

Tethys Oil AB (publ)
Annual report 2004

Contents

ANNUAL GENERAL MEETING	2
FINANCIAL INFORMATION	2
TETHYS OIL IN BRIEF	3
2004 IN BRIEF	3
LETTER TO SHAREHOLDERS	4
OIL AND NATURAL GAS EXPLORATION	6
THE OIL AND GAS MARKET	8
TETHYS OIL	12
Denmark	14
Spain	18
Turkey	20
New ventures	24
ENVIRONMENT	25
BOARD OF DIRECTORS, MANAGEMENT AND AUDITORS	26
THE TETHYS OIL SHARE	28
KEY FINANCIAL DATA	30
ADMINISTRATION REPORT	32
NOTES	42
AUDITOR'S REPORT	50
DEFINITIONS AND ABBREVIATIONS	51
ADDRESSES	52

Annual General Meeting

The Annual General Meeting will be held at Van der Nootska Palatset, St: Paulsgatan 21, Stockholm, at 3 p.m. on Wednesday, May 4, 2005. Shareholders intending to participate in the Annual General Meeting must be entered as shareholders in the share register as per April 22 2005. In addition to the requirements listed above, shareholders shall provide notice of attendance, not later than 4.00 p.m. 2005-04-28, to:

Tethys Oil AB

Corporate Legal	Telephone: +46 8 679 49 90
Blasieholmogatan 2A	Fax: +46 8 678 89 01
SE-111 48 Stockholm	E-mail: agm@tethysoil.com
Sweden	

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 28, 2005.

Financial information

The company plans to publish the following financial reports:

Three months report (January – March 2005) on 4 May 2005
Six months report (January – June 2005) on 15 August 2005
Nine months report (January – September 2005) on 3 November 2005
Year end report (January – December 2005) on 15 February 2006

Tethys Oil in brief

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 shares are listed on Nya Marknaden (TETY) in Stockholm. The company has interests in exploration licenses in Denmark, Spain and Turkey and in a production license in Spain. The company is actively aiming to hold a well balanced portfolio of oil and natural gas interests, in different development stages.

2004 in brief

Highlights

- Tethys Oil conducted an IPO which was successfully completed raising MSEK 75 before issue costs. Tethys Oil was listed on Nya Marknaden on April 6.
- In Spain the Basconillos-H exploration license application was awarded in April, whereby Tethys Oil has a 50 percent interest with the operator Northern Petroleum.
- In License 1/02 in Denmark, Tethys Oil received governmental approval to enter into drilling phase of license and be the Operator.
- An exploration well, Koctepe-1 in Turkey, was spudded on July 10 and reached a total depth of 1,650 meters at the end of August. Oil was present but not in commercial quantities.

Subsequent events

- On Tethys' operated license 1/02 onshore Zealand Denmark, the geologically optimal drilling location has been agreed by partners, and an agreement to use a corresponding surface location has been signed.
- The final interpretation and evaluation of existing data over the Ispandika licenses has been completed using radar data and satellite imagery. The work was encouraging and by funding this work Tethys has formally fulfilled the agreed work commitment for the 10 per cent license interest.

Letter to the shareholders

Dear friends and investors,

It is not always easy being an oil company. But it is never dull. It can be frustrating. Such as when hard work and positive market conditions still do not lead to tangible results. But it can also be extremely rewarding. When everything falls in place and ideas, work and opportunities combine to successful completion, little can beat the monetary reward or the sheer satisfaction of a job finally well done.

In the Exploration & Production (E&P) business the focal point for all effort is the extraction of oil and/or natural gas from the earth. The most significant manifestation of this task is the drilling of exploration wells. One could say that all E&P efforts are in the end geared at this sole endeavour – the drilling of exploration wells. From the results of successful exploration flows increased reserves which sooner or later translates into increased production and thus additional supply of energy for hungry consumers.

Successful exploration almost invariably leads to vast increases in wealth for the financiers of the exploration efforts. And rightly so given the financial risks involved. In frontier areas, where big discoveries can still occur, the drilling success rate, even with the advances of modern technology, still stand and little better than one in ten. Clearly even with the best technical advice available pure exploration demands a not insignificant amount of luck to be successful.

All success relies to some extent on luck. But luck can be helped on its way by following a few simple rules of engagement when it comes to investing into E&P projects. In Tethys we try to avoid unnecessary complications in our approach. Finding and extracting oil and natural gas is difficult enough as it is. We believe eventual success will follow by maintaining fiscal discipline, a diversified portfolio of assets and by limiting our scope of investments to well defined areas of the world.

No company can be everything to everyone, nor can a small organisation handle more than say 5-6 projects that preferably are not too far spread out geographically.

These tenets have been at the base of Tethys Investment Philosophy from the beginning. Hence our geographic core area of European Union and Candidate countries and our belief that for Tethys to have exploration success also relatively small discoveries can be quite significant.

Apart from diversification, risk limitation by capping absolute expenditures should also be employed. Ideally Tethys will not spend more than approximately MUSD 1 on any one exploration well. By doing this Tethys can offer exposure to several wells without additional financing, all of which should have an order of magnitude impact on the value of the company, be they successful.

Exploration until successful however typically remains a negative-cash-flow business. The prudent E&P company will try to underpin pure exploration with a cash flow stream. A production/development project would therefore not be out of place in Tethys' project portfolio.

The La Lora production license covering the Ayoluengo field in Spain could become that cash flow stream but so far the production stream from Ayoluengo has been too small to make a difference. Tethys is therefore actively pursuing a production/development project somewhere within our extended core area. With exploration underpinned by production Tethys vision as an investment vehicle would be to offer investors continual exposure to promising and significant exploration funded by internally generated free cash.

In addition to sourcing production Tethys is actively looking for three or four more exploration opportunities to supplement the current mix of Denmark, Spain and Turkey.

This year, Tethys third year as a company and first year as a public company, has seen one of the most dramatic oil price increases in history, even by the volatile standards of world oil price swings. A direct result of the higher oil price environment is a marked interest in exploration and in particular in higher risk exploration. This of course is positive for Tethys. The other side of the coin is that reserves in the ground and producing fields have become more expensive. The combined results so far of the higher oil price environment for Tethys strategy has been to expand Tethys core area to include also select parts of Africa.

Opportunities and investor/oil company appetite for projects in select African countries is such that it can not be ignored.



On the Political side Tethys is delighted to note that Turkey, which country we have also previously regarded as a EU candidate country now also officially is admitted to start formal negotiations with the Union. We also happily regard the Ukraine, one of Europe's most prolific oil and gas countries, after recent political developments meet our standards to be included as a potential investment area.

Operationally Tethys most significant investment during the year was our participation in the Hoto-well in Turkey. A young E&P company's first exploration well is of course a significant event. We are quite satisfied with the way our partners Aladdin Middle East Ltd conducted the operations and we can only conclude that despite good technical indications the final component, luck, was not with us this time and the oil we found was sub commercial. Adhering to our investment principles however we can also note that just over 10 percent of the company's available cash was spent on the well.

In our other significant area of operations, Denmark, we entered into the second stage of the exploration and committed to drilling one exploration well onshore Zealand before July of 2006. In March we had some encouragement from the results from a seismic amplitude survey which suggests hydrocarbons may be present in the potential reservoir. The current year will see a lot of time and effort go into Denmark and hopefully we shall see a completed well there before the year is over.

Thank you for supporting our first public year. Stay on board with us and we are confident that sooner or later you will not be disappointed.

Stockholm in April 2005

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«.

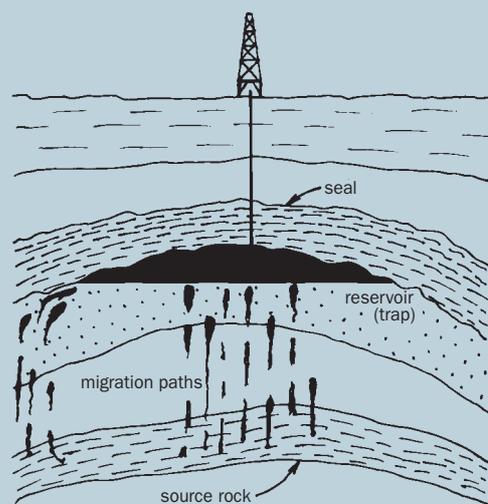
The company with the operating responsibility, called the operator, can either carry out the work themselves or acquire the services on contract.

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 kilometers. 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.

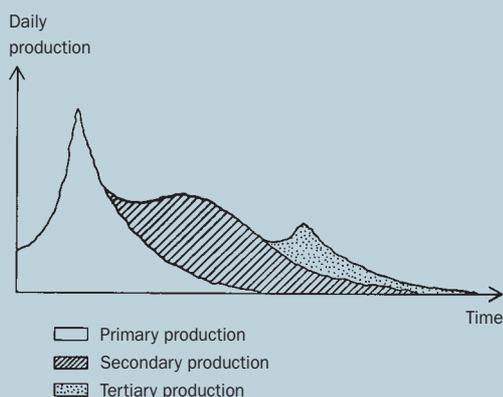
Seismic is acquired onshore or offshore by geophysical crews or seismic vessels, respectively. Single linear lines of seismic provide information about the subsurface rocks directly beneath the seismic equipment. This type of seismic data is referred to as two-dimensional or 2D seismic, because it provides 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 are 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.

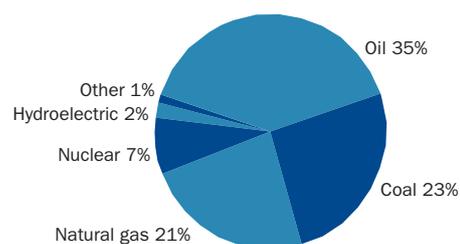


The oil and gas market

The oil and gas market is the world's largest market of natural resources and appears to remain as such in the foreseeable future. As a natural resource, oil and gas is a series of coincidences, the result of several positive events during several millions of years. Our modern life is heavily dependant on this natural resource, as most things around us – in one way or another – are connected to it. From asphalt, computers, gasoline, bicycle helmets and pencils to shoes, oil-derived products surround our everyday life. The value of this natural resource is determined at global market places and is constantly changing. The market consists of many thousands of companies no one dominant enough to affect the global market price. Competition lies therefore not in prices 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.



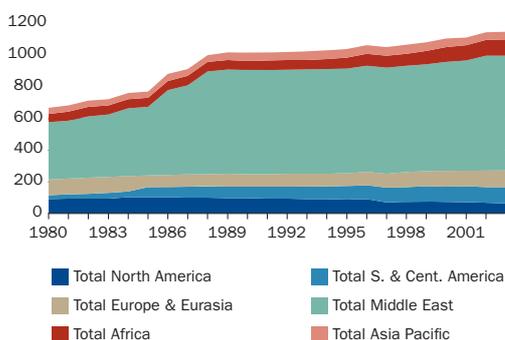
The oil market

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, etc).

