shares	28,524
Average turnover per day, TSEK	652
Period turnover, shares	7,216,609
Period turnover/outstanding shares	165%
Average spread	1.42%
Period beta	0.38

# Key financial data

Group	1 Jan 2005– 31 Dec 2005 12 months	1 Jan 2004– 31 Dec 2004 12 months	1 Jan 2003– 31 Dec 2003 12 months
<b>Items regarding the income statement and balance sheet</b>			
Gross margin before extraordinary items, TSEK	n.a.	n.a.	n.a.
Operating result, TSEK	-14,998	-5,810	-934
Operating margin, %	Neg.	Neg.	Neg.
Result before tax, TSEK	-14,368	-5,062	-891
Net result, TSEK	-14,368	-5,062	-891
Net margin, %	Neg.	Neg.	Neg.
Shareholders' equity, TSEK	52,375	66,743	3,542
Balance sheet total, TSEK	54,833	69,102	4,139
<b>Capital structure</b>			
Solvency, %	95.52%	96.59%	85.58%
Leverage ratio, %	n.a.	n.a.	n.a.
Adjusted equity ratio, %	95.52%	96.59%	85.58%
Interest coverage ratio, %	n.a.	n.a.	n.a.
Investments, TSEK	6,491	12,696	1,570
<b>Profitability</b>			
Return on shareholders' equity, %	Neg.	Neg.	Neg.
Return on capital employed, %	Neg.	Neg.	Neg.
<b>Key figures per employee</b>			
Average number of employees	3.50	2.50	0,00
<b>Shares data*</b>			
Dividend per share, SEK	n.a.	n.a.	n.a.
Cash flow used in operations per share, SEK	Neg.	Neg.	Neg.
Number of shares on balance day, thousands	4,385	4,385	1,500
Shareholders' equity per share, SEK	11.94	15.22	2.40
Weighted number of shares on balance day, thousands	4,385	3,705	1,003
Earnings per share, SEK	-3.28	-1.37	-0.89

\* As of the balance sheet date, Tethys Oil had no convertible bonds, options or other instruments which may cause dilution.

\* Tethys Oil conducted during the first quarter of 2004 a share split of 1:2. Historic number of shares and share related data has been adjusted accordingly.

\* The number of shares at December 31, 2005 includes new shares from the share issue, which were registered April 1, 2004. For the weighted averaged number of shares calculation they were included as of March 26, 2004.

## Definitions of key ratios

### Margins

**Gross margin:** Operating result before depreciation as a percentage of yearly turnover.

**Operating margin:** Operating result as a percentage of yearly turnover.

**Net margin:** Net result as a percentage of yearly turnover.

### Capital structure

**Solvency:** Shareholders' equity as a percentage of total assets.

**Leverage ratio:** Interest bearing liabilities as a percentage of shareholders' equity.

**Adjusted equity ratio:** Shareholders' equity plus equity part of untaxed reserves as a percentage of total assets.

**Interest coverage ratio:** Result before taxes plus financial costs as a percentage of financial costs.

**Investments:** Total investments during the year.

<b>Parent</b>	<b>1 Jan 2005– 31 Dec 2005 12 months</b>	<b>1 Jan 2004– 31 Dec 2004 12 months</b>	<b>1 Jan 2003– 31 Dec 2003 12 months</b>
<b>Items regarding the income statement and balance sheet</b>			
Gross margin before extraordinary items, TSEK	n.a.	n.a.	n.a.
Operating result, TSEK	-3,786	-3,903	-934
Operating margin, %	Neg.	Neg.	Neg.
Result before tax, TSEK	-12,391	-2,970	-891
Net result, TSEK	-12,391	-2,970	-891
Net margin, %	Neg.	Neg.	Neg.
Shareholders' equity, TSEK	56,444	68,835	3,542
Balance sheet total, TSEK	58,982	70,346	4,139
<b>Capital structure</b>			
Solvency, %	95.70%	97.85%	85.58%
Leverage ratio, %	n.a.	n.a.	n.a.
Adjusted equity ratio, %	95.70%	97.85%	85.58%
Interest coverage ratio, %	n.a.	n.a.	n.a.
Investments, TSEK	5,874	10,455	1,570
<b>Profitability</b>			
Return on shareholders' equity, %	Neg.	Neg.	Neg.
Return on capital employed, %	Neg.	Neg.	Neg.
<b>Key figures per employee</b>			
Average number of employees	3.50	2.50	0.00
<b>Shares data*</b>			
Dividend per share, SEK	n.a.	n.a.	n.a.
Cash flow used in operations per share, SEK	Neg.	Neg.	Neg.
Number of shares on balance day, thousands	4,385	4,385	1,500
Shareholders' equity per share, SEK	12.87	15.70	2.40
Weighted number of shares on balance day, thousands	4,385	3,705	1,003
Earnings per share, SEK	-2.83	-0.80	-0.89

\* As of the balance sheet date, Tethys Oil had no convertible bonds, options or other instruments which may cause dilution.

\* Tethys Oil conducted during the first quarter of 2004 a share split of 1:2. Historic number of shares and share related data has been adjusted accordingly.

\* The number of shares at December 31, 2005 includes new shares from the share issue, which were registered April 1, 2004. For the weighted averaged number of shares calculation they were included as of March 26, 2004.

#### **Profitability**

**Return on shareholders' equity:** Net result as percentage of average shareholders' equity.

**Return on capital employed:** Net result as a percentage of average capital employed (total assets less non interests-bearing liabilities).

#### **Other**

**Number of employees:** Average number of employees full-time.

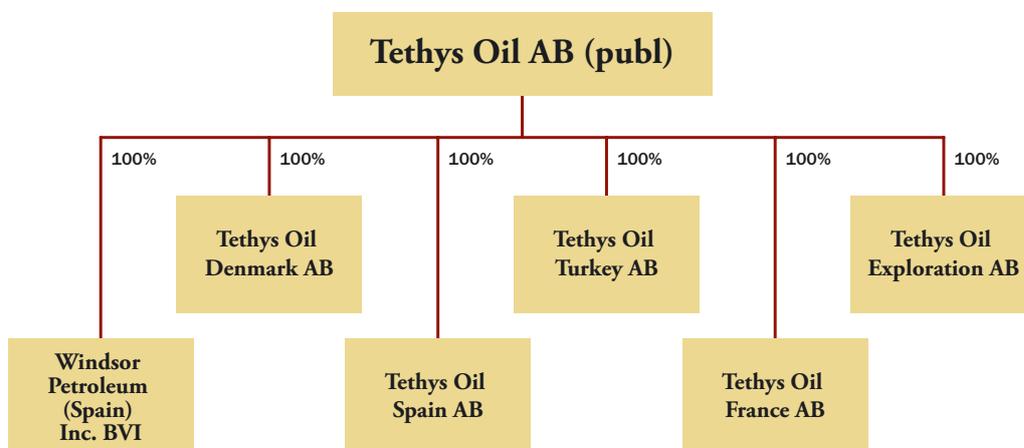
**Shareholders' equity per share:** Shareholders' equity divided by the number of outstanding shares.

**Weighted numbers of shares:** Weighted number of shares during the year.

**Earnings per share:** Net result divided by the number of outstanding shares.

# Administration report

(An English translation of the Swedish original)



## Operations

Tethys Oil is a Swedish company focused on exploration for and production of oil and natural gas. The main geographic focus of Tethys Oil is countries within the European Union and candidate countries, as well as select countries in Africa. The company's strategy is twofold: to explore for oil and natural gas near existing and developing markets; and to develop proven reserves that have previously been sub-economic due to location or technological reasons. To date, Tethys Oil has interests in exploration licenses in Denmark, France, Spain and Turkey, a production license in Spain and a reconnaissance license in Morocco.

### Denmark

Tethys Oil has two exploration licenses in Denmark located on Jutland and Zealand, license 1/02 and license 1/03. Tethys Oil is the operator and holds a 70 percent interest in both licenses.

#### License 1/02

During 2005 preparations for the Karlebo-1 well has continued. Investments during 2005 have mainly been related to drilling preparations. The first phase of the tendering for a rig has been finalized, and a shortlist of contractors has been established. Casing has been received and tendering for other long-lead items is in progress. During the year a constructive dialogue with the Karlebo authorities has continued, and discussions has been ongoing. According to the license from the Danish Energy Authority the well must be completed and evaluated before the end of 2006.

