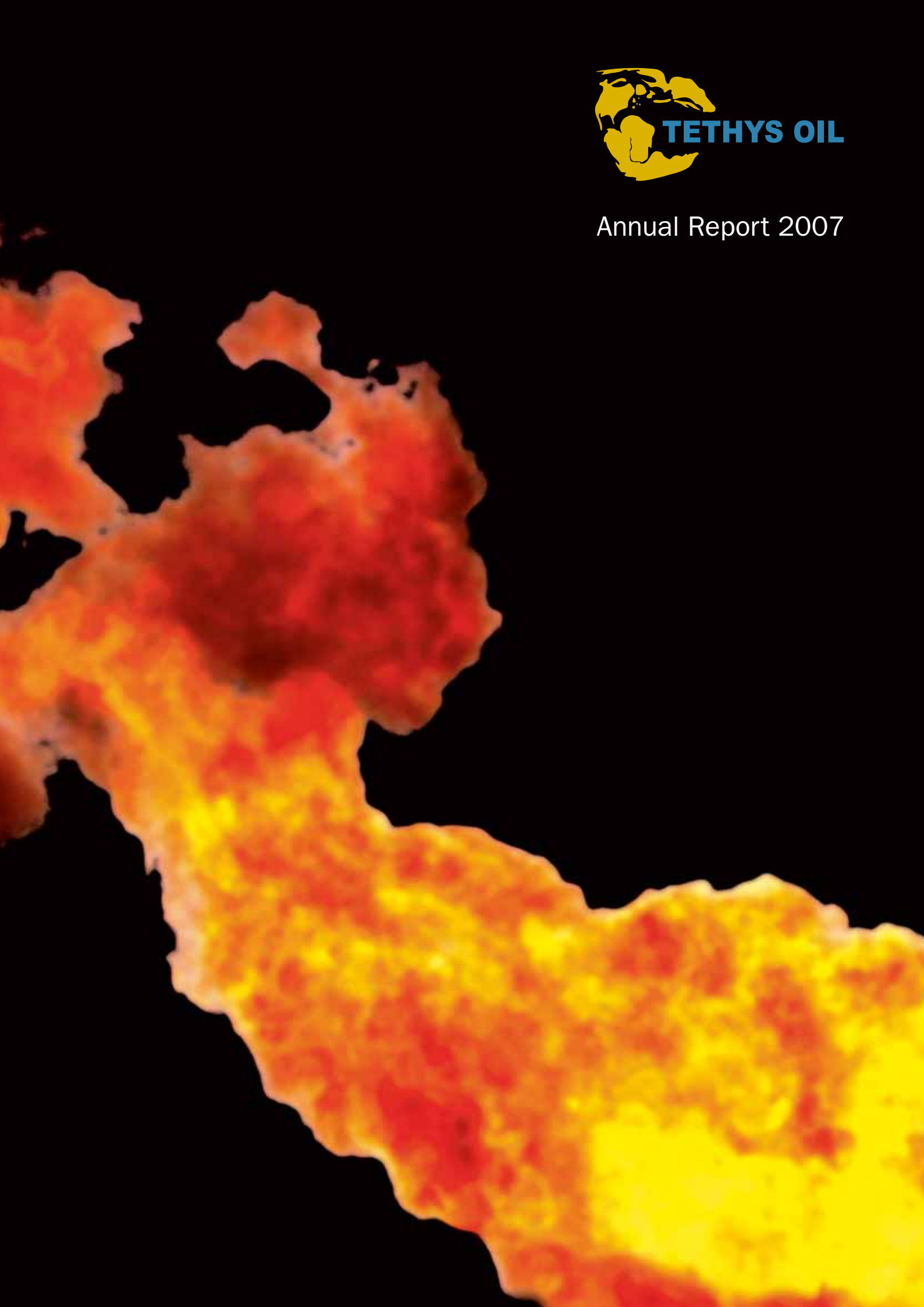
TETHYS OIL

Annual Report 2007



Contents

Information regarding Annual Meeting

Annual General Meeting (AGM) in Tethys Oil is planned to be held Thursday 8 May 2008 in Stockholm. Notice of a general meeting of shareholders shall be made by announcement in Post- och Inrikes Tidningar and in Svenska Dagbladet. Tethys will also publish a press release with the invitation to the AGM. Information will also be available at www.tethysoil.com.