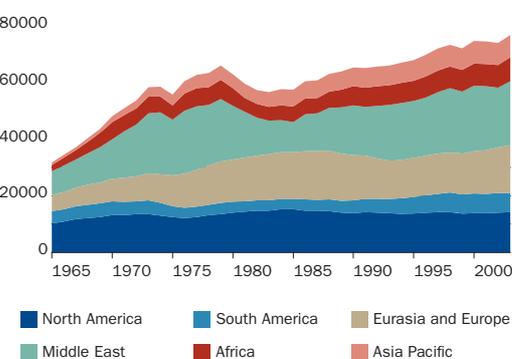
The amount of variables that can affect oil supply and demand is vast and much resources and brain power is devoted to create dynamic models aiming to explain past developments, understand the current

1. Known global oil reserves, thousand million barrels



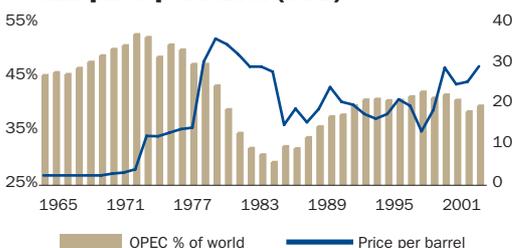
Source: BP Statistical Review of World Energy 2004.

2. Global oil production, thousand barrels per day



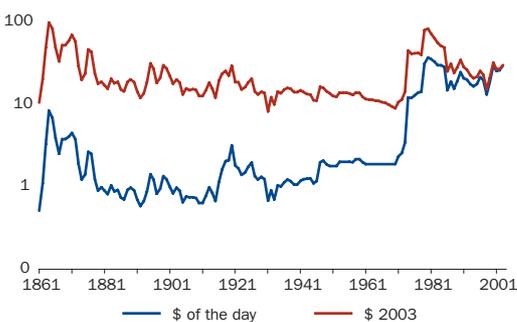
Source: BP Statistical Review of World Energy 2004.

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



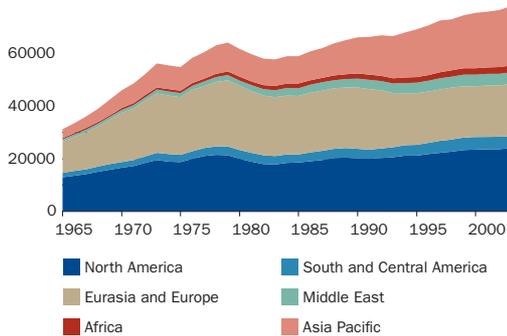
Source: BP Statistical Review of World Energy 2004.

4. Oil price development since 1861



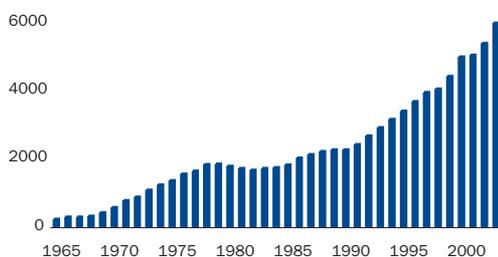
Source: BP Statistical Review of World Energy 2004.

5. Global oil consumption, thousand barrels per day



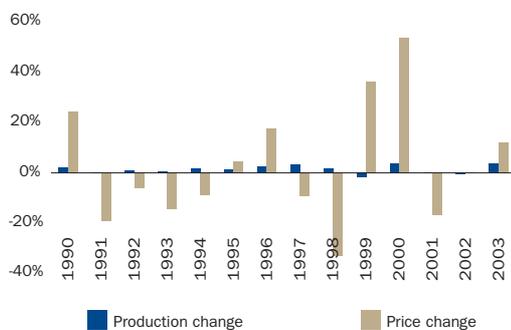
Source: BP Statistical Review of World Energy 2004.

6. Oil consumption – China, thousand barrels per day



Source: BP Statistical Review of World Energy 2004.

7. Production change and price change



Source: BP Statistical Review of World Energy, 2004.

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 24.5 percent of total primary energy supply in 2003. 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 2003-2004)

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 meters (€/mcm), where one normal cubic meter of natural gas is equivalent of 37.2 standard 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 to 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 meters (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).

Industrial consumers across the EU spent an average of € 203 per mcm of natural gas in 2002. 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.

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 cause 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 kilometers of pipeline extend across the European Union and thousands of kilometers 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 2003-2004)

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.

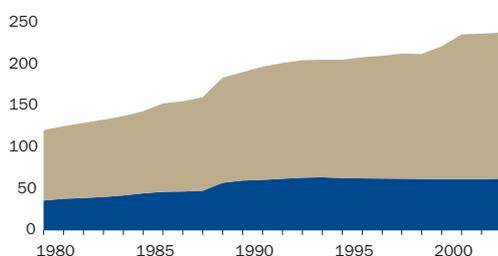
Natural gas market reform in Europe

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 62.3 trillion cubic meters (tcm) by the end of 2003 represents 35 percent of total global reserves. Russia accounts for 75 percent of the total reserves in Europe and Eurasia.

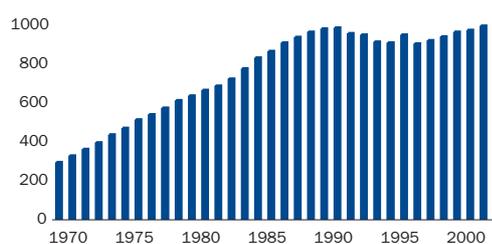


Source: BP Statistical Review of World Energy, 2004.

Natural gas demand and supply

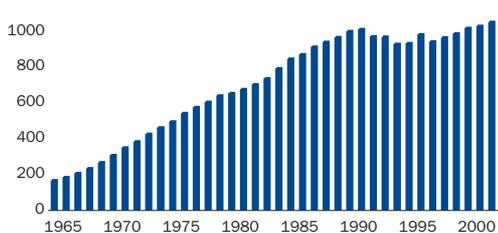
Consumption in Europe and Eurasia in 2003 amounted to 1,084 billion cubic meters (bcm), accounting for around 42 percent of global natural gas consumption.

Consumption, bcm



Source: BP Statistical Review of World Energy, 2004.

Production, bcm



Source: BP Statistical Review of World Energy, 2004.

European demand of 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 about a quarter of total supply or 117 bcm by pipeline. Algeria, with 55 bcm, 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 2003)

Tethys Oil

Overview

Tethys Oil is a Swedish independent oil and natural gas company focused on exploration and development projects. Tethys Oil's geographical focus is on the countries of the European Union with candidate countries and select African countries. Tethys prioritizes areas that offer attractive geological structures, a stable political and economic environment and a well developed oil and natural gas infrastructure. Tethys currently holds license interests in Denmark, Spain and Turkey.



Summary of license interests

Country	Areas	Tethys Oil %	Total area km ²	Operator
Denmark	License 1/02	70%	533	Tethys Oil Denmark
	License 1/03	70%	1,655	Tethys Oil Denmark
Spain	La Lora	22.5% ¹	106	Northern Exploration Ltd.
	Valderredible	50% ²	241	Northern Exploration Ltd.
	Huermeces	50% ²	121	Northern Exploration Ltd.
	Basconillos	50% ²	194	Northern Exploration Ltd.
Turkey	Hoto	45%	15	Aladdin Middle East Ltd.
	Ispandika	10 – 45%	965	Aladdin Middle East Ltd.
Total area			3,830	

¹ Economic interest

² 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 utilize its right, Tethys Oil's participation in the licenses will decrease to 40 percent at the lowest.

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, which can reduce expenses and make it possible to evaluate and develop interesting areas that have previously been considered sub-economic.

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 three employees, of which two 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.

Denmark



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 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.

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 was working 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). Previous to that, he was Huffco Indonesia's senior geologist at Borneo in Indonesia between 1981 and 1984. Willumsen has also worked as geologist and area supervisor for Gulf Canada Resources from 1975 to 1981.

Willumsen holds a master of Science in Geology (micropaleontology) from 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.

Three of the four necessary criteria, seal, reservoir and trap are very well defined, and any commercial discovery would be extremely valuable given the Karlebo areas location only 30 kilometers from Copenhagen and less than 8 kilometers from the pipeline that supplies Sweden with natural gas. Compared to the estimated well cost of less than MSEK 20, the risk-reward ratio is very favorable.

Table of facts – Denmark

Proven oil reserves, 2003	1,300 mmbbl
Proven gas reserves, 2003	3.3 tcf
Oil production, 2003	368 mbopd
Gas production, 2003	0.8 bcfpd
Oil consumption, 2003	194 mbopd
Gas consumption, 2003	0.5 bcfpd

Geological overview

The geology of north-eastern Denmark, Zealand, Öresund and Kattegatt, is dominated by the north-west-southeast 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 southwestern 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 Falsterborev 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 – the case for oil or natural gas in the Danish licenses

Reservoirs

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, which primarily produce natural gas in northern Germany, and the Triassic sandstone, which had gas shows in the Ljunghusen well, and an oil show in the Höllviken-2 well, both of which are located in 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 sand-

stones in the Margretheholm geothermal well located in Copenhagen.

Seals

For any reservoir a seal made up 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.

Source rocks and maturity

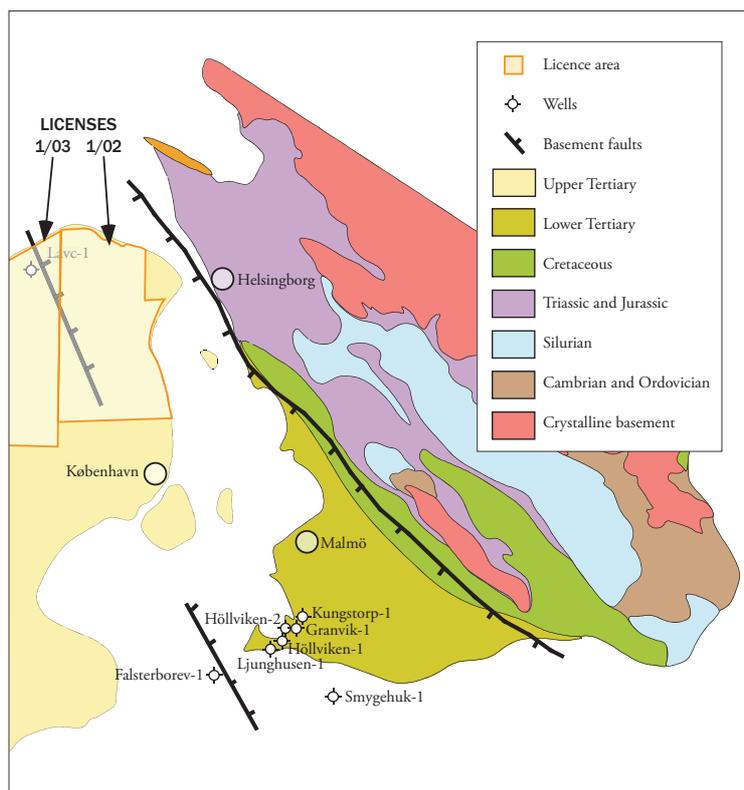
There are a number of potential source rocks in this area including the Cambrian Alum shale, Triassic coal and Jurassic marine shale. The extremely organic-rich Cambrian Alum shale outcrops in southern Sweden. The Alum is the primary oil source rock for oil and gas fields in the Baltic area, i.e. Gotland, 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.