#### License 1/03

During 2005 a surface geochemical survey of license 1/03 over onshore Jutland in Denmark has been final-

ized. The survey can detect even minute quantities of hydrocarbon gasses in the soil. The interpretation of the data will now be initiated. Positive results from this study would indicate the presence of an active petroleum system working in the area. Tethys Oil has requested and received Danish Energy Authority approval for an extension of the close of the first two-year license term to end 2006 in order to match timing on license 1/02.

### France

Tethys Oil holds a 40 percent interest in the Attila license, located in the eastern part of the oil and gas producing Paris basin adjacent to the Gaz de France operated Trois – Fontaines natural gas field. The license is valid for a period of five years. The operator of the license is private French oil company Galli Coz S.A. having 60 percent.

During February 2006, Tethys Oil announced the final award by the French Government of the Attila exploration license in France. During 2005 satellite and radar data was acquired and analyzed for fault trends. Existing seismic data of 180 kilometres was reprocessed. Geochemical surface samples were collected and analyzed, confirming the prospectivity of the area.

The interpretation of the reprocessed seismic data has been completed and the results integrated in the geological model of the Attila license. Combined with data previously acquired, the additional information provided by the geochemical study was sufficient to upgrade the lead in question to a drillable prospect as determined by the operator Galli Coz SA and Tethys Oil.

## **Spain**

Tethys Oil has interest in four licenses located south of the Cantabrian Mountains in northern Spain within the Duero basin, between the cities of Burgos and Bilbao. This includes a 22.5 percent participation in the La Lora license covering the Ayoluengo field, and a 50 percent interest in three exploration licenses Huermece, Valderredible and Basconillos-H area. Ascent Resources Plc., which is an oil and natural gas company listed on AIM at the London Stock Exchange, is through the subsidiary Northern Petroleum Exploration Ltd. the operator of all four licenses.

The production in the Ayoluengo oil field has during 2005 remained small and Tethys Oil's share of production was approximately 25 bopd. Unless new investments are made into the field, production will continue to slowly decline. The decline has however been offset by higher oil prices and a small positive cash contribution of TEUR 53 was achieved for the full year 2005. However, following the overall disappointing results from the field, Tethys has sought other projects in the area and has, in this regard, signed an agreement with one of its partners in the Ayoluengo field, La Lora Concession, for an exchange of license interests. In return for its 22.5 percent beneficial interest in La Lora Tethys will receive a 20 percent working interest in an existing exploration license elsewhere in Spain. This exchange of interest is subject to that license being granted an extension by the government, and the approval of license partners. This exploration license contains a large natural gas prospect that has considerable potential for the company. Until all conditions of the exchange have been satisfied, Tethys keeps its interest in the field. The new operator has indicated that new investment proposals may be forthcoming. If so, Tethys will consider such proposals when accessing its overall strategy for Spain.

In the exploration licenses in Spain the activity has been low mainly due to change of operatorship.

## **Turkey**

Tethys Oil has interests in four exploration licenses in Turkey. Tethys Oil holds interest in two exploration licenses in the Ispandika area located in south eastern Turkey close to Syria and Iraq. The other two licenses are located in north western and European part of Turkey close to Bulgaria and Greece. Tethys Oil has 10 percent interest in the two Ispandika licenses and 25 percent interest in the two exploration license in Thrace. The interests in the licenses are held through Tethys Oil's Turkish partner and operator of the licenses Aladdin Middle East Ltd.

## *Thrace*

During 2005 Tethys Oil announced an agreement regarding two onshore exploration licenses in Thrace.

By funding a seismic programme up to a maximum of USD 415,000, Tethys Oil will earn a 25 percent interest in the licenses. Aladdin Middle East is the operator, and the UK oil and gas company JKK Oil & Gas Plc. has farmed-in to the same licenses under the same conditions as Tethys Oil.

The licenses cover 897 square kilometres and are located in the middle of the Thrace basin. The target formations are Tertiary sands which produce gas from a number of fields in Thrace. Two strong leads have been identified within the license area, but additional seismic is required to confirm the presence of a drillable prospect.

## *Ispandika*

On the Ispandika licenses a radar/satellite study was conducted and the results determined that most of the license area was not amenable to seismic acquisition with vibrator trucks. Tethys Oil and its Turkish partner has therefore worked to find a crew for the task of conducting seismic acquisition by using dynamite without success. Furthermore, a decision was made during 2005 to launch a farm out campaign, to limit risk and costs of the Ispandika licenses. Together with the operator, Aladdin Middle East Ltd., the preparations for setup of a virtual computer room are underway. The cost of conducting a farm out campaign has dropped significantly with the communications possibilities offered by the Internet. This virtual data room will offer potential partners easy access to data for evaluation at a low cost.

## **Morocco**

In Morocco, Tethys Oil is the operator with 50 percent interest in the reconnaissance license Bouanane, located in the eastern part of Morocco. The reconnaissance license gives Tethys Oil the exclusive right for one year to investigate and it furthermore grants Tethys Oil the right during this time to elect to convert the license into a regular eight year exploration license on terms and conditions to be negotiated. The reconnaissance license was awarded in July 2005.

During 2005 Tethys Oil has compiled a database of all regional technical data, including satellite photo and radar data. Tethys Oil has during February started the work to acquire gravity and magnetic data over an area of 1,500 square kilometre area. This work is carried out in order to define the depth and extent of the Tafejart prospect. Furthermore the work will complement the existing seismic data over the main prospect of Tafejart, especially to the north east where there is a lack of seismic lines.

## **Significant agreements and commitments**

Tethys Oil has agreements regarding the operations in Denmark, Turkey, Morocco, France and Spain.

In Denmark Tethys Oil is a direct license holder of the exploration licenses 1/02 and 1/03, in France the company is a direct license holder in the exploration license Attila and in Morocco Tethys Oil is a direct license holder to the reconnaissance license Bouanane. In Turkey and Spain Tethys Oil holds its interest through agreements with partners. Other than the aforementioned agreements, there are no individual agreements or similar circumstances relating to the business which are of crucial significance for the Group's operations or profitability.

Tethys Oil has no commitments in its operations in Spain and Turkey. In Denmark Tethys Oil has a commitment to drill an exploration well on license 1/02 before December 31, 2006. Tethys Oil estimates the cost for an exploration well to be TSEK 14,000. In Morocco, Tethys Oil has a commitment in Morocco amounting to approximately TUSD 200 (TSEK 1,560). In France, the Attila exploration license awarded during the first quarter 2006, the financial commitment is approximately TEUR 520 (TSEK 4,860).

## **Result and Cash Flow**

The consolidated financial statements of the Tethys Oil Group ("Tethys Oil" or the "Group"), where Tethys Oil AB (publ) with organisational number 556615-8266 is the parent company, are hereby presented for the twelve month period ended December 31, 2005. 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 December 31, 2005, The Group does not present any segment information regarding revenues as there have been no sales or production of oil and gas in the Group. Regarding oil and gas properties, segment information based on geography is presented below under Investments.

### **Net profit and sales**

Tethys Oil reports a net result for 2005 of TSEK -14,368 (TSEK -5,062 for the corresponding period last year), representing earnings per share of SEK -3.28 (SEK -1.37) for the full year. Write downs of oil and gas properties of TSEK 8,412 (TSEK 435) was made during 2005 and has negatively contributed to the result for the full year of 2005. The write downs mainly regard Hoto in Turkey, where a write down of TSEK 8,179 was made. Cash flow from operations before changes in working capital for 2005 amounted to TSEK -5,315 (TSEK -4,577).

The net result for the full year of 2005 has not been significantly impacted by net foreign exchange losses or gains.

There have been no sales or production of oil and gas for the twelve month period ended December 31, 2005, apart from incidental oil production in the La Lora field, which according to Tethys Oil's accounting principles is offset against capitalized costs of the related cost centre in the balance sheet. The net result of Tethys' share in the Ayoluengo production has been TEUR 53. Accordingly, there has been no depletion of oil and gas properties as Tethys Oil follows the full cost method of accounting.

### **Costs of administration and depreciation**

Costs of administration and depreciation amounted to TSEK -6,609 (TSEK -5,375) for 2005. Depreciation amounted to TSEK 35 (TSEK 50) for the full year of 2005. Costs of administration are mainly rents, salaries, office supplies and travel expenditures. These costs are corporate costs and are accordingly not capitalised. Depreciation in the income statement is referable to computers, phones etc.