To be entitled to participate in a general meeting, shareholders must be recorded in a print-out of the complete share register relating to the circumstances as of five business days before the meeting, and give notice to the company no later than the day stipulated in the notice of the meeting.

In order to attend and vote as proxy on behalf of a shareholder at the Annual Meeting, a power of attorney must be presented to the company.

Financial Information

The company plans to publish the following financial reports:
Three months report (January–March 2008) will be published on May 8, 2008
Annual general meeting – 8 May 2008
Six months report (January–June 2008) will be published on August 21, 2008
Nine months report (January–September 2008) will be published on November 13, 2008
Year end report 2008 (January–December 2008) on 16 February 2009

Landsten Reklam 2008. Design: Henrik Strömberg.

Tethys Oil in Brief

Tethys Oil is a Swedish energy company focused on identification and development for production of oil and natural gas assets in the Middle East, North Africa and Europe. Tethys' strategy is to invest in projects in areas with known oil and natural gas discoveries that have not been properly appraised using modern technology. In this way, high returns can be achieved with limited risk.

The company has interests in licences in Oman, Morocco, France, Spain, Turkey and Sweden. The shares are listed on First North (TETY) in Stockholm. Remium AB is Certified Adviser.

2007 in Brief

Highlights

- Oman – Jebel Aswad re-entry completed flowed 2,626 BOEPD on test
- France – participated in Pierre Maubeuge 2 exploration well – potential gas discovery to be tested in 2008
- Spain – participated in Hontomin 4 well – no hydrocarbons encountered
- Acquisition of 50 per cent interest of Blocks 3&4 onshore Oman
- Received exploration permit over northern part of Swedish Baltic island Gotland
- Proposed directed share issue primarily to investors in Asia and Middle East to be followed by secondary listing in Dubai

Cover: Natural gas from the Shuaiba is flared during the re-entry of Jebel Aswad, the summer of 2007.

Letter to the Shareholders

Dear Friends and Investors,
Where do we begin to tell the story of Tethys Oil AB?

Shall we start with France, and the potential gas field indicated from the Pierre Maubeuge well drilled in rural Lorraine in October?

Or shall we begin the story with how we farmed out Bouanane and are left with a free option on a potentially gas bearing structure of giant proportions in the stone desert of Morocco?

Or why not simply with how we plan to resurrect Sweden's only oil region; located on the island of Gotland? Being a Swedish company, would not this be a good beginning?

Or shall we linger on how we became the second largest concession holder onshore Oman, after acquiring 50 per cent in Blocks 3 and 4?

It is not easy to choose but among many great stories from last year the greatest is that which occurred on midsummer's eve 2007 and is best told in three words and four digits:

OMAN

JEBEL ASWAD

2,626

The Cretaceous limestone of Jebel Aswad, it's content so dramatically depicted through these flames of natural gas and associated condensate, flowing at a rate of 2,626 barrels of oil equivalent a day, was the final reward of a complicated project. On par with a Hollywood manuscript, the product stream from the reservoir at 3,000 metres depth, lit up the night sky and sent the message that Tethys is about to enter the production age!

Eight months down the road, we have a firm view of how to proceed. Preliminary in-house calculationes of reserves stand at more than 50 bcf of gas and some 2.6 million barrels of condensate and first production is slated for July 2009. So far only one of three hydrocarbon bearing zones have been properly tested, and these preliminary reserve numbers refer to this one zone only, leaving ample upside for both reserve and production increases, as the project matures.

But as stories go, the story of Blocks 3 and 4 is not far behind Block 15. A series of fortunate circumstances and some skill brought an entire smorgasbord of low risk exploration and appraisal opportunities to the Tethys project portfolio. To just mention one, the Farah South discovery, we can tell of a well defined structure, delineated by three wells all of which brought oil to surface. Flow rates have been rather small though and we would like to drill it again, employing the horizontal techniques which proved so successful in the Jebel Aswad case.

In Jebel Aswad, a 40 barrel well suddenly produced 2,626 boepd. Can we achieve just 600 barrels of oil per day from Farah South, we believe we stand to double Tethys reserves of liquids in one go!

Other great stories of blocks 3 and 4 are the heavy oil story of the Saiwan structure and the deeper gas plays.