Traps and timing

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, called Karlebo, is a simple closed structure at a depth corresponding to the base of the chalk layers. This closure, and others on 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 meters of simple closure at the base of Cretaceous chalk, which overlies reservoir sandstone.

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.



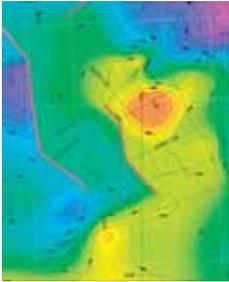
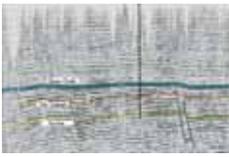
License 1/02

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 meters or 50 meters below the bottom of the Triassic Gassum formation, whichever is reached first, by July 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

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



previous phase(s). The license can be relinquished after the completion of the work programs in period one and two, respectively.

During 2004, the Operating Committee of the license group 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 Karlebo 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.

During 2004, the geologically optimal drilling location was agreed by partners and a corresponding surface location was secured in early 2005 in order to be able to start preparations for a drill site. This will enable the drilling of the Karlebo -1 exploration well planned for later in 2005.

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 meters to 2,400 meters below surface. The well location has been chosen using 291 kilometers of 2D seismic data and regional stratigraphic correlations. Based on geothermal modeling of available data, natural gas is considered to be more likely discovered than crude oil.

License 1/03

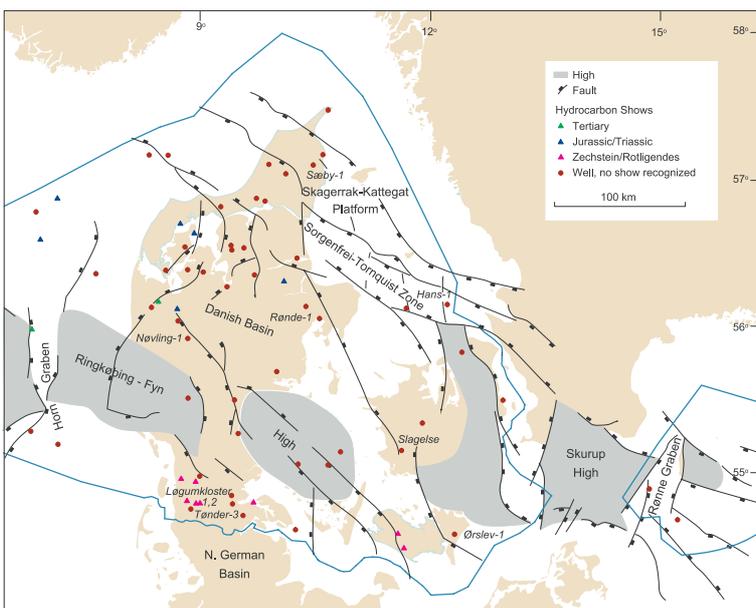
The work program for the license is divided into three periods, each with a duration of two years, and comprises the following:

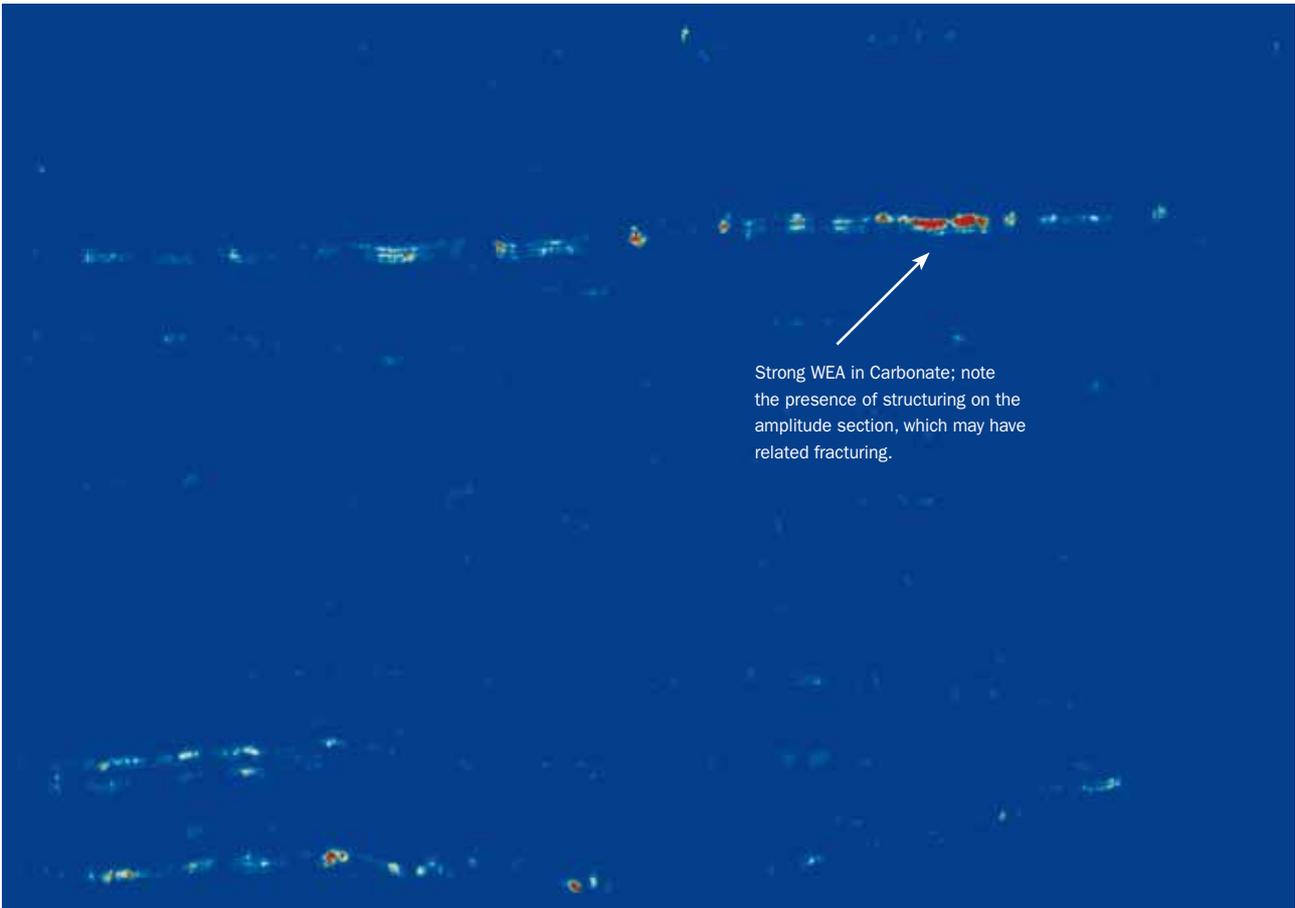
- Period 1: Geological studies to integrate all available data followed by a specialized 2D seismic reprocessing. This will be followed by a surface geochemical survey.
- Period 2: Acquisition of new seismic data.
- Period 3: Drilling of an exploration well.

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.

During 2004, Tethys Oil finished reprocessing seismic lines from the area. All of the existing onshore seismic data has now been reprocessed and combined with the offshore seismic data that was reprocessed previously.

In License 1/03, Tethys has started on the technical work program for 2005. This includes the special new seismic processing technique WEA, designed to identify natural gas reservoirs. During the summer, a surface geochemical survey will be conducted over a prospect identified onshore Jutland. These types of surveys have been developed in order to detect minute quantities of hydrocarbon gasses in the soil. Positive results would indicate the presence of an active petroleum system working in the area.





Strong WEA in Carbonate; note the presence of structuring on the amplitude section, which may have related fracturing.

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.

Spain



Table of facts – Spain

Proven oil reserves, 2002-2003	157 mmo
Proven gas reserves, 2002-2003	2.5 bcm
Oil production, 2002-2003	5,333 bbls per day
Gas production, 2002-2003	1.0 million cm/day
Oil consumption, 2002-2003	1.16 mmbopd
Gas consumption, 2002-2003	68.6 million cm/day

Geological overview

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.

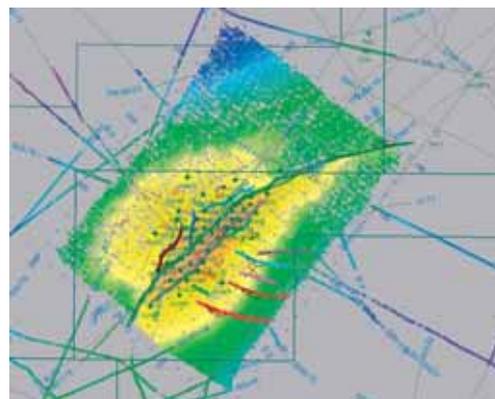
For all of the licenses a comprehensive database was built. The purpose of this was to input all available geological, geophysical and drilling data into an electronic form for using on a computer workstation. This database formed the foundation for all interpretation of the Ayoluengo field and prospects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

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 meters. In 2004, the production amounted to approximately 130 bbls/d. The produced oil is sold to Repsol/ YPF. 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 produced natural gas is used on site to generate all of the electricity used in the field operation. These facilities were designed to handle the 5,000 bbls/d peak production that was achieved by the field in the past. The opera-

tor reviewed several measures to improve production from the field. A reservoir engineering study was completed in order to identify un-produced oil zones, and the result was a recommendation for a re-perforation program. This work entails going back into the well bores with special explosive charges that blast new holes into the casing, allowing oil to flow from the reservoir into the well. Currently oil service contractors are being contacted to bid on this project.

A new interpretation of the three-dimensional (3D) seismic over the Ayoluengo field was also done by correlating the seismic with producing wells. The reason for this exercise was to identify infill drilling locations and find localized reservoir sandstone channels. The consequence was that previously recommended infill locations were not good locations structurally. Secondly sandstone channels were not visible on the 3D seismic. However, it appears that gas zones can be identified based on their higher seismic amplitudes.