### **Investments**

Fixed assets as at December 31, 2005 amounted to TSEK 11,599 (TSEK 14,160) of which TSEK 11,404 (TSEK 14,002) relates to oil and gas properties. Oil and gas properties in Denmark amounted to TSEK 5,119 (TSEK 1,707), Spain TSEK 3,152

<b>Oil and gas properties</b>						
<b>Country</b>	<b>License areas</b>	<b>Tethys Oil, %</b>	<b>Total area, km<sup>2</sup></b>	<b>Operator</b>	<b>Investments</b>	<b>Book value</b>
					<b>12 months 2005, TSEK</b>	<b>December 31, 2005, TSEK</b>
<b>Denmark</b>	License 1/02	70%	533	Tethys Oil Denmark	3,412	5,119
	License 1/03	70%	1,655	Tethys Oil Denmark		
<b>France</b>	Attila	40% <sup>1</sup>	1,986	Galli Coz S.A.	690	690
<b>Morocco</b>	Bouanane	50%	2,100	Tethys Oil	544	553
<b>Spain</b>	La Lora	22.5% <sup>2</sup>	106	Ascent Resources Plc.	33	3,152
	Valderredible	50% <sup>3</sup>	241	Ascent Resources Plc.		
	Huermeces	50% <sup>3</sup>	121	Ascent Resources Plc.		
	Basconillos	50% <sup>3</sup>	194	Ascent Resources Plc.		
<b>Turkey</b>	Ispandika	10%–45%	965	Aladdin Middle East Ltd.	615	727
	Thrace	25%	897	Aladdin Middle East Ltd.		
<b>New ventures</b>					1,125	1,163
<b>Total</b>			<b>8,798</b>		<b>6,419</b>	<b>11,404</b>

<sup>1</sup> Tethys Oil pays 44% of costs through an exploration well.

<sup>2</sup> Beneficial interest

<sup>3</sup> The Windsor Group hold the right to, by funding the equivalent share of seismic or drilling, receive up to 10 percent participation in the three exploration licenses. If the Windsor Group utilise its right, Tethys Oil's participation in the licenses will decrease to 40 percent at the lowest.

(TSEK 3,118), Turkey TSEK 727 (TSEK 8,897) and other TSEK 2,405 (TSEK 279). Expenditures for oil and gas properties of TSEK 6,420 (TSEK 12,538) was incurred for 2005 of which Denmark TSEK 4,069, Spain TSEK 33, Turkey TSEK 615 and other TSEK 2,359. Investments in oil and gas properties has mainly been drilling preparation in Denmark license 1/02, geochemical work in Denmark license 1/03 as well as investments in new venture areas. The low investments in Spain is explained by low investments in exploration licenses due to a change of operator and high oil prices resulting in positive cash contribution from the Ayoluengo production license.

Investments in other tangible fixed assets amounted during the period to TSEK 72 (TSEK 158) and are referable to investments in office equipment.

### Liquidity and financing

Cash and bank as at December 31, 2005 amounted to TSEK 657 (TSEK 513). Short-term investments as at December 31, 2005 amounted to TSEK 40,445 (TSEK 53,525). The short-term investments are investments in mutual bond funds with short durations, less than three months from acquisition date.

### Current receivables

Current receivables amounted to TSEK 2,132 (TSEK 905) as at December 31, 2005. To a large extent these are receivables due from partners in licenses.

### Current liabilities

Current liabilities as at December 31, 2005 amounted to TSEK 2,458 (TSEK 2,359), of which TSEK 2,055 (TSEK 751) relates to accounts payable, TSEK 116 (TSEK 95) relates to other current liabilities and TSEK 286 (TSEK 1,513) relates to accrued expenses.

### Parent company

The parent company reports a result amounting to TSEK -12,391 (TSEK -2,970) for 2005. Costs of administration and depreciation amounted to TSEK -6,598 (TSEK -5,375) for the full year of 2005. Net financial income amounted to TSEK -8,605 (TSEK 933) during 2005. Investments during 2005 amounted to TSEK 5,874 (TSEK 11,651). Financial investments are financial loans to subsidiaries for their oil and gas operations.

### Financial instruments

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

### Board of directors and management

At the Annual General Meeting of shareholders on May 4 2005, Håkan Ehrenblad, Vincent Hamilton, John Hoey, Magnus Nordin, Jan Risberg were re-elected members of the board and Carl-Gustaf Ingelman was newly elected. The board members are elected until the end of the next AGM. No deputy directors were appointed. At the constitutive Board meeting the Board resolved to create an Audit committee consisting of the four non-executive directors.

The work of the Board is subject to an established work procedure that defines the distribution of work between the Board and the Managing Director. The work procedure is evaluated each year and revised if deemed appropriate. The rules of procedures were adopted on May 4 2005. The Board had 8 meetings during 2005. Most importantly the Board has adopted the interim reports of the year as well as the budget of 2006.

The six member board consists of two executive and four non-executive directors. Vince Hamilton has acted both as Chairman of the Board and as Chief Operating Officer.

Between Board meetings weekly to daily contacts have been kept informally between the Executive and non-Executive Directors.

#### **Group structure**

Tethys Oil AB (publ), with organizational number 556615-8266, is the parent company in the Tethys Oil Group. The wholly owned subsidiaries Windsor Petroleum (Spain) Inc, Tethys Oil Denmark AB, Tethys Oil Spain AB, Tethys Oil Turkey AB, Tethys Oil France AB and Tethys Oil Exploration AB are part of the Group. The Tethys Oil Group was established 1 October 2003.

#### **Share data**

The total number of shares in Tethys Oil amount to 4,384,800, with a quota value of 0.50 per share. All shares have one vote each. Tethys Oil does not have any incentive program.

#### **Dividend**

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

#### **Change of accounting principles**

Tethys Oil has since January 1, 2005 applied IFRS. Therefore previous years have not been restated and no reconciliations have been presented. For the years 2003 and 2004 Tethys Oil applied Swedish GAAP. The change of accounting principles has not had any effect on the income statement and the balance sheet.

#### **Treatment of accumulated deficit**

The board of directors propose that the accumulated deficit of TSEK -16,819 be brought forward.

The accumulated deficit of the group, according to the consolidated balance sheet, amounts to TSEK 20,888.

The result of the Group's and parent company's operations and the financial position at the end of the financial year is shown in the following income statement, balance sheet, cash flow statement and related notes. Balance sheet and income statement will be resolved at the AGM, May 4 2006.

Stockholm, March 30, 2006

Vincent Hamilton, Chairman of the Board

Håkan Ehrenblad, Director

John Hoey, Director

Carl-Gustaf Ingelman, Director

Jan Risberg, Director

Magnus Nordin, Managing Director

#### **Auditor's endorsement**

My audit report was submitted on March 30, 2006.

Klas Brand  
Authorized Public Accountant  
PricewaterhouseCoopers AB

## Consolidated income statement

TSEK	Note	1 Jan 2005– 31 Dec 2005 12 months	1 Jan 2004– 31 Dec 2004 12 months	1 Jan 2003– 31 Dec 2003 12 months
Net sales of oil and gas		–	–	–
Depreciation of oil and gas properties	3	–	–	–
Write off of oil and gas properties	3	-8,412	-435	–
Other income		23	–	–
Administration and depreciation	4, 5, 6	-6,609	-5,375	-934
<b>Operating result</b>		<b>-14,998</b>	<b>-5,810</b>	<b>-934</b>
Financial income and similar items	7	774	764	43
Financial expenses and similar items	8	-144	-16	-0
<b>Net financial income</b>		<b>630</b>	<b>748</b>	<b>43</b>
<b>Result before tax</b>		<b>-14,368</b>	<b>-5,062</b>	<b>-891</b>
Income tax		–	–	–
<b>Net result</b>		<b>-14,368</b>	<b>-5,062</b>	<b>-891</b>
Number of shares outstanding		4,384,800	4,384,800	1,500,000
Number of shares outstanding (after full dilution)	10	4,384,800	4,384,800	1,500,000
Weighted number of shares		4,384,800	3,705,094	1,002,740
Earnings per share, SEK		-3.28	-1.37	-0.89
Earnings per share (after full dilution), SEK	10	-3.28	-1.37	-0.89