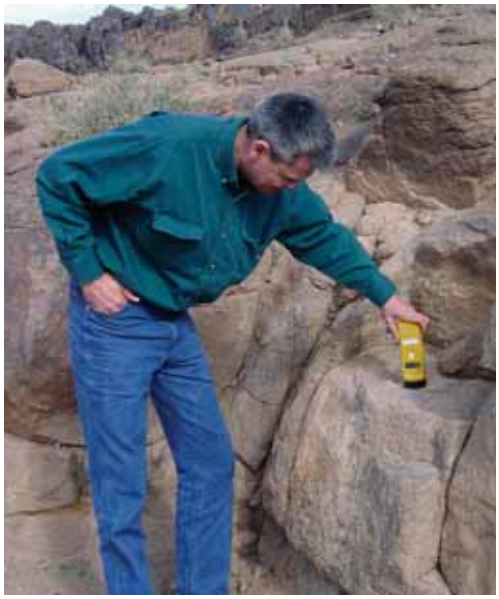
As is evident, there is so much to tell that we stop here and invite you to read the great stories later in the report. And among all the projects, be sure not to miss the entry about oil prices.

So stay with us, the journey continues and we are only just seeing the end on the beginning…

Stockholm in March 2008

Vincent Hamilton
Chairman
Chief Operating Officer

Magnus Nordin
Managing Director



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 licences.

A licence is usually divided into two parts – an exploration licence and a production licence. A company normally has to undertake certain work within an area during a specified period of time in order to receive an exploration licence. 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 licences. Payment is instead the commitment of work. In some cases, a licence fee to the host country is statutory.

If commercial volumes of oil or natural gas are discovered, the exploration licence converts into a production licence, 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 licencee and the country in a production licence varies widely throughout the world. The duration of a production licence 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 per cent each in the licence. The company first awarded the licence is usually inviting other companies to participate. Invited companies thereafter pay for all or for part of the undertaken work commitments. In return, they receive part of potential future earnings. This is called to "farm out" or "farm in".

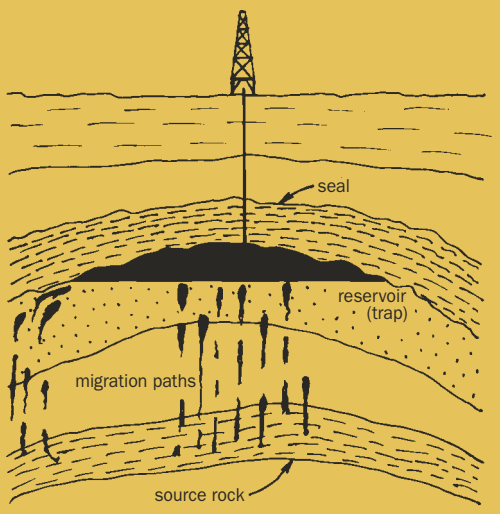
The company with the operating responsibility, called the operator, can either carry out the work themselves or acquire the services on contract.

Development of geological models to locate oil and natural gas prospects

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

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

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



Exploration

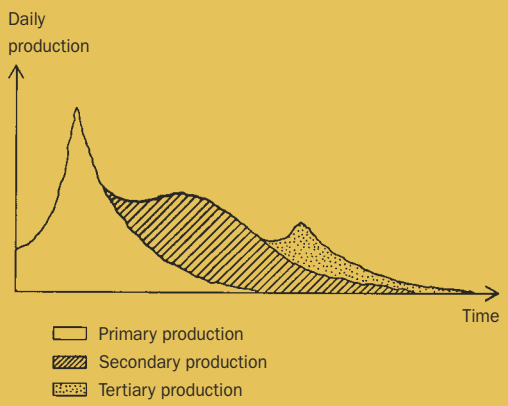
Oil and natural gas are found in sedimentary rocks at depths of less than 10 kilometres. These rocks have been deposited through particles, carried by air or by water and then buried and cemented into rocks. In order to locate geological structures that are advantageous for oil and natural gas accumulations,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

estimate the location of structures that could hold oil and/or natural gas reserves in an exploration area.

Seismic is acquired onshore or off shore 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.