Valderredible license

The Valderredible exploration license contains the Huidobro discovery that was made by Chevron in the 1960s. The operator Northern has proposed to re-drill 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. These deeper horizons remain untested but two the earlier shallow wells could be suitable for re-entry in order to facilitate a deeper exploration well.

Licenses	Tethys Oil, %	Total area km ²	Operator
La Lora	22.5%	106	Northern Exploration Ltd.
Valderredible	50%	241	Northern Exploration Ltd.
Huerneces	50%	121	Northern Exploration Ltd.
Basconcillos-H	50%	194	Northern Exploration Ltd.
Total		662	

Huermeces license

The Huermeces exploration license contains the Hontomin discovery, which was drilled by Chevron in 1960s and produced an average of 113 bbls/d. 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.

Basconillos-H license

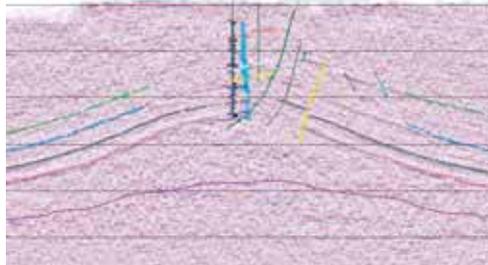
The Basconillos-H area is located to the south-west of the Ayoluengo field. The area includes the Tozo wells that were drilled from 1965 to 1967. These wells encountered oil saturated sandstone at shallow depths of less than 500 meters. Further technical studies need to be conducted in order to determine if new technology could be applied to produce oil economically, and to identify other prospects.

Technical work 2004

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

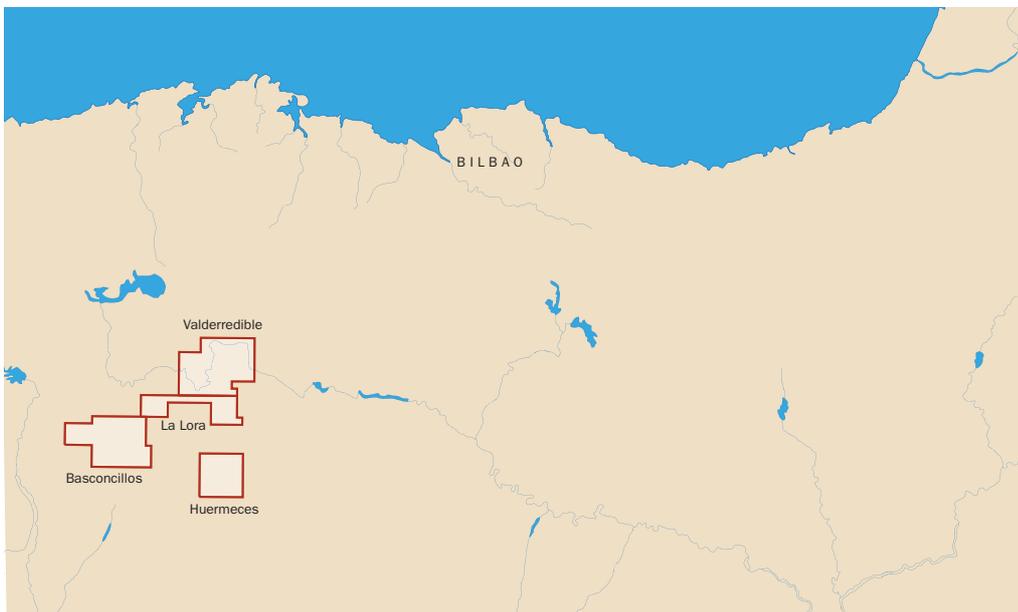
licenses was confirmed, however with an increased risk of a trap for the oil. The Huidobro prospect in the Valderredible license was mapped to be smaller than originally thought. The Tozo prospect remains unchanged.



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.

Description of field development and transport of oil and natural gas to the market

In the case of additional oil discoveries in the Spanish license areas, the most likely situation is that only limited field facilities would have to be constructed at the well location. Oil could be transported by truck to the existing facilities at the Ayoluengo field, where it would be processed and sold. In the case of a natural gas discovery in Ayoluengo, a pipeline could be constructed to connect to the existing infrastructure of pipelines east of the field.



Turkey



Tethys considers Turkey to be both prospective and under-explored. Even the non-commercial Hoto well in the summer of 2004 encountered oil but not commercially viable. Turkey is well known however for such marginal wells and in order to balance the risks, Tethys is looking at other areas with or without existing licenses in which to explore for oil and natural gas.

The other end of the spectrum is the much riskier but also much larger plays in the complicated but under-explored southeastern parts of Turkey. This is an area for elephants though few have 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. Tethys values exposure to this remaining frontier area and will during the year conduct additional geophysical and geological work on the Ispandika licenses to try to define a drillable prospect.

Table of facts – Turkey

Proven oil reserves, 2002-2003	300 mmbbl
Proven gas reserves, 2002-2003	8.0 bcm
Oil production, 2002-2003	47 mbbls per day
Gas production, 2002-2003	0.8 million cm per day
Oil consumption, 2002-2003	635 mbopd
Gas consumption, 2002-2003	51.6 million cm per day

Geological overview of southeast Turkey

Tethys Oil's interests are located within the southeast region on the flank of the Taurus-Zagros thrustbelt, an area of folded rocks. This thrustbelt extends several thousands of kilometers 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 northeast 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 eastwest 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 southeastern 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 southeastern region of Turkey have been sourced by this Paleozoic source rock.

Hoto prospect

License 3784 in the petroleum district XI-Diyarbakir contained the Hoto prospect. Hoto is adjacent to the Kurkan field, which was discovered by the Royal Dutch/Shell Group in 1963 and has produced over 50 million bbls to date.



Tethys Oil and partner Aladdin Middle East Ltd. commenced drilling operations on the Kocetepe-1 exploration well in license 3784 during the first week of July 2004. By participating in the drilling, Tethys Oil earned a 45 percent interest in the license with Aladdin holding 55 percent.

Licenses	Tethys Oil, %	Total area km ²	Operator
Hoto	45%	15	Aladdin Middle East Ltd.
Ispandika	10-45%	965	Aladdin Middle East Ltd.
Total		980	



The well was designed to test the Hoto prospect, which was on trend with producing oil fields in the Diyarbakir region of southeastern Turkey. Objective targets were limestone reservoirs of the Cretaceous Mardin formation at an estimated depth of more than 1,500 meters. A secondary target was for dolomite reservoirs in the Derdere formation at slightly more than 1,600 meters.

After the rig was mobilized the well was drilled by Aladdin Middle East with their Wilson 75 rig. Living quarters were set up for a crew of 45. Altogether this required almost 60 truckloads to arrive on location. The prognosed final depth of 1,650 meter was reached during the last week of August.

Separate oil bearing zones were encountered while drilling. The first zone was encountered at a depth of 1,524 meters, close to the 1,520 meters that was predicted from seismic data. A 3 meter length core was recovered from this reservoir that exhibited oil saturation (see photo). Subsequently an open-hole drill stem test (DST) was performed. Unfortunately no flow was recorded and no oil was recovered from this zone. A second DST was performed over an oil show found at a depth of 1,615 meters. Despite good indications during the drilling, again no flow occurred and no oil was recovered.

Based on these results and associated well log interpretation, Tethys decided that these zones did not have sufficient permeability to produce oil at commercial flow rates. Further production tests carried out by Aladdin proved this to be the case.

Koctepe-1 was technically successful because oil was encountered. However, reservoir properties like permeability cannot be conclusively determined prior to drilling, and this turned out to be the condemning factor of this wildcat.

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-Diyarbakir (1974), Kahta-Adiyaman (1960), Zeynel-Adiyaman (1989) Bulgurdag-Adana (1964) and Karakilise-Diyarbakir (2003) oil fields in Turkey. As of 2004, the company holds over 1,800,000 acres of onshore exploration licenses mainly in Southeast Turkey Basin (North Arabian Shield) and in the Antalya Basin, which makes AME the largest concession 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 25,000 ft 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.

The results of the Koctepe-1 well are now being integrated with the database, and the license is to be evaluated for other potential prospects.

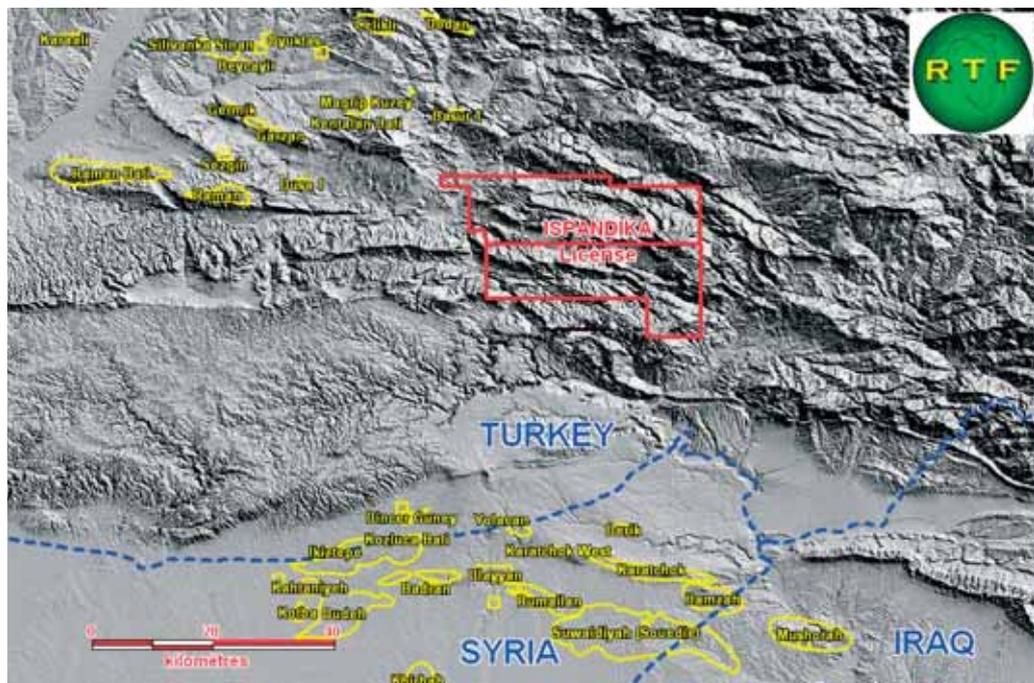
Ispandika

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 kilometers 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 meters, 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 gener-

ated 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 southeast, towards Iraq, the Permian is at the surface and in places saturated with tar.