## Consolidated balance sheet

TSEK	Note	31 Dec 2005	31 Dec 2004	31 Dec 2003
<b>ASSETS</b>				
<b>Fixed assets</b>				
Oil and gas properties	3	11,404	14,002	1,899
Office equipment	9	195	158	50
<b>Total fixed assets</b>		<b>11,599</b>	<b>14,160</b>	<b>1,949</b>
<b>Current assets</b>				
Other receivables		1,681	766	19
Prepaid expenses		451	139	–
Short term investments		40,445	53,525	1,062
Cash and cash equivalents		657	513	1,109
<b>Total current assets</b>		<b>43,234</b>	<b>54,942</b>	<b>2,190</b>
<b>TOTAL ASSETS</b>		<b>54,833</b>	<b>69,102</b>	<b>4,139</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>				
<b>Shareholders' equity</b>				
	10			
Share capital		2,192	2,192	750
Other contributed equity		71,071	71,071	4,250
Retained earnings		-20,888	-6,520	-1,458
<b>Total shareholders' equity</b>		<b>52,375</b>	<b>66,743</b>	<b>3,542</b>
<b>Non interest bearing current liabilities</b>				
Accounts payable		2,055	751	106
Other current liabilities		117	95	–
Accrued expenses	11	286	1,513	491
<b>Total non interest bearing current liabilities</b>		<b>2,458</b>	<b>2,359</b>	<b>597</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>54,833</b>	<b>69,102</b>	<b>4,139</b>
Pledged assets	13	780	–	–
Contingent liabilities	14	14,527	14,527	2,452

## Consolidated statement of changes in equity

TSEK	Share capital	Other contributed equity	Retained earnings
<b>Opening balance at January 1, 2003</b>	–	–	–
Formation of Group structure	500	1,500	-567
Net result	–	–	-891
	<b>500</b>	<b>1,500</b>	<b>-1,458</b>
Share issue	250	2,750	–
<b>Closing balance at December 31, 2003</b>	<b>750</b>	<b>4,250</b>	<b>-1,458</b>
<b>Opening balance at January 1, 2004</b>	<b>750</b>	<b>4,250</b>	<b>-1,458</b>
Net result	–	–	-5,062
	<b>750</b>	<b>4,250</b>	<b>-6,520</b>
Share issue	1,442	73,562	–
Issue costs	–	-6,741	–
<b>Closing balance at December 31, 2004</b>	<b>2,192</b>	<b>71,071</b>	<b>-6,520</b>
<b>Opening balance at January 1, 2005</b>	<b>2,192</b>	<b>71,071</b>	<b>-6,520</b>
Net result	–	–	-14,368
<b>Closing balance at December 31, 2005</b>	<b>2,192</b>	<b>71,071</b>	<b>-20,888</b>

## Consolidated cash flow statement

TSEK	Note	1 Jan 2005– 31 Dec 2005 12 months	1 Jan 2004– 31 Dec 2004 12 months	1 Jan 2003– 31 Dec 2003 12 months
<b>Cash flow from operations</b>				
Operating result		-14,998	-5,810	-934
Interest income and similar items	7	774	764	43
Interest expenses and similar items	8	-144	-16	-0
Adjustment for write down of oil and gas properties	3	8,412	435	–
Adjustment for depreciation	9	35	50	6
<b>Total cash flow used in operations before change in working capital</b>		<b>-5,921</b>	<b>-4,577</b>	<b>-885</b>
Increase in receivables		-622	-886	-9
Increase in liabilities		99	1,762	412
<b>Cash flow used in operations</b>		<b>-6,444</b>	<b>-3,701</b>	<b>-482</b>
<b>Investment activity</b>				
Investment in oil and gas properties	3	-6,420	-12,538	-1,529
Investment in other fixed assets	9	-72	-158	-41
<b>Cash flow used for investment activity</b>		<b>-6,492</b>	<b>-12,696</b>	<b>-1,570</b>
<b>Financing activity</b>				
Share issue		–	68,263	3,000
<b>Cash flow from financing activity</b>		<b>–</b>	<b>68,263</b>	<b>3,000</b>
<b>Period cash flow</b>		<b>-12,936</b>	<b>51,866</b>	<b>948</b>
Cash and cash equivalents at the beginning of the period *		54,037	2,171	1,223
Cash and cash equivalents at the end of the period *		41,102	54,037	2,171

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

## Parent company income statement

TSEK	Note	1 Jan 2005– 31 Dec 2005 12 months	1 Jan 2004– 31 Dec 2004 12 months	1 Jan 2003– 31 Dec 2003 12 months
Net sales of oil and gas		–	–	–
Depreciation of oil and gas properties	3	–	–	–
Write off of oil and gas properties	3	–	–	–
Other income		2,812	1,472	–
Administration and depreciation	4, 5, 6	-6,598	-5,375	-934
<b>Operating result</b>		<b>-3,786</b>	<b>-3,903</b>	<b>-934</b>
Financial income and similar items	7	1,226	948	43
Financial expenses and similar items	8	-139	-16	–
Write down of shares in group company	12	-9,692	–	–
<b>Net financial income</b>		<b>-8,605</b>	<b>933</b>	<b>43</b>
<b>Result before tax</b>		<b>-12,391</b>	<b>-2,970</b>	<b>-891</b>
Income tax		–	–	–
<b>Net result</b>		<b>-12,391</b>	<b>-2,970</b>	<b>-891</b>
Number of shares outstanding		4,384,800	4,384,800	1,500,000
Number of shares outstanding (after full dilution)	10	4,384,800	4,384,800	1,500,000
Weighted number of shares		4,384,800	3,705,094	1,002,740
Earnings per share, SEK		-2.83	-0.80	-0.89
Earnings per share (after full dilution), SEK	10	-2.83	-0.80	-0.89

# Parent company balance sheet

TSEK	Note	31 Dec 2005	31 Dec 2004	31 Dec 2003
<b>ASSETS</b>				
<b>Tangible and intangible assets</b>				
Oil and gas properties	3	–	–	1,196
Office equipment	9	195	158	50
<b>Total Fixed assets</b>		<b>195</b>	<b>158</b>	<b>1,246</b>
<b>Financial assets</b>				
Shares in subsidiaries	12	1,203	1,203	703
Long term receivables to group companies		16,794	10,993	–
<b>Total financial assets</b>		<b>17,997</b>	<b>12,196</b>	<b>703</b>
<b>Current assets</b>				
Other receivables		28	427	19
Prepaid expenses		156	139	–
Receivables from group affiliates		–	3,890	–
Short term investments		40,445	53,525	1,062
Cash and cash equivalents		160	13	1,109
<b>Total current assets</b>		<b>40,789</b>	<b>57,993</b>	<b>2,190</b>
<b>TOTAL ASSETS</b>		<b>58,981</b>	<b>70,346</b>	<b>4,139</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>				
<b>Shareholders' equity</b>				
<i>Restricted equity:</i>				
Share capital		2,192	2,192	750
Share premium reserve		71,071	71,071	4,250
<i>Unrestricted equity:</i>				
Retained earnings		-4,428	-1,458	-567
Net result		-12,391	-2,970	-891
<b>Total shareholders' equity</b>	10	<b>56,444</b>	<b>68,835</b>	<b>3,542</b>
<b>Current liabilities</b>				
Accounts payable		2,056	751	106
Other current liabilities		312	95	–
Accrued expenses	11	170	665	491
<b>Total current liabilities</b>		<b>2,538</b>	<b>1,511</b>	<b>597</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>58,982</b>	<b>70,346</b>	<b>4,139</b>
Pledged assets	13	780	–	–
Contingent liabilities	14	–	–	2,452

## Parent company statement of changes in equity

TSEK	Restricted equity		Unrestricted equity	
	Share capital	Other contributed equity	Retained earnings	Net result
<b>Opening balance at January 1, 2003</b>	<b>500</b>	<b>1,500</b>	<b>-</b>	<b>-567</b>
Transfer of prior year net result	-	-	-567	567
Net result	-	-	-	-891
	<b>500</b>	<b>1,500</b>	<b>-567</b>	<b>-891</b>
Share issue	250	2,750	-	-
<b>Closing balance at December 31, 2003</b>	<b>750</b>	<b>4,250</b>	<b>-567</b>	<b>-891</b>
<b>Opening balance at January 1, 2004</b>	<b>750</b>	<b>4,250</b>	<b>-567</b>	<b>-891</b>
Transfer of prior year net result	-	-	-891	891
Net result	-	-	-	-2,970
	<b>750</b>	<b>4,250</b>	<b>-1,458</b>	<b>-2,970</b>
Share issue	1,442	73,562	-	-
Issue costs	-	-6,741	-	-
<b>Closing balance at December 31, 2003</b>	<b>2,192</b>	<b>71,071</b>	<b>-1,458</b>	<b>-2,970</b>
<b>Opening balance at January 1, 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 December 31, 2005</b>	<b>2,192</b>	<b>71,071</b>	<b>-4,428</b>	<b>-12,391</b>