Drilling

The only surefire way to determine that a prospect contains commercial quantities of hydrocarbons is through drilling. The first well on a prospect is called an exploration well and can also sometimes be referred to as a 'wildcat'. The drilling operations are separated into several phases; planning and preparation, mobilizing, drilling, evaluating and demobilizing. A drilling programme is based on the geological prognosis which in turn is based on geophysical and geological data and expectations. The drilling programme describes how the operation will be executed. It clearly denotes a schedule along with technical details such as a casing and cementation programme and what type of drilling mud will be used. The drilling mud is used to cool and lubricate the drilling bit and also to provide hydrostatic pressure in the well to maintain wellbore stability. The mud also allows for the drilled cuttings to be removed from the borehole. Drilling is done both on land and out at sea. Drilling on land is a lot easier than drilling offshore, mainly due to the ease of logistics and the obvious difference in elements.



Indications of oil and gas whilst drilling

Whilst drilling the borehole is monitored by many means. Should hydrocarbons be encountered the first indication of this will be in the drilling mud and in the drilled cuttings that are circulated up to the surface. When the drillbit cuts the hydrocarbon bearing rock oil and gas are liberated from the rock and is detected at the surface by the geologist. A gas chromatograph continuously monitors the mud for gases and is so accurate that it can trace molecular hydrocarbons in parts per million. The drilled cuttings will also show traces of oil when analyzed in the wellsite laboratory. Many times, oil is clearly visible in the rock without the use of a microscope. The telltale smell of oil is also often evidence that an oilzone has been penetrated. Another indication is the speed at which the drillbit drills the formation. Porous zones containing hydrocarbons often drill very fast.

When the drilling stops below the oil or gas bearing zone, the wellbore is electrically logged by a sonde that is lowered in the hole on an electric cable. The sonde measures the formation fluid type (oil, gas or water), the porosity and permeability of the formation. Some special tools can give a 3D picture of the formation type to better understand fluid movements in the reservoir. Once it has been determined that the reservoir contains hydrocarbons through logging, the only way to determine the productivity is to test the well by flowing it to the surface.

If the analysis of the drilled rocks and the logging shows positive indications, a production test of the drilled hole is executed, whereby potential oil and natural gas zones are allowed to flow into the hole and up to the surface for measurement and analysis. Both the production rate and the amount of reserves can be calculated through logging and testing.

Calculation of reserves

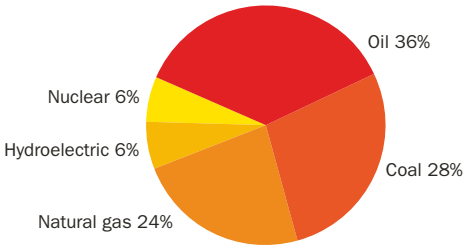
The reserves are an estimate of the volume of crude oil and natural gas of a discovery that is viewed as commercially recoverable under present economical conditions. The reserves are divided into two groups, proven and unproven reserves. In turn, the unproven reserves are divided into probable and possible reserves. Proven reserves are located in areas where drilling has been completed with positive test results, and in areas surrounding where drilling has not been done, but based on geophysical and geological data are considered commercially recoverable. Probable reserves are less certain than proven reserves, but the probability of producing commercially recoverable reserves is still in excess of 50 per cent, which is to be compared with possible reserves where the probability of discovering commercially recoverable reserves is estimated to be less than 50 per cent.

The oil and gas market

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

Sources of energy

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



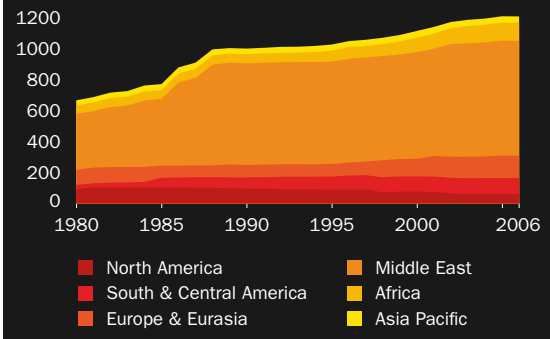
Source: BP Statistical Review of World Energy 2007.