During 2004, the existing two 2D seismic lines from the licenses were reprocessed and interpreted. Following this work a radar and geological study was conducted over the licenses and surrounding area. The study has confirmed that the area is prospective and has confirmed the dimensions of the Ispandika anticline, and in addition identified other potential structures similar in size and nature to Ispandika within the licenses. Though encouraging, the data is not comprehensive enough so additional seismic information is needed before the structures are sufficiently well defined to warrant drilling. The surface mapping from the radar and satellite study has identified potential seismic line locations. In the future, Tethys plans to acquire new seismic data and to possibly drill an exploration well.





THE RADAR IMAGERY TOOL

1. What is it?

Radar satellites orbiting at 800 km, produce echographies from the surface of the earth over swaths 50 kilometers to 300 kilometers wide: it is a geophysical tool.

2. How does it work?

Radar satellites use active sensors transmitting high-frequency waves. They image the ground, regardless of weather conditions, through rain, clouds, dust, snow, ice and vegetation cover.

Similar to geophysical seismic, the returning radar signal shows the physical properties and geometry of the reflecting surface: nature, structure, texture, geometry and water content of ground surface features.

3. What is new?

Radar satellite imagery is the only remote sensing tool which provides a direct access to physical parameters such as the dielectric coefficient (water content, porosity and permeability) and geometry of the imaged ground surface. Radar is a metal detector from 800 kilometers high

This can be translated in terms of geology, geomorphology and environment, according to the objectives of the exploration. Its all weather availability

and ground penetration, up to 18-20 meters in dry or frozen soils, allows mapping of subsurface structures, offering a great advantage over optic imagery like satellite photography.

4. Added Value?

Radar allows exploration around the world from your office, saving time and money. It records data any time, anywhere, with reliability and accuracy.

Radar is a perfect tool for mapping structural geology, lithology, oil basin delineation, seismic planning, hydrology, vegetation, risk analysis, ground water exploration.

Multi-temporal radar images over the same area, will reveal, through time series, environmental changes, soil hydromorphy, vegetative stress linked to natural or human actions, permitting environmental impact studies, regardless of time and weather conditions.

5. Where does it work?

In equatorial and tropical zones where classical optical survey with passive captors is difficult due to thick clouds and forest cover, and over sandy, dusty desertic countries, or over frozen areas where radar penetration through the ground is optimal.

Source: Radar Technologies France

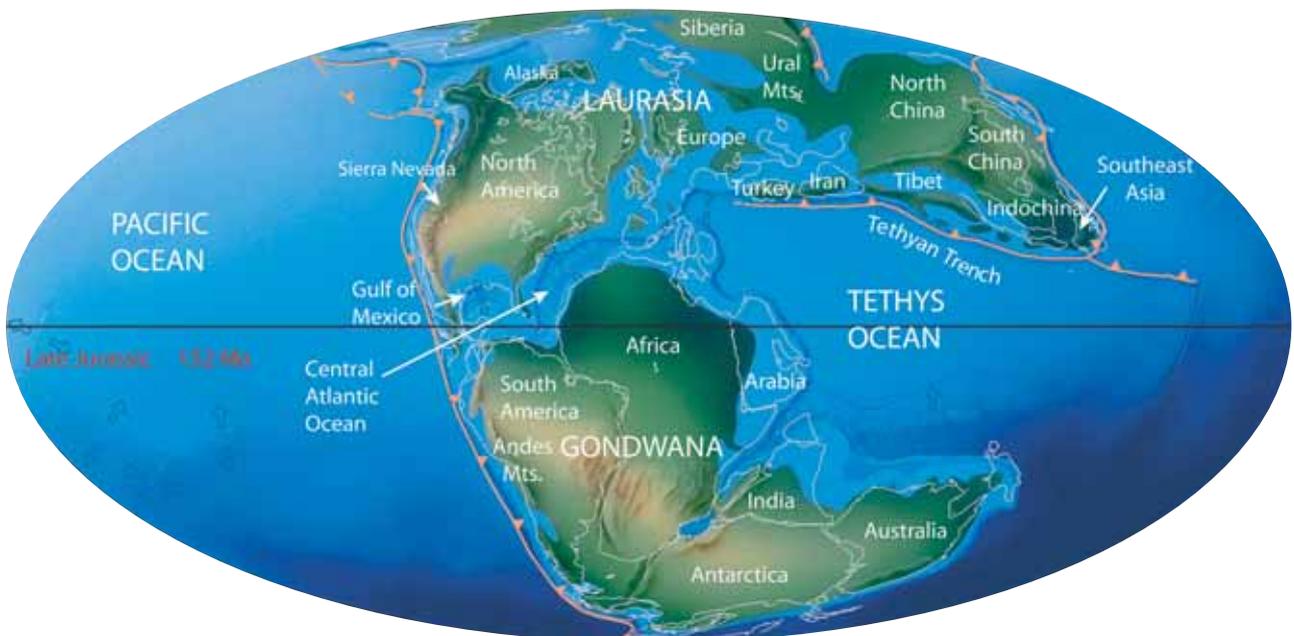
New ventures

Tethys Oil is continuously evaluating additional exploration and production licenses, primarily in the core area of EU and candidate countries. However, the continuing high price of crude oil encourages Tethys to rebalance the project portfolio to include more projects of a 'high risk – high reward' nature. Areas outside of Tethys' European core area, in particular in Africa, will become of greater interest to the company.



Tethys also intends to increase its presence in Turkey during 2005 following Turkey officially becoming a candidate country to the European Union. Tethys already holds interests in three licenses in Turkey. Following the recent political developments in the Ukraine, Tethys considers that opportunities to invest in oil and gas projects in the Ukraine will be enhanced. The Ukraine will therefore become part of Tethys' core area for investments.

Currently, Tethys Oil has two pending applications for exploration licenses. The licenses are located in France and in Morocco. Tethys Oil expects these licenses to be awarded around May.



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

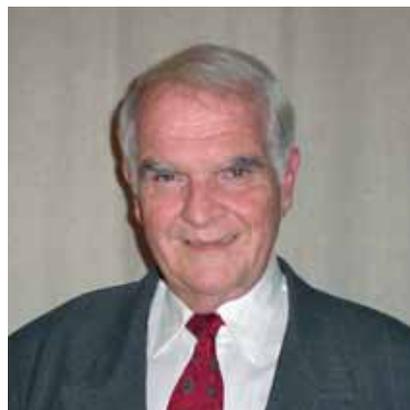
Board of directors



Vincent Hamilton, born in 1963. 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: 470,000.



Magnus Nordin, born in 1956. 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. Member of the board since 2001. 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.



Håkan Ehrenblad, born in 1939.
Member of the board since 2003. 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. Director in Nano-Light International Ltd.
Number of shares in Tethys Oil: 11,000.



Jan Risberg, born in 1964.
Member of the board since 2004. 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.



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.

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 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, as well as overall tax considerations.

Shares and options outstanding

Tethys Oil's registered share capital at 31 December 2004 amounts to TSEK 2,192 represented by 4,384,800 shares of nominal value SEK 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 31 December 2004 the parent company share capital has developed as shown below:

Share capital development	Month and year	Nominal value (SEK)	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 March 31, 2005.

Shareholders as of March 31, 2005	Number of shares	Capital and votes, %
Vincent Hamilton through company*	470,000	10.72%
Magnus Nordin	334,327	7.62%
John Hoey through company**	331,731	7.57%
SIS Segaintersettle AG	311,898	7.11%
Carl-Gustaf Ingelman	243,700	5.56%
Sydbank A/S	212,600	4.85%
EFG Private Bank	205,530	4.69%
Neptunus Konsult AB	202,800	4.63%
Jan Risberg	140,186	3.20%
Adolf H. Lundin through foundation***	137,020	3.12%
Other (1,527 shareholders)	1,795,008	40.94%
Total	4,384,800	100.00

* 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 March 31, 2005.

Size categories as per March 31, 2005	Number of shares	Percentage of shares, %	Number of shareholders	Percentage of shareholders, %
1 – 500	259,695	5.92	956	62.32
501 – 10,000	1,034,313	23.59	549	35.79
10,001 – 50,000	478,000	10.90	21	1.37
50,001 – 100,000	0	0.00	0	0.00
100,001 –	2,612,792	59.59	8	0.52
Total	4,384,800	100.00	1,534	100.00

Source: VPC

Share price development and turnover



Source: Stockholmsbörsen

Share statistics 2004

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	26.50 (April 6, 2004)
Year low	9.05 (December 29, 2004)
Average turnover per day, shares	28,856
Average turnover per day, TSEK	431
Period turnover, shares	5,396,028
Period turnover/outstanding shares	123 %
Average spread	1.51 %
Period beta	0.78

Key financial data

Group	1 Jan 2004 – 31 Dec 2004 12 months	1 Jan 2003 – 31 Dec 2003 12 months	6 Sep 2001 – 31 Dec 2002 16 months
Items regarding the income statement and balance sheet			
Gross margin, TSEK	n.a.	n.a.	–
Operating result, TSEK	- 5,810	- 934	–
Operating margin, %	n.a.	n.a.	–
Result before tax, TSEK	- 5,062	- 891	–
Net result, TSEK	- 5,062	- 891	–
Net margin, %	n.a.	n.a.	–
Shareholders' equity, TSEK	66,743	3,542	–
Balance sheet total, TSEK	69,102	4,139	–
Capital structure			
Solvency, %	96.59	85.58	–
Leverage ratio, %	0.0	0.0	–
Adjusted equity ratio, %	96.59	85.58	–
Interest coverage ratio, %	n.a.	n.a.	–
Investments, TSEK	12,696	1,570	–
Profitability			
Return on shareholders' equity, %	Neg.	Neg.	–
Return on capital employed, %	Neg.	Neg.	–
Key figures per employee			
Average number of employees	2.5	0.0	–
Share data			
Dividend per share, SEK	Neg.	Neg.	–
Cash used in operations per share, SEK	Neg.	Neg.	–
Number of shares on balance day, thousands	4,385	1,500	–
Shareholders' equity per share, SEK	15.22	2.40	–
Weighted number of shares on balance day, thousands	3,705	1,003	–
Earnings per share, SEK	- 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 31 December 2004 includes new shares from the share issue, which were registered 1 April 2004. For the weighted averaged number of shares calculation they were included as of 26 March 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.