## Parent company cash flow statement

TSEK	Note	1 Jan 2005– 31 Dec 2005 12 months	1 Jan 2004– 31 Dec 2004 12 months	1 Jan 2003– 31 Dec 2003 12 months
<b>Cash flow from operations</b>				
Operating result		-3,786	-3,903	-934
Interest income and similar items	7	1,226	948	43
Interest expenses and similar items	8	-139	-16	-
Adjustment for depreciation	9	35	50	6
<b>Total cash flow used in operations before change in working capital</b>		<b>-2,664</b>	<b>-2,920</b>	<b>-885</b>
Decrease/increase in receivables		4,271	-3,240	-9
Increase in liabilities		1,026	914	412
<b>Cash flow used in operations</b>		<b>-2,633</b>	<b>-5,246</b>	<b>-482</b>
<b>Investment activity</b>				
Investment in oil and gas properties	3	-	-	-826
Increase in long term liabilities		-15,494	-11,493	-703
Investment in other fixed assets	9	-72	-158	-41
<b>Cash flow used for investment activity</b>		<b>-15,566</b>	<b>-11,651</b>	<b>-1,570</b>
<b>Financing activity</b>				
Share issue		-	68,263	3,000
<b>Cash flow from financing activity</b>		<b>-</b>	<b>68,263</b>	<b>3,000</b>
<b>Period cash flow</b>		<b>-12,933</b>	<b>51,366</b>	<b>948</b>
Cash and cash equivalents at the beginning of the period *		53,537	2,171	1,223
Cash and cash equivalents at the end of the period *		40,604	53,537	2,171

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

# 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 main geographic focus of the Company is countries within the European Union and candidate countries, as well as select countries in Africa. The Group is active in exploration activities in Denmark, France, Spain, Turkey and Morocco.

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

These consolidated financial statements have been approved for issue by the Board of Directors on 30 March 2006.

## Accounting principles

The principle accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The Annual Report of the Group has been prepared in accordance with International Financial Reporting Standards (IFRS) and the Annual Accounts Act, as adopted by the EU. Furthermore, the Swedish Financial Accounting Standards Council’s RR30 “Supplementary rules for groups” has been applied. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. These areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 2.

The Parent Company applies the same accounting principles as the Group. Exceptions between the Group and the Parent Company are a result of the limitation due to the Swedish Annual Accounts Act and “Tryggandelagen” and in some cases tax reasons. Furthermore, the Swedish Financial Accounting Standards Council’s RR 32 Accounting or legal entities has been applied.

Complying with IFRS has not led to any changes in the Groups accounting policies, except for disclosure changes. The Company and the Group have up until 2004 presented financial statements in accordance with the Annual Accounts Act and the Swedish Financial Accounting Standards Council’s recommendations and statements. In certain areas IFRS diverges from previously applied accounting principles. Below is a summary of changes in regard to the transition to IFRS.

*Accounting for costs of exploration and appraisal*  
IFRS 6 Exploration for and Evaluation of Mineral Resources This standard became effective at 1 January 2006. The group has elected to early adopt this Standard in 2005, with no effect on net income or shareholders equity, which has been reflected in the accounting principles described below. IFRS 6 permits an entity to develop an accounting policy for exploration and evaluation assets without specifically considering the requirements of paragraphs 11 and 12 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Thus, an entity adopting IFRS 6 may continue to use the accounting policies applied immediately before adopting the IFRS. This includes continuing to use recognition and measurement practices that are part of those accounting policies. IFRS 6 also sets the disclosure demands on the assets, liabilities, income and expenses arising from the exploration and evaluation of mineral resources.

## Financial instruments

Financial instruments are accounted for in accordance with IAS 32 and IAS 39. Financial instruments include securities, derivative instruments, receivables, liabilities and borrowings. Financial assets available-for-sale and derivative instruments are recognised at fair value where appropriate. Change in value of assets available-for-sale during the period is recorded in the equity until the asset is realised. Change in value of derivative instruments is recognised in the income statement if hedging instruments are not used. Receivables are recorded at amortised cost and using the interest method. Short-term investments as a financial asset designated at fair value to profit and loss and any changes in value affect income on a current basis. No effect on shareholders’ equity arises at transition to IAS 39 since the Group has had no derivative instruments.

## Other fixed assets

All other fixed assets (office equipment) are carried at cost less depreciation. Expenditures for repairs and maintenance are recognised as costs. Subsequent costs, which imply that future financial advantages associated with the asset are enhanced, are balanced as an asset and possible remaining residual value of the replaced equipment is expensed.

Component depreciation is applied for other fixed assets. This method implies that every significant part of a fixed asset is depreciated according to a separate plan.

## Principles of consolidation

The consolidated financial statements include the accounts of the parent company and each of those companies in which it owns, directly or indirectly, shares representing more than 50 percent of the voting rights or has the sole right to exercise control over the operations.

The consolidated financial statements of the Tethys Oil Group have been prepared using the purchase method of accounting. Under the purchase method of accounting, in addition to the parent company equity, only changes in subsidiary equity arising after acquisitions are included in Group equity. Under the purchase method of accounting the difference between the acquisition price and the monetary assets is allocated to the non-monetary assets acquired based upon the estimated market values of those assets.

All inter company profits, transactions and balances are eliminated on consolidation.

### Foreign currencies

#### a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Swedish kronors, which is the Company's functional and presentation currency.

#### b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

### Segment reporting

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

### Dividend policy

Tethys Oil has, since the foundation of the company, not paid any dividends. Future dividends are dependent of the result of Tethys Oil. In the event of future generated income, dividends can be paid if other conditions of the company allows. The size of future dividends will be determined by the company's financial position and growth opportunities by profitable investments.

### Pensions

The Group has not to date operated any pension schemes and does not have a defined benefit or contribution plan for pensions.

### Leasing

Tethys Oil has not entered into any financial or operational leasing contracts.

### Income taxes

Presented income taxes include tax payable or tax receivable for the reporting period, adjustments in regard to previous year's taxes and changes in deferred tax.

Valuations of all tax liabilities/claims is in nominal amounts and are prepared in accordance with tax legislation and tax rates decided or announced and at which they are likely to be resolved.

Items presented in the income statement will be presented in conjunction with related tax effects in the income statement. Tax effects from items accounted directly to shareholders' capital is presented in shareholders' capital.

Deferred tax is prepared using the balance sheet method on all temporary differences which arises from timing in recognition of items. Deferred tax assets, regarding tax losses carried forward, of TSEK 16,819 has not been presented, as the company is in an exploration phase and it is therefore difficult to predict if and when such deductible tax loss can be used. The tax loss carried forward as per December 31, 2004 was TSEK 4,428, and as per December 31, 2003 was TSEK 1,458.

### Fixed assets

Fixed assets regards office equipment. Fixed assets are presented at costs less depreciation. Expenditures on improvement of the fixed assets, exceeding original level, increases the assets presented value. Expenditures for maintenance are presented as costs.

Fixed assets are systematically depreciated during the estimated economic life of the asset. Upon determination of depreciation, the rest value is taken into consideration. Linear method of depreciation is used for all fixed assets. Following economic life is used as base for calculating depreciation:

Office equipment	5 years
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In the case where an asset's book value is higher than a calculated reclamation value, the asset is immediately written down to recovery value.

### Cash flow analysis

The cash flow analysis is prepared in accordance to the indirect method. The presented cash flow only takes into account transactions of payments and money received.

Cash and cash equivalents includes short term investments which are exposed to a minimum of risk and traded on an open market with announced amounts or invested with shorter duration than 3 months from the time of the investment.

### Oil and gas operations

#### a) Accounting for costs of exploration, appraisal and development

In the Company's oil and gas operations all costs for acquiring concessions, licenses or interests in produc-

tion sharing contracts and for the survey, drilling and development of such interests have been capitalized on a field-by-field cost centre basis. Net capitalized costs, together with anticipated future capital costs determined at the balance sheet date price levels, are depleted based on the year's production in relation to estimated total proven and probable reserves of oil and gas in accordance with the unit of production method. Proved reserves are those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods and governmental regulations. Proved reserves can be categorized as developed or undeveloped. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimates. Probable reserves are those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. In this context, when probabilistic methods are used, there should be at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves. Proceeds from the sale or farm-out of oil and gas concessions are offset against the related capitalized costs of each cost centre in the exploration stage with any excess of net proceeds over all costs capitalized included in the income statement. A gain or loss is recognized on the sale or farm-out of producing areas when the depletion rate is changed by more than 20 percent. Total costs capitalized in a cost centre are written off when future recovery of such costs is determined to be unlikely.