Parent company	1 Jan 2004 – 31 Dec 2004 12 months	1 Jan 2003 – 31 Dec 2003 12 months	6 Sep 2001 – 31 Dec 2002 16 months
Items regarding the income statement and balance sheet			
Gross margin, TSEK	n.a.	n.a.	n.a.
Operating result, TSEK	- 3,903	- 934	- 582
Operating margin, %	n.a.	n.a.	n.a.
Result before tax, TSEK	- 2,970	- 891	- 567
Net result, TSEK	- 2,970	- 891	- 567
Net margin, %	n.a.	n.a.	n.a.
Shareholders' equity, TSEK	68,835	3,542	1,433
Balance sheet total, TSEK	70,346	4,139	1,617
Capital structure			
Solvency, %	97.85	85.58	88.6
Leverage ratio, %	0.0	0.0	0.0
Adjusted equity ratio, %	97.85	85.58	88.6
Interest coverage ratio, %	n.a.	n.a.	n.a.
Investments, TSEK	10,455	1,570	387
Profitability			
Return on shareholders' equity, %	Neg.	Neg.	Neg.
Return on capital employed, %	Neg.	Neg.	Neg.
Key figures per employee			
Average number of employees	2.5	0.0	0.0
Share data			
Dividend per share, SEK	Neg.	Neg.	Neg.
Cash used in operations per share, SEK	Neg.	Neg.	Neg.
Number of shares on balance day, thousands	4,385	1,500	1,000
Shareholders' equity per share, SEK	15.70	2.40	1.43
Weighted number of shares on balance day, thousands	3,705	1,003	828
Earnings per share, SEK	- 0.80	- 0.89	- 0.68

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

Profitability

Return on shareholders' equity – Net result as percentage of 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.

Dividend per share – dividend divided by the number of outstanding shares

Cash flow used in operations per share – Cash flow used in operations divided by the number of outstanding shares

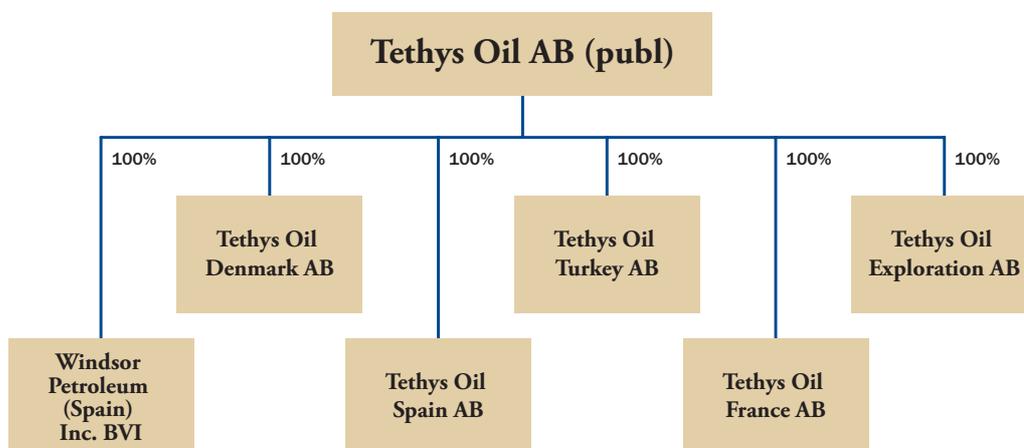
Shareholders' equity per share – Shareholders' equity divided by the number of outstanding shares.

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 upstream oil and gas projects within the EU and candidate countries. 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. Tethys Oil has important contacts and relationships within the industry, and with affiliated international exploration and production companies. To date, Tethys Oil holds interests in two licenses in Denmark, four licenses in Spain and three licenses in Turkey.

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 2004 the Operating Committee of the license 1/02 group approved Tethys Oil's recommendation to enter into the second phase of the license that 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 geologically optimal drilling location has been agreed by partners and an agreement to use a corresponding surface location has been signed. The next step in order to be able to start preparations for an exploration well is to obtain the necessary local planning permissions.

License 1/03

License 1/03 was awarded at the end of 2003. During 2004, Tethys Oil reprocessed seismic lines from

the area. All of the existing onshore seismic data has now been reprocessed and combined with the offshore seismic data that was reprocessed previously. Interpretation of and mapping of this data has led to the identification of a large prospect located onshore Jutland.

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 Basconcillos-H area. Northern Petroleum, which is an oil and natural gas company listed on AIM at the London Stock Exchange, is the operator of all four licenses.

During 2004 all of the results of previous technical studies were put together and Tethys Oil now prepares for a drilling feasibility study and possible production enhancing activities in the Ayoluengo field.

Turkey

Tethys Oil has interests in three licenses, located within the southeast region on the flank of the Taurus-Zagros thrustbelt (Hoto) and within the folded zone to the south (Ispandika). The thrustbelt itself extends several thousands of kilometers into Iraq and Iran and is one of the most important petroleum provinces of the world. Tethys Oil has a 45 percent share in the Hoto license and 10 percent in the two licenses covering the Ispandika prospects. Aladdin Middle East Ltd. is the operator of the licenses.



Result and Cash Flow

Hoto

An exploration well, Koctepe-1, was spudded in the license during 2004. The operator did several open-hole drill stem tests, but no flow was recorded and no oil recovered. The results of the Koctepe-1 well are now being integrated with the database, and the license is to be evaluated for other potential prospects.

Ispandika

In 2004 the interpretation of the reprocessed seismic lines of the Ispandika license was finalized. Recently, a radar/satellite study was completed and in addition two 1986 vintage 2D seismic lines were reprocessed and reinterpreted. Furthermore, data from five wells drilled earlier in the area was reviewed. All available data has been modeled together to understand the petroleum geology of the license area. In the future, Tethys plans to acquire new seismic data and to possibly drill an exploration well.

Significant agreements and commitments

Tethys Oil has agreements regarding the operations in Denmark, Turkey and Spain. In Denmark Tethys Oil is a direct license holder of the licenses 1/02 and 1/03. 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 July 2006. Tethys Oil estimates the cost for an exploration well to be TSEK 14,000.

The consolidated financial statements of the Tethys Oil Group (Tethys Oil) are hereby presented for the twelve month period ended 31 December 2004. The amounts relating to the comparative period are shown in parenthesis after the amount for the current period. Also due to the fact that there are no sales in Tethys Oil, seasonal variations do not significantly impact the result.

Net profit and sales

Tethys Oil reports a net result for 2004 of TSEK -5,062 (TSEK -891) representing earnings per share of SEK -1.37 (SEK -0.89) for the full year of 2004. A write down of oil and gas properties of TSEK 435 has negatively affected the results of 2004. There is no dilution of shares in Tethys Oil. Cash flow from operations before changes in working capital for the full year of 2004 amounted to TSEK -4,577 (TSEK -885).

The net result for the full year of 2004 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 31 December 2004, 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 marginally negative. Accordingly, there has been no depletion of oil and gas properties as Tethys Oil follows the full cost method of accounting. During the reporting period, Tethys Oil has written down oil and gas assets of TSEK 435. The write down is referable to previous investments in oil and gas assets in areas where the company is not active.

Costs of administration and depreciation

Costs of administration and depreciation amounted to TSEK -5,375 (TSEK -934) for the full year of 2004. Depreciation amounted to TSEK 50 (TSEK 6) for the twelve month period ended 31 December 2004. Costs of administration are mainly rents, salaries, office supplies and travel expenditures. These costs are corporate costs and are accordingly not capitalized. The depreciation in the income statement is referable to computers, phones etc.

Investments

Oil and gas properties, TSEK		
Country	Dec 31, 2004	Dec 31, 2003
Denmark	1,707	610
Spain	3,118	1,128
Turkey	8,897	118
Other	279	43
Total	14,002	1,899

Tangible fixed assets as at 31 December 2004 amounted to TSEK 14,160 (TSEK 1,949) of which TSEK 14,002 (TSEK 1,899) relates to oil and gas properties. Oil and gas properties in Denmark amounted to TSEK 1,707 (TSEK 610), in Spain TSEK 3,118 (TSEK 1,128), Turkey TSEK 8,897 (TSEK 118) and other TSEK 279 (TSEK 43). Development and exploration expenditure of TSEK 12,538 (TSEK 1,529) was incurred for the twelve month period ended 31 December 2004 of which Denmark TSEK 1,097, Spain TSEK 1,991, Turkey TSEK 8,779 and other TSEK 671. Development and exploration expenditures have mainly been related to the Turkish exploration well Koctepe-1. In Denmark and Spain the development and exploration expenditures have mainly been geological and geophysical studies. The company follows the full cost method of accounting for investments in oil and gas properties.

Investments in other tangible fixed assets amounted during the period to TSEK 158 (TSEK 41) and are referable to investments in computers, phones, etc.

Liquidity and financing

Cash and bank as at 31 December 2004 amounted to TSEK 513 (TSEK 1,109). Short-term investments as at 31 December 2004 amounted to TSEK 53,525 (TSEK 1,062). The short-term investments are investments in mutual bond funds with short durations. The share issue during the first quarter which was successfully completed on 29 March 2004 resulted in proceeds of MSEK 75 before issue costs. The issue costs amounted to TSEK 6,741. The share issue was registered on 1 April 2004.

Current receivables

Current receivables amounted to TSEK 905 (TSEK 19) as at 31 December 2004. Current receivables are mainly receivables from joint venture partners regarding Tethys Oil's investments in the company's Danish oil and gas assets.

Current liabilities

Current liabilities as at 31 December 2004 amounted to TSEK 2,359 (TSEK 597), of which TSEK 751 (TSEK 106) relates to accounts payable, TSEK 95 (nil) relates to other current liabilities and TSEK 1,513 (TSEK 491) relates to accrued expenses. Accrued expenses are mainly liabilities to the Spanish joint venture partner regarding geological and geophysical work carried out in the company's Spanish assets.

Parent company

The parent company reports a result amounting to TSEK -2,970 (TSEK -891) for the twelve month period ended 31 December 2004. Other income amounted to TSEK 1,472 (nil) for the full year of 2004. Other income is sale of geology consulting services and corporate services within the group. Costs of administration and depreciation amounted to TSEK -5,375 (TSEK -934) for the full year of 2004. Net financial income amounted to TSEK 933 (TSEK 43) during the full year of 2004. Investments during the full year of 2004 amounted to TSEK 11,651 (TSEK 1,570).

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 27 February 2004, John Hoey, Vincent Hamilton, Magnus Nordin, Håkan Ehrenblad were re-elected members of the board and Jan Risberg was newly elected and Erik Nerpin resigned. The board members are elected until the end of the next AGM. No deputy directors were appointed. On the board of directors meeting 9 February 2004, Magnus Nordin was appointed Managing Director. At the same meeting Vincent Hamilton was appointed Chief Operating Officer.

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 27 February 2004. The Board had 8 meetings during 2004. Most importantly the Board has adopted the interim reports of the year as well as the budget of 2005.

The five member board consists of two executive and three non-executive directors. Vince Hamilton has acted both as Chairman of the Board and as Chief Operating Officer. No committees have been formed and all Directors have been equally involved in all aspects of the Board's work in their role as Directors.

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 Wind-sor 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 nominal value of SEK 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.

IFRS

1 January 2005 Tethys Oil will report in accordance with International Financial Reporting Standards (IFRS). Even though the Swedish Financial Accounting Standards Council's recommendations gradually have changed, in accordance with IFRS, a number of differences remain. The first report to be presented in accordance with IFRS will be the report for the first quarter of 2005. Comparative numbers for 2004 will during 2005 be presented in accordance with IFRS and the work of compiling the opening balance for 1 January 2005 is largely complete. Tethys Oil has concluded that complying with IFRS will not lead to any changes to previously presented numbers.

According to IFRS 6 "Exploration for and Evaluation of Mineral Resources" expenditures that are incurred in the exploration and evaluation stage are not subject to the normal rules of impairment testing under IAS 36 "Impairment of Assets" as long as the development decision (positive or negative) is not made. Once this decision is made the assets are reclassified and become subject to the normal rules of impairment testing under IAS 36.

Treatment of accumulated deficit

The board of directors propose that the accumulated deficit of TSEK 4,428 be brought forward.

The accumulated deficit of the group amounts to TSEK 6,520. Appropriation to restricted funds is not proposed.

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, 4 May 2005.

Stockholm, April 14, 2005

Vincent Hamilton, Chairman of the Board

Håkan Ehrenblad, Director

John Hoey, Director

Jan Risberg, Director

Magnus Nordin, Managing Director

Auditor's endorsement

My audit report was submitted on April 14, 2005.

Klas Brand
Authorized Public Accountant
PricewaterhouseCoopers AB

Consolidated income statement

TSEK	Note	1 Jan 2004 – 31 Dec 2004 12 months	1 Jan 2003 – 31 Dec 2003 12 months	6 Sep 2001 – 31 Dec 2002 16 months
Net sales of oil and gas		–	–	–
Depletion of oil and gas properties	1	–	–	–
Write-off of oil and gas properties	1	- 435	–	–
Administration and depreciation	2,3,4	- 5,375	- 934	–
Operating result		- 5,810	- 934	–
Interest income and similar items	5	764	43	–
Interest expenses		- 16	- 0	–
Net financial income		748	43	–
Result before tax		- 5,062	- 891	–
Tax		-	-	–
Net result		- 5,062	- 891	–
Number of shares outstanding		4,384,800	1,500,000	–
Number of shares outstanding (after full dilution)		4,384,800	1,500,000	–
Average weighted number of shares		3,705,094	1,002,740	–
Earnings per share		- 1.37	- 0.89	–
Earnings per share (after full dilution)		- 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 31 December 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.

Consolidated balance sheet

TSEK	Note	31 Dec 2004	31 Dec 2003	31 Dec 2002
ASSETS				
Tangible fixed assets				
Oil and gas properties	1	14,002	1,899	–
Other fixed assets	6	158	50	–
Total tangible fixed assets		14,160	1,949	–
Current assets				
<i>Current receivables</i>				
Other receivables		766	19	–
Prepaid expenses		139	–	–
<i>Short term investments</i>				
Other short term investments		53,525	1,062	–
Cash and bank		513	1,109	–
Total current assets		54,942	2,190	–
TOTAL ASSETS		69,102	4,139	–
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity				
<i>Restricted equity:</i>				
Share capital		2,192	750	–
Restricted reserves		71,071	4,250	–
<i>Unrestricted equity:</i>				
Retained earnings		- 1,458	- 567	–
Net result		- 5,062	- 891	–
Total shareholders' equity		66,743	3,542	–
Current liabilities				
Accounts payable		751	106	–
Other current liabilities	8	95	–	–
Accrued expenses	9	1,513	491	–
Total current liabilities		2,359	597	–
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		69,102	4,139	–
Pledged assets		–	–	–
Contingent liabilities	11	14,527	2,452	–

Consolidated cash flow statement

TSEK	Note	1 Jan 2004 - 31 Dec 2004 12 months	1 Jan 2003 - 31 Dec 2003 12 months	6 Sep 2001 - 31 Dec 2002 16 months
Cash flow from operations				
Net result		- 5,062	- 891	-
Adjustment for write-down of oil and gas properties	1	435	-	-
Adjustment for depreciation and other non cash related items	6	50	6	-
Total cash flow used in operations before change in working capital		- 4,577	- 885	-
Increase in receivables		- 886	- 9	-
Increase in liabilities		1,762	412	-
Cash flow used in operations		- 3,701	- 482	-
Investment activity				
Investment in oil and gas properties	1	- 12,538	-1,529	-
Investment in other fixed assets	6	- 158	- 41	-
Cash flow used for investment activity		- 12,696	- 1,570	-
Financing activity				
Share issue	7	68,263	3,000	-
Cash flow from financing activity		68,263	3,000	-
Period cash flow		51,866	948	-
Liquid assets at the beginning of the period		2,171	1,223	-
Liquid assets at the end of the period		54,037	2,171	-

Parent company income statement

TSEK	Note	1 Jan 2004 – 31 Dec 2004 12 months	1 Jan 2003 – 31 Dec 2003 12 months	6 Sep 2001 – 31 Dec 2002 16 months
Net sales of oil and gas		–	–	–
Other income		1,472		
Depletion of oil and gas properties	1	–	–	–
Write-off of oil and gas properties	1	–	–	–
Administration and depreciation	2,3,4	- 5,375	- 934	- 582
Operating result		- 3,903	- 934	- 582
Interest income and similar items	5	948	43	15
Interest expenses		- 16	–	–
Net financial income		933	43	15
Result before tax		- 2,970	- 891	- 567
Tax		–	–	–
Net result		- 2,970	- 891	- 567
Number of shares outstanding		4,384,800	1,500,000	1,000,000
Number of shares outstanding (after full dilution)		4,384,800	1,500,000	1,000,000
Average weighted number of shares		3,705,094	1,002,740	828,334
Earnings per share		- 0.80	- 0.89	- 0.68
Earnings per share (fully diluted)		- 0.80	- 0.89	- 0.68

* 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 31 December 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.

Parent company balance sheet

TSEK	Note	31 Dec 2004	31 Dec 2003	31 Dec 2002
ASSETS				
Tangible fixed assets				
Oil and gas properties	1	–	1,196	370
Other fixed assets	6	158	50	15
Total tangible fixed assets		158	1,246	385
Financial assets				
Shares in subsidiary	10	1,203	703	–
Receivables from group companies		10,993	–	–
Total financial assets		12,196	703	–
Current assets				
<i>Current receivables</i>				
Receivables from group companies		3,890	–	–
Other receivables		427	19	–
Prepaid expenses		139	–	9
<i>Short term investments</i>				
Other short term investments		53,525	1,062	1,204
Cash and bank		13	1,109	19
Total current assets		57,993	2,190	1,232
TOTAL ASSETS		70,346	4,139	1,617
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity				
<i>Restricted equity:</i>				
Share capital		2,192	750	500
Share premium reserve		71,071	4,250	1,500
<i>Unrestricted equity:</i>				
Retained earnings		- 1,458	- 567	–
Net result		- 2,970	- 891	- 567
Total shareholders' equity		68,835	3,542	1,433
Current liabilities				
Accounts payable		751	106	46
Other current liabilities	8	95	–	58
Accrued expenses	9	665	491	81
Total current liabilities		1,511	597	184
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		70,346	4,139	1,617
Pledged assets		–	–	–
Contingent liabilities		–	2,452	–

Parent company cash flow statement

TSEK	Note	1 Jan 2004 - 31 Dec 2004 12 months	1 Jan 2003 31 Dec 2003 12 months	6 Sep 2001 - 31 Dec 2002 16 months
Cash flow from operations				
Net result		- 2,970	- 891	- 567
Adjustment for depreciation and other non cash related items	6	50	6	2
Total cash used in operations before change in working capital		- 2,920	- 885	- 565
Increase in receivables		- 3,240	- 9	- 10
Increase in liabilities		914	412	184
Cash flow used in operations		- 5,246	- 482	- 391
Investment activity				
Investment in oil and gas properties	1	-	- 826	- 370
Investment in financial assets		- 11,493	- 703	-
Investment in other fixed assets	6	- 158	- 41	- 17
Cash flow used for investment activity		- 11,651	- 1,570	- 387
Financing activity				
Share issue	7	68,263	3,000	1,900
Cash flow from financing activity		68,263	3,000	1,900
Period cash flow		51,366	948	1,123
Cash and bank at the beginning of the period		2,171	1,223	100
Cash and bank at the end of the period		53,537	2,171	1,223

Notes

Accounting principles

The Annual Report of Tethys Oil AB has been prepared in accordance with the Annual Accounts Act and the Swedish Financial Accounting Standards Council's recommendations and statements.

The same accounting principles were used in the annual report 2003.

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

All assets and liabilities are translated at the balance sheet date rates of exchange. In cases where hedging contracts has been arranged, for example forward contracts, the forward contract exchange rate is used. Transactions in foreign currencies are translated at exchange rates prevailing at the transaction date.

When hedging future streams that are budgeted for, the hedging instruments are not recalculated at changed currency exchange rates. The full effect of changes in currency exchange rates will be presented in the income statement when the hedged transactions affect income.

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 temporarily differences which arises from timing in recognition of items. Deferred tax claim, regarding tax losses carried forward, of TSEK 4,428 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.

Fixed assets

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 material	5 years
-----------------	---------

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 bank 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.

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 the lower of cost and market 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 cost or at written-down amounts to reflect any diminution in value which is other than temporary.

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

Oil and gas operations

a) Accounting for costs of exploration, appraisal and development

Oil and gas operations are accounted for using the full cost method. All costs for acquiring concessions, licenses or interests in production sharing contracts and for the survey, drilling and development of such interests have been capitalized on a country-by-country 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 country 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 amount of capitalized costs within each country 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.

Provision is made for any permanent impairment, where the net book amount, 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.

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.

i) Royalties

The fiscal regime in the area of operations defines whether royalties are payable in cash or in kind. Royalties payable in cash are accrued in the accounting period in which the liability arises. Royalties taken in kind are subtracted from production for the period to which they relate.

j) Interest

Interest on borrowings to finance the acquisition of producing oil and gas properties is charged to income as incurred. Interest on borrowings to finance fields under development is capitalized within oil and gas properties until production commences.