#### *b) Revenues*

Revenues from the sale of oil and gas are recognized in the income statement net of royalties taken in kind. Sales are recognized upon delivery of products and customer acceptance or on performance of services. Incidental revenues from the production of oil and gas are offset against capitalized costs of the related cost centre until quantities of proven and probable reserves are determined and commercial production has commenced.

#### *c) Service income*

Service income, generated by providing technical and management services to joint ventures, is recognized as revenue in accordance with the terms of each concession agreement.

#### *d) Joint ventures*

Oil and gas operations are conducted by the Group as co-licensees in joint ventures with other companies. The accounts reflect the relevant proportions of

production, capital costs, operating costs and current assets and liabilities applicable to the Group's interests.

#### *e) Impairment tests*

Impairment tests are carried out at least annually to determine that the net book value of capitalised cost within each field area cost centre less any provision for site restoration costs, royalties and deferred production or revenue related taxes is covered by the anticipated future net revenue from oil and gas reserves attributable to the Group's interest in the related field areas. Capitalised costs can not be carried within a field cost pool unless those costs can be supported by future cash flows from that field. Provision is made for any impairment, where the net book value, according to the above, exceeds the estimated future discounted net cash flows using prices and cost levels used by Group management in their internal forecasting or fair value less costs to sell. If there is no decision to continue with a field specific exploration programme, the costs will be expensed at the time the decision is made.

#### *f) Site restoration costs*

On fields where the Group is required to contribute to site restoration costs, a provision is created to recognize the future liability. At the date of acquisition of the field or at first production, an asset is created to represent the discounted value of the anticipated site restoration liability and depleted over the life of the field on a unit of production basis. The corresponding accounting entry to the creation of the asset recognizes the discounted value of the future liability. The discount applied to the anticipated site restoration liability is subsequently released over the life of the field and is charged to financial expenses.

#### *g) Effects of changes in estimates*

The effects of changes in estimated costs and commercial reserves or other factors affecting unit of production calculations for depletion and site restoration costs do not give rise to prior year adjustments and are dealt with prospectively over the estimated remaining commercial reserves of each field. While the Group uses its best estimates and judgment, actual results could differ from these estimates.

#### *h) Over- and underlifts*

The quantities of oil and other hydrocarbons lifted by the Group may differ from its equity share of production giving rise to over- or underlifts which are accounted for as follows:

- An underlift of production from a field is included in current receivables and valued at the reporting date spot price or prevailing contract price.
- An overlift of production from a field is included in current liabilities and valued at the reporting date spot price or prevailing contract price.

### **Other valuation principles**

Assets and liabilities are included at their acquisition cost and nominal amounts respectively unless stated otherwise.

Share issue costs associated with the issuance of new equity are treated as a direct reduction of proceeds.

Receivables are valued at the amounts they are expected to realize.

Short-term investments are valued at real value.

Inventories of disposables are stated at the lower of cost and net realizable value. The cost is calculated using the First in First Out method (FIFO). Inventories of oil and gas are stated at the lower of cost and net realizable value.

Long-term investments are valued at real value.

Fees associated with long-term financing are deferred and amortized over the life of the financing.

### **Note 1, Risk management**

The Group's activities expose it to a number of risks: market risk (primarily exchange rate risk), short term investment risk and liquidity risk. The Group's overall risks are continuously monitored and reviewed. To minimise liquidity risk, the Group's policy is to invest liquid funds in financial instruments with short durations (less than a year) to maintain financial flexibility. The Group has only invested liquid funds in interest bearing financial instruments. To minimise short term investment risks, management monitors the counterparts of the financial instruments. Due to the Group's relative low market risk exposure, e.g. exchange rate risk, the Group has not used any financial instruments to hedge risks.

### **Note 2, Critical accounting estimates and judgements**

Estimates and judgements are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year are discussed below.

Impairment of oil and gas properties – The Group continuously tests, on a field by field basis, oil and gas properties to determine that the net book amount of capitalized costs within each cost centre less any provision for site restoration costs, royalties and deferred production or revenue related taxes is covered by the anticipated future net revenue from oil and gas reserves attributable to the Group's interest in related fields or fair value less costs to sell. The Group will use its judgement and make assumptions to perform these tests. During 2005 such a judgement was used when the Group made the write down of Hoto in Turkey of TSEK 8,179. After intergrating data from the exploration well with the database the Hoto area was found to be lacking of new drilling locations.

### **Note 3, Oil and gas properties**

The Group does not present any segment information regarding revenues as there have been no sales or production of oil and gas in the Group. Regarding oil and gas properties, segment information based on geography is presented below.

TSEK	Group			Parent		
<b>Oil and gas investments</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
January 1	14,437	1,899	370	-	1,196	370
Investments in Denmark	3,412	1,097	240	-	-610	240
Investments in France	690	-	-	-	-	-
Investments in Morocco	544	-	-	-	-	-
Investments in Spain	33	1,991	1,128	-	-425	425
Investments in Turkey	615	8,779	118	-	-118	118
Other investments in oil and gas properties	1,125	671	43	-	-43	43
December 31	20,856	14,437	1,899	-	-	1,196
Reclassification of assets in Turkey	-605*	-	-	-	-	-
<b>Depreciation</b>						
Depreciation	-	-	-	-	-	-
<b>Write down</b>						
January 1	435	-	-	-	-	-
Write down of the year	8,412**	435	-	-	-	-
December 31	8,847	435	-	-	-	-
<b>Net book value</b>	<b>11,404</b>	<b>14,002</b>	<b>1,899</b>	<b>-</b>	<b>-</b>	<b>1,196</b>

\* The reclassification regards previous oil and gas properties, which after the exploration well are considered to be receivables from partners.

\*\* The write down of oil and gas properties mainly regards Hoto in Turkey, where a write down of TSEK 8,179 was made, see note 2.

TSEK	Group			Parent		
<b>Book value oil and gas properties</b>	<b>2005-12-31</b>	<b>2004-12-31</b>	<b>2003-12-31</b>	<b>2005-12-31</b>	<b>2004-12-31</b>	<b>2003-12-31</b>
Denmark	5,119	1,707	610	-	-	610
France	690	-	-	-	-	-
Morocco	553	-	-	-	-	-
Spain	3,152	3,118	1,128	-	-	425
Turkey	727	8,897	118	-	-	118
Other	1,163	279	43	-	-	43
<b>Total</b>	<b>11,404</b>	<b>14,002</b>	<b>1,899</b>	<b>-</b>	<b>-</b>	<b>1,196</b>

## Note 4, Remuneration to company auditor

TSEK	Group			Parent		
<b>Remuneration to company auditor include:</b>	<b>1 Jan 2005– 31 Dec 2005 12 months</b>	<b>1 Jan 2004– 31 Dec 2004 12 months</b>	<b>1 Jan 2003– 31 Dec 2003 12 months</b>	<b>1 Jan 2005– 31 Dec 2005 12 months</b>	<b>1 Jan 2004– 31 Dec 2004 12 months</b>	<b>1 Jan 2003– 31 Dec 2003 12 months</b>
PricewaterhouseCoopers AB:						
Audit fee	385	123	30	385	123	30
Other	-	-	-	-	-	-
<b>Total</b>	<b>385</b>	<b>123</b>	<b>30</b>	<b>385</b>	<b>123</b>	<b>30</b>

## Note 5, Administration and depreciation

TSEK	Group			Parent		
	1 Jan 2005– 31 Dec 2005 12 months	1 Jan 2004– 31 Dec 2004 12 months	1 Jan 2003– 31 Dec 2003 12 months	1 Jan 2005– 31 Dec 2005 12 months	1 Jan 2004– 31 Dec 2004 12 months	1 Jan 2003– 31 Dec 2003 12 months
<b>Administration and depreciation</b>						
Salary	-2,847	-2,000	–	-2,847	-2,000	–
Rent	-589	-433	-350	-589	-433	-350
Other office costs	-81	-26	-15	-81	-26	-15
Listing costs	-625	-385	–	-625	-385	–
Audit	-385	-123	-30	-385	-123	-30
Costs of external relations	-421	-197	-33	-421	-197	-33
External accounting costs	-157	-283	-61	-157	-283	-61
Other costs	-1,469	-1,878	-438	-1,458	-1,878	-438
Depreciation	-35	-50	-6	-35	-50	-6
<b>Total</b>	<b>-6,609</b>	<b>-5,375</b>	<b>-934</b>	<b>-6,598</b>	<b>-5,375</b>	<b>-934</b>

## Note 6, Employees

Average number of employees	2005		2004		2003	
	Total	Total men	Total	Total men	Total	Total men
Parent company	3.5	3.0	2.5	2.5	–	–
Subsidiaries	–	–	–	–	–	–
<b>Total</b>	<b>3.5</b>	<b>3.0</b>	<b>2.5</b>	<b>2.5</b>	<b>–</b>	<b>–</b>

TSEK	2005		2004		2003	
	Salaries, other remuneration and social costs	Social costs	Salaries, other remuneration and social costs	Social costs	Salaries, other remuneration and social costs	Social costs
Parent company	2,324	514	1,615	395	–	–
Subsidiaries	–	–	–	–	–	–
<b>Total</b>	<b>2,324</b>	<b>514</b>	<b>1,615</b>	<b>395</b>	<b>–</b>	<b>–</b>

Salaries and other remuneration distributed between the board and other employees	2005		2004		2003	
	Board and Managing Director	Other employees	Board and Managing Director	Other employees	Board and Managing Director	Other employees
Parent company	1,694	629	1,260	355	–	–
Subsidiaries	–	–	–	–	–	–
<b>Total</b>	<b>1,694</b>	<b>629</b>	<b>1,260</b>	<b>355</b>	<b>–</b>	<b>–</b>

The Group currently has 3.5 full time employees. Tethys Oil only has four employees which is why no information regarding sick leave is presented. There has been no remuneration to the Board of Directors and there are neither agreements on pensions nor any severance pay agreements in place for any of the directors of the board. Vincent Hamilton in his capacity as COO and Magnus Nordis as Managing Director are both entitled to twelve months if the Company terminates their employment.

<b>Salaries and other remuneration to operative board members and executive management</b>	<b>Salaries</b>	<b>Bonus</b>	<b>Benefits</b>	<b>Total 2005</b>	<b>Total 2004</b>	<b>Total 2003</b>
Vincent Hamilton	960	–	–	960	720	–
Magnus Nordin	734	–	–	734	540	–
Other	550	80	–	629	355	–
<b>Total</b>	<b>2,244</b>	<b>80</b>	<b>–</b>	<b>2,324</b>	<b>1,615</b>	<b>–</b>

<b>Salaries and other remuneration to board members (in their capacity as board members)</b>	<b>Salaries</b>	<b>Remuneration</b>	<b>Total 2005</b>	<b>Total 2004</b>	<b>Total 2003</b>	<b>Attendance 2005</b>
Vincent Hamilton	–	–	–	–	–	8/8
Magnus Nordin	–	–	–	–	–	8/8
John Hoey	–	–	–	–	–	8/8
Carl Gustaf Ingelman *	–	–	–	–	–	5/5
Håkan Ehrenblad	–	–	–	–	–	8/8
Jan Risberg	–	–	–	–	–	8/8
<b>Total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

\* Carl-Gustaf Ingelman joined the Board of Directors on 4 May 2005.

At the Annual General Meeting of shareholders on May 4 2005, Håkan Ehrenblad, Vincent Hamilton, John Hoey, Magnus Nordin, Jan Risberg were re-elected members of the board and Carl-Gustaf Ingelman was newly elected. The board members are elected until the end of the next AGM. No deputy directors were appointed. At the constitutive Board

meeting the Board resolved to create an Audit committee consisting of the four non-executive directors.

Tethys Oil has not paid any remuneration to the Board of Directors. Before April 2004 the company was private and was in a start up phase, which is why no salaries or remunerations were paid.

## Note 7, Financial income and similar items

TSEK	Group			Parent		
	1 Jan 2005– 31 Dec 2005 12 months	1 Jan 2004– 31 Dec 2004 12 months	1 Jan 2003– 31 Dec 2003 12 months	1 Jan 2005– 31 Dec 2005 12 months	1 Jan 2004– 31 Dec 2004 12 months	1 Jan 2003– 31 Dec 2003 12 months
<b>Financial income</b>						
Interest income	0	0	0	473	185	0
Gain on currency exchange rates	145	83	–	125	83	–
Write up of short term investments	441	622	–	440	622	–
Gain on selling short term investments	188	58	43	188	58	43
<b>Total</b>	<b>774</b>	<b>764</b>	<b>43</b>	<b>1,226</b>	<b>948</b>	<b>43</b>

## Note 8, Financial expenses and similar items

TSEK	Group			Parent		
	1 Jan 2005– 31 Dec 2005 12 months	1 Jan 2004– 31 Dec 2004 12 months	1 Jan 2003– 31 Dec 2003 12 months	1 Jan 2005– 31 Dec 2005 12 months	1 Jan 2004– 31 Dec 2004 12 months	1 Jan 2003– 31 Dec 2003 12 months
<b>Financial income</b>						
Interest expenses	-3	-1	-	-3	-1	-
Loss on currency exchange rates	-136	-15	-	-136	-15	-
Other	-5	-	-	-	-	-
<b>Total</b>	<b>-144</b>	<b>-16</b>	<b>-</b>	<b>-139</b>	<b>-16</b>	<b>-</b>

## Note 9, Other assets

TSEK	Group			Parent		
	2005	2004	2003	2005	2004	2003
<b>Other assets</b>						
<b>Assets</b>						
January 1	216	58	17	216	58	17
Additions	72	158	41	72	158	41
December 31	288	216	58	287	216	58
<b>Depreciations</b>						
January 1	-58	-8	-2	-58	-8	-2
Depreciation charges of the year	-35	-50	-6	-35	-50	-6
December 31	-93	-58	-8	-93	-58	-8
<b>Net book value</b>	<b>195</b>	<b>158</b>	<b>50</b>	<b>195</b>	<b>158</b>	<b>50</b>

## Note 10, Shareholders' equity

The total number of shares amounts to 4,384,800 (4,384,800). All shares have a quota value of 0.50 (0.50).

As of the balance sheet date, Tethys Oil had no convertible bonds, options or other instruments which may cause dilution.

Tethys Oil conducted, during the first quarter of 2004, a share split of 2:1. Historic numbers of shares

and share related data have been adjusted accordingly. The number of shares at December 31, 2004 includes new shares from the share issue, which were registered 1 April 2004. For the weighted average number of shares calculation they were included as from 26 March 2004.

## Note 11, Accrued expenses

TSEK	Group			Parent		
	1 Jan 2005– 31 Dec 2005 12 months	1 Jan 2004– 31 Dec 2004 12 months	1 Jan 2003– 31 Dec 2003 12 months	1 Jan 2005– 31 Dec 2005 12 months	1 Jan 2004– 31 Dec 2004 12 months	1 Jan 2003– 31 Dec 2003 12 months
<b>Accrued expenses</b>						
Accrued expenses – exploration	116	848	318	-	-	318
Other	170	665	173	170	665	173
<b>Total</b>	<b>286</b>	<b>1,513</b>	<b>491</b>	<b>170</b>	<b>665</b>	<b>491</b>

## Note 12, Shares in subsidiaries

Company	Reg. number	Reg. office	Number of shares	Percentage	Nominal value per share	Parent Company	Parent company	Parent company
						Book amount December 31, 2005, TSEK	Book amount December 31, 2004, TSEK	Book amount December 31, 2003, TSEK
Tethys Oil Denmark AB	556658-1467	Sweden	1,000	100%	SEK 100	100	100	–
Tethys Oil Spain AB	556658-1442	Sweden	1,000	100%	SEK 100	100	100	–
Tethys Oil Turkey AB	556658-1913	Sweden	1,000	100%	SEK 100	100	100	–
Tethys Oil Exploration AB	556658-1483	Sweden	1,000	100%	SEK 100	100	100	–
Tethys Oil France AB	556658-1491	Sweden	1,000	100%	SEK 100	100	100	–
Windsor Petroleum (Spain) Inc.	549 282	British Virgin Islands	1	100%	USD 1	703	703	703
<b>Total</b>						<b>1,203</b>	<b>1,203</b>	<b>703</b>

TSEK	Parent company December 31, 2005	Parent company December 31, 2004	Parent company December 31, 2003
<b>Shares in subsidiaries</b>			
January 1	1,203	703	–
Acquisitions	–	500	703
Contributed share capital	9 692	–	–
Write down of shares in group companies	-9 692	–	–
<b>December 31</b>	<b>1,203</b>	<b>1,203</b>	<b>703</b>

## Note 13, Pledged assets

Pledged assets of TSEK 780 regard a bank guarantee for operations in Morocco of TUSD 100. As per December 31, 2004 and December 31, 2003, the Group had no pledged assets.