Note 1, Oil and gas properties

TSEK	Group			Parent company		
Oil and gas investments	2004	2003	2002	2004	2003	2002
1 January	1,899	370	-	1,196	370	-
Investments in Denmark	1,097	240	-	- 610	240	370
Investments in Spain	1,991	1,128	-	- 425	425	-
Investments in Turkey	8,779	118	-	- 118	118	-
Other investments in oil and gas properties	671	43	-	- 43	43	-
31 December	14,437	1,899	-	-	1,196	370
Depletion						
1 January	-	-	-	-	-	-
Depletion of the year	-	-	-	-	-	-
31 December	-	-	-	-	-	-
Write down						
Write down of the year	435	-	-	-	-	-
31 December	-	-	-	-	-	-
Net book value	14,002	1,899	-	-	1,196	370

TSEK	Group			Parent company		
Book value oil and gas properties	Dec 31, 2004	Dec 31, 2003	Dec 31, 2002	Dec 31, 2004	Dec 31, 2003	Dec 31, 2002
Denmark	1,707	610	-	-	610	370
Spain	3,118	1,128	-	-	425	-
Turkey	8,897	118	-	-	118	-
Other	279	43	-	-	43	-
Total	14,002	1,899	-	-	1,196	370

Note 2, Remuneration to company auditor

TSEK	Group			Parent company		
Remuneration to company auditor include:	1 Jan 2004 - 31 Dec 2004 12 months	1 Jan 2003 - 31 Dec 2003 12 months	6 Sep 2001 - 31 Dec 2002 16 months	1 Jan 2004 - 31 Dec 2004 12 months	1 Jan 2003 - 31 Dec 2003 12 months	6 Sep 2001 - 31 Dec 2002 16 months
PricewaterhouseCoopers AB:						
Audit fee	123	30	-	123	30	15
Other	-	-	-	-	-	10
Total	123	30	-	123	30	25

Note 3, Administration and depreciation

TSEK	Group			Parent company		
	1 Jan 2004 – 31 Dec 2004 12 months	1 Jan 2003 – 31 Dec 2003 12 months	6 Sep 2001 – 31 Dec 2002 16 months	1 Jan 2004 – 31 Dec 2004 12 months	1 Jan 2003 – 31 Dec 2003 12 months	6 Sep 2001 – 31 Dec 2002 16 months
	Administration	5,325	928	–	5,325	928
Depreciation	50	6	–	50	6	2

Note 4, Employees

Average number of employees	2004		2003		2002	
	Total	Total men	Total	Total men	Total	Total men
Parent company	2.5	2.5	–	–	–	–
Subsidiaries	–	–	–	–	–	–
Total	2.5	2.5	–	–	–	–

TSEK Salaries, other remuneration and social costs	2004		2003		2002	
	Salaries, other remuneration	Social costs	Salaries, other remuneration	Social costs	Salaries, other remuneration	Social costs
Parent company	1,615	395	–	–	–	–
Subsidiaries	–	–	–	–	–	–
Total	1,615	395	–	–	–	–

TSEK Salaries and other remuneration distributed between the board and other employees	2004		2003		2002	
	Board and Managing Director	Other employees	Board and Managing Director	Other employees	Board and Managing Director	Other employees
Parent company	1,260	355	–	–	–	–
Subsidiaries	–	–	–	–	–	–
Total	1,260	355	–	–	–	–

The group currently has 3 full time employees. There are no agreements on pensions other than as required by law for any of Tethys Oil's employees. Vincent Hamilton in his capacity as COO and Magnus Nordin as CEO are both entitled to twelve months pay if the company terminates their employments.

TSEK Salaries and other remuneration to operative board members and executive management	2004			2003		
	Salaries	Bonus	Benefits	Total 2004	Total 2003	Total 2002
Vincent Hamilton	720	–	–	720	–	–
Magnus Nordin	540	–	–	540	–	–
Other	355	–	–	355	–	–
Total	1,615	–	–	–	–	–

TSEK							Attendance
Salaries and other remuneration to board members (in their capacity as board members)	Salaries	Remuneration	Total 2004	Total 2003	Total 2002		2004
Vincent Hamilton	-	-	-	-	-		8/8
Magnus Nordin	-	-	-	-	-		8/8
John Hoey	-	-	-	-	-		8/8
Håkan Ehrenblad	-	-	-	-	-		7/8
Jan Risberg*	-	-	-	-	-		8/8
Total	-	-	-	-	-		

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. There has neither been any agreements on pensions nor any severance pay agreements in place for any of the directors of the board. The Board of Tethys Oil has not created any committees given the relatively small board during the last year therefore no committees has been deemed necessary and each board member has been equally active in all aspects of the work of Tethys Oil.

**For more information, see note 12.*

Note 5, Interest income and similar items

TSEK	Group			Parent company		
Financial income	1 Jan 2004 – 31 Dec 2004 12 months	1 Jan 2003 – 31 Dec 2003 12 months	6 Sep 2001 – 31 Dec 2002 16 months	1 Jan 2004 – 31 Dec 2004 12 months	1 Jan 2003 – 31 Dec 2003 12 months	6 Sep 2001 – 31 Dec 2002 16 months
Interest income	0	0	-	185	0	10
Gain on currency exchange rates	83	-	-	83	-	-
Write up of short term investments	622	-	-	622	-	-
Gain on selling short term investments	58	43	-	58	43	5
Total	764	43	-	948	43	15

Note 6, Other assets

TSEK	Group			Parent company		
Other assets	2004	2003	2002	2004	2003	2002
Assets						
1 January	58	17	-	58	17	-
Additions	158	41	-	158	41	17
31 December	216	58	-	216	58	17
Depreciations						
1 January	- 8	- 2	-	- 8	- 2	-
Depreciation charges of the year	- 50	- 6	-	- 50	- 6	- 2
31 December	- 58	- 8	-	- 58	- 8	- 2
Net book value	158	50	-	158	50	15

Note 7, Shareholders' equity

Group

TSEK	Share capital	Restricted reserves	Retained earnings	Net result
Balance at 1 January 2003	–	–	–	–
Formation of group structure	500	1,500	- 567	–
Share issue	250	2,750	–	–
Net result	–	–	–	- 891
Balance at 1 January 2004	750	4,250	-567	- 891
Transfer of prior year net result	–	–	- 891	891
Registered share issue	1,442	73,562	–	–
Issue costs	–	6,741	–	–
Net result	–	–	–	- 5,062
Balance at 31 Dec 2004	2,192	71,071	- 1,458	- 5,062

Parent

TSEK	Share Capital	Share premium Reserves	Retained Earnings	Net Result
Balance at 1 January 2003	500	1,500	–	- 567
Transfer of prior year net result	–	–	- 567	567
Share issue	250	2,750	–	–
Net result	–	–	–	- 891
Balance at 1 January 2004	750	4,250	- 567	- 891
Transfer of prior year net result	–	–	- 891	891
Registered share issue	1,442	73,562	–	–
Issue costs	–	6,741	–	–
Net result	–	–	–	- 2,970
Balance at 31 Dec 2004	2,192	71,071	- 1,458	- 2,970

The total number of shares amounts to 4,384,800 (1,500,000). All shares have a nominal value of SEK 0.50 (SEK 1).

Note 8, Other current liabilities

TSEK	Group			Parent company		
	1 Jan 2004 – 31 Dec 2004 12 months	1 Jan 2003 – 31 Dec 2003 12 months	6 Sep 2001 – 31 Dec 2002 16 months	1 Jan 2004 – 31 Dec 2004 12 months	1 Jan 2003 – 31 Dec 2003 12 months	6 Sep 2001 – 31 Dec 2002 16 months
Other current liabilities						
Other	95	–	–	95	–	–
Liabilities to shareholders	–	–	–	–	–	58
Total	95	–	–	95	–	58

Note 9, Accrued expenses

TSEK	Group			Parent company		
	1 Jan 2004 – 31 Dec 2004 12 months	1 Jan 2003 – 31 Dec 2003 12 months	6 Sep 2001 – 31 Dec 2002 16 months	1 Jan 2004 31 Dec 2004 12 months	1 Jan 2003 – 31 Dec 2003 12 months	6 Sep 2001 – 31 Dec 2002 16 months
Accrued expenses						
– exploration	848	318	–	–	318	–
Other	665	173	–	665	173	81
Total	1,513	491	–	665	491	81

Note 10, Shares in subsidiaries

Company	Reg. number	Reg. office	Number of shares	Percentage	Nominal value per share	Parent Company	Parent company	Parent company
						Book amount 31 December 2004, TSEK	Book amount 31 December 2003, TSEK	Book amount 31 December 2002, TSEK
Tethys Oil Denmark AB	556658-1467	Sweden	1,000	100%	SEK 100	100	–	–
Tethys Oil Spain AB	556658-1442	Sweden	1,000	100%	SEK 100	100	–	–
Tethys Oil Turkey AB	556658-1913	Sweden	1,000	100%	SEK 100	100	–	–
Tethys Oil Exploration AB	556658-1483	Sweden	1,000	100%	SEK 100	100	–	–
Tethys Oil France AB	556658-1491	Sweden	1,000	100%	SEK 100	100	–	–
Windsor Petroleum (Spain) Inc.	549 282	British Virgin Islands	1	100%	USD 1	703	703	–

TSEK	Parent company	Parent company	Parent company
	31 December 2004	31 December 2003	31 December 2002
Shares in subsidiaries			
1 January	703	–	–
Acquisitions	500	703	–
31 December	1,203	703	–

Note 11, 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, 2004.

Note 12, Related party transactions

During 2004 Tethys Oil has paid TSEK 375 to Alcafi Ltd. a company owned by Jan Risberg, a director of Tethys Oil, pursuant to an agreement of corporate finance services provided during the IPO.

Auditor's report

(An English translation of the Swedish original)

To the general 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 for the year 2004. These accounts and the administration of the company and the application of the Annual Accounts Act when preparing the annual accounts and the consolidated accounts are the responsibility of the board of directors and the managing director. 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 and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and, thereby, give a true and fair view of the company's and the group's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

I recommend to the general meeting of shareholders that the income statements and balance sheets of the parent company and the group be adopted, that the loss for 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.

Gothenburg April 14, 2005

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
CHF	Swiss francs
TUSD	Thousands of US dollars
TCHF	Thousands of Swiss francs
MUSD	Million US dollars

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

Industry specific terms

Barrel

1 barrel = 159 liters.

1 cubic foot = 0.028 m³

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.



TETHYS OIL

Corporate Head Office

Blasieholmsgatan 2A, 2nd fl
SE-111 48 Stockholm
Sweden
Telephone +46 8 679 49 90
Fax +46 8 678 89 01
E-mail: info@tethysoil.com

Technical Office

4 Rue de Rive, 5th fl
CH-1204 Geneva
Switzerland
Telephone +41 22 318 86 00
Fax +41 22 318 86 09
E-mail: info@tethysoil.com

www.tethysoil.com