## Note 14, Contingent liabilities

In Denmark, the Group has contingent liabilities amounting to TSEK 14,000 regarding an exploration well commitment. The amount is Tethys Oil's estimate, as the operator, of what the exploration well will cost. Furthermore, there is an estimated potential commitment regarding abandonment in the La Lora concession in Spain. This commitment amounts to TSEK 527, based on the operator's estimate. Total contingent liabilities amounts to TSEK 14,527 as per December 31, 2005. Contingent liabilities as per December 31, 2004 amounted to TSEK 14,527 and 2,452 as per December 31, 2003.

## Note 15, Related party transactions

There has been no related party transaction during 2005, except for invoices forwarded to Group companies. See also remunerations to employees, note 6. During 2004 Tethys Oil has paid TSEK 375 to Alcafi Ltd., a company owned by Jan Risberg, a director of Tethys Oil. There were no related party transaction during 2003.

## Note 16, Subsequent events

- French government has awarded Tethys Oil a 40 percent interest in an exploration permit, the Attila license, in Paris basin. The license is valid for a period of five years and has a financial work commitment of TEUR 1,162, of which Tethys' share amounts to TEUR 520. The operator is private French oil company Galli Coz S.A. having 60 percent.
- Gravimetrical field work has commenced on the Bouanane license in Morocco

# Auditor's report

(An English translation of the Swedish original)

## To the annual meeting of the shareholders of Tethys Oil AB (publ)

*Corporate Identity Number 556615-8266*

I have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the managing director of Tethys Oil AB (publ) for the year 2005. The board of directors and the managing director are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. My responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on my audit.

I conducted my audit in accordance with generally accepted auditing standards in Sweden. Those standards require that I plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the managing director and significant estimates made by the board of directors and the managing director when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for my opinion concerning discharge from liability, I examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the managing director. I also

examined whether any board member or the managing director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. I believe that my audit provides a reasonable basis for my opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the Group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

I recommend to the annual meeting of shareholders that the income statements and balance sheets of the parent company and the Group be adopted, that the loss of the parent company be dealt with in accordance with the proposal in the administration report and that the members of the board of directors and the managing director be discharged from liability for the financial year.

Stockholm March 30, 2006

**Klas Brand**

Authorized Public Accountant  
PricewaterhouseCoopers AB

# Definitions and Abbreviations

## General

AGM	Annual General Meeting
EGM	Extraordinary General Meeting
IPO	Initial Public Offering
SEK	Swedish krona
TSEK	Thousands of Swedish kronor
USD	US dollar
TUSD	Thousands of US dollars
MUSD	Million US dollars
2D	Two-dimensional
3D	Three-dimensional

## Petroleum related abbreviations and definitions

bbl	Barrel
bbls	Barrels
bcf	Billion cubic feet
boe	Barrels of oil equivalents
boepd	Barrels of oil equivalents per day
bopd	Barrels of oil per day
mbbl	Thousand barrels (in Latin mille)
mmbo	Million barrels of oil
mmboe	Million barrels of oil equivalents
mmboepd	Million barrels of oil per day
cf	Cubic feet
mcf	Thousand cubic feet
mcfpd	Thousand cubic feet per day
mmcf	Million cubic feet
mcm	Thousand cubic metres

## Industry specific terms

### Barrel

1 barrel = 159 liters.

1 cubic foot = 0.028 m<sup>3</sup>

### Basin

Basin is a depression of large size in which sediments have accumulated.

### Farm-in

A joint-venture agreement between companies whereby one company holds the license and the other company joins them by taking a working interest in the license.

### Hydrocarbons

Naturally occurring organic substances composed of hydrogen and carbon. They include crude oil, natural gas and natural gas condensate.

## License

Company is granted rights to a concession and bears the cost of exploration and development, in return for paying to the government license fees and royalties on production.

## Paying interest

Paying interest is the cost-bearing interest arising out of the obligation to bear initial exploration, appraisal and development costs on behalf of a partner.

## Probable reserves

Probable reserves are those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. In this context, when probabilistic methods are used, there should be at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves.

## Proved reserves

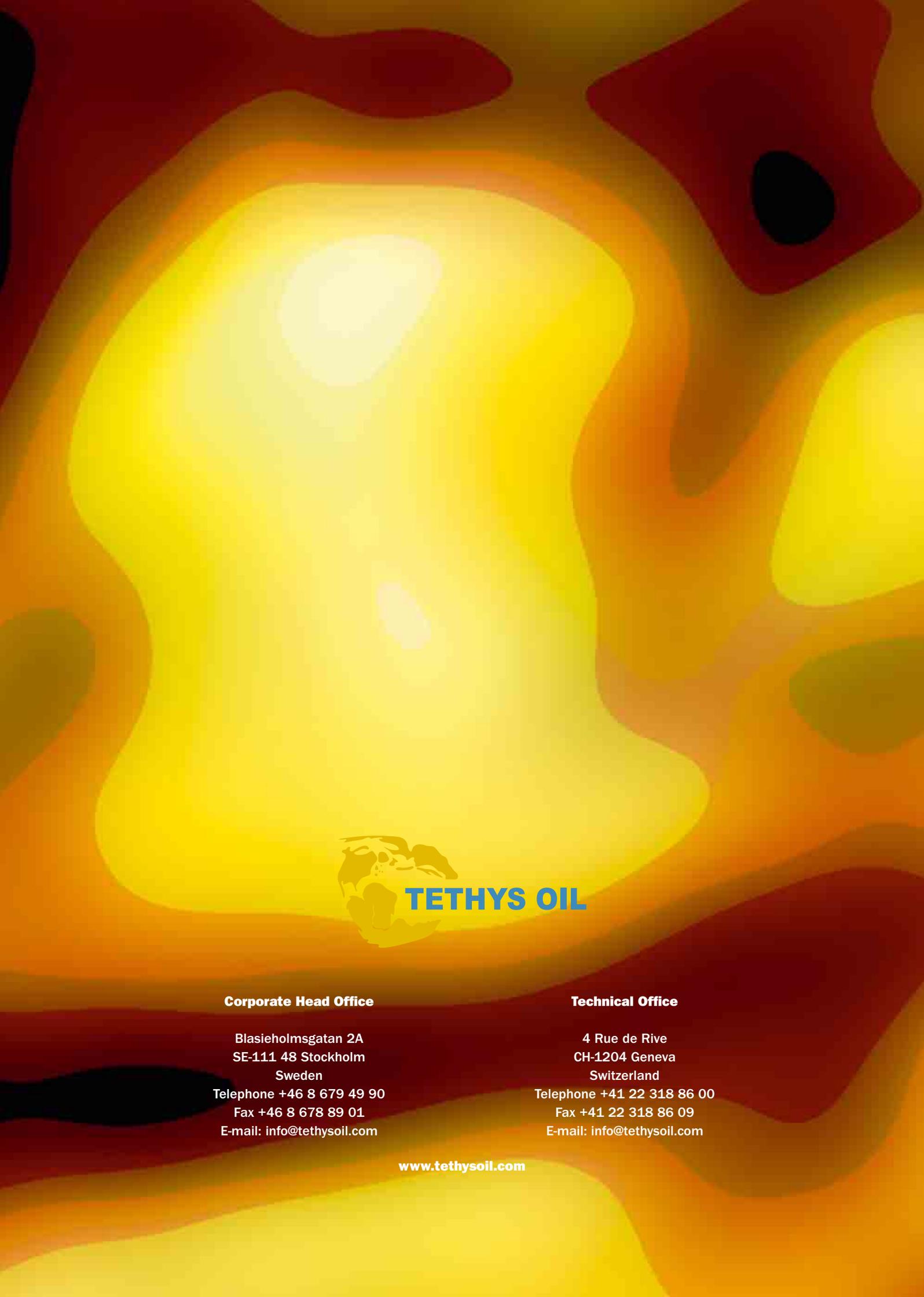
Proved reserves are those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods and governmental regulations. Proved reserves can be categorized as developed or undeveloped. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimates.

## Seismic

Seismic is a method of geophysical prospecting involving the interaction of sound waves and buried sedimentary rock layers.

## Working interest

The actual interest owned by a party.



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