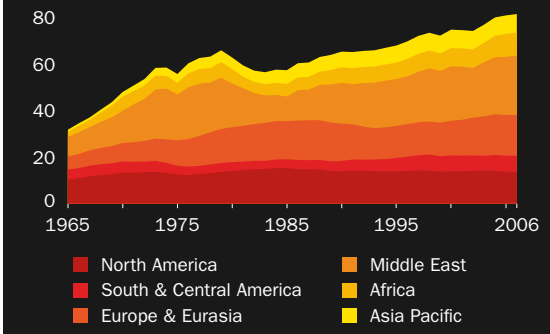
The oil market

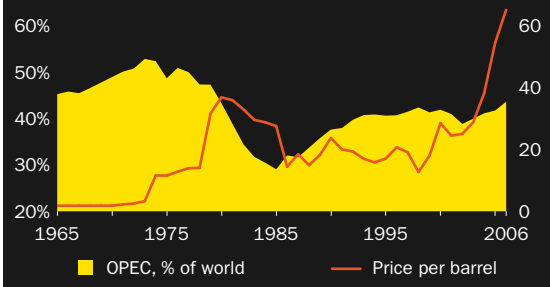
Oil price – trends and variables

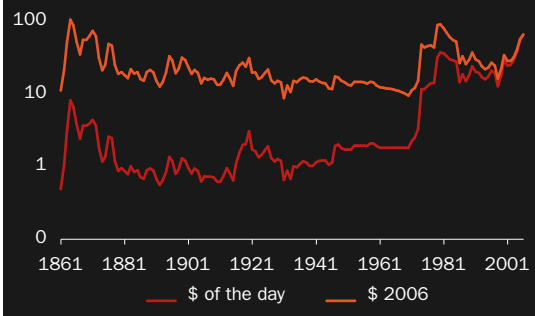
Oil price analysis is in principle not different from any other price analysis, that is to say it is a matter of trying to understand a supply demand relationship where the price simply is a measurement and manifestation of the equilibrium between supply and demand at any particular point (or points)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

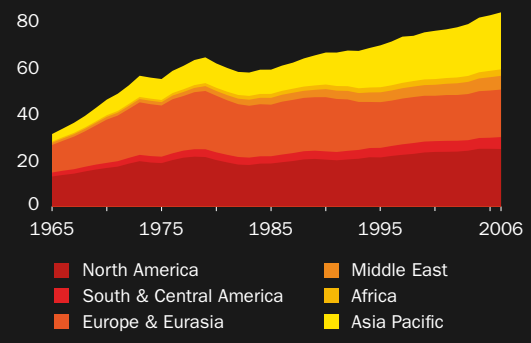
The amount of variables that can affect oil supply and demand are vast and much resources and brain power is devoted to create dynamic models aiming to explain past developments, understand the current

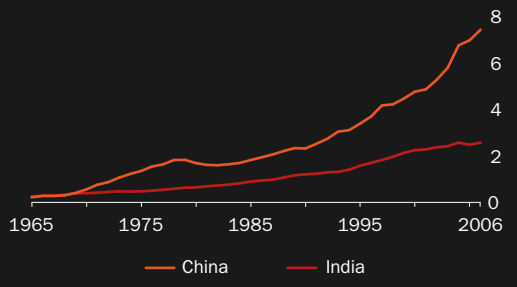


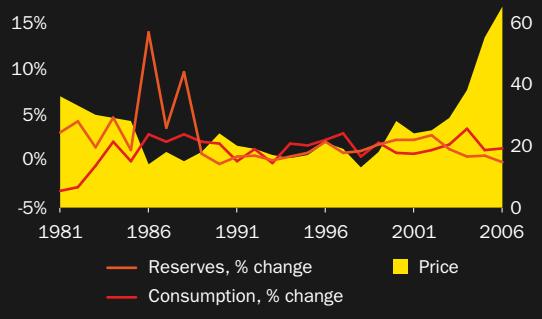












situation and, by creating rules based on the past, to try to predict the future. Any such attempt goes well beyond the scope of this report but in this section we will try to highlight a few variables we believe are important for understanding oil price formation and what could be possible useful conclusions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

Oil price – future outlook

In line with the falling US dollar oil prices have risen sharply in dollar terms over the last months. Supply increases have been modest whereas demand seems robust despite an economic downturn in the US.

Financial activity in oil price determination appears to remain on a high level and even to increase.

Historically an economic downturn in what at least used to be the world's most important energy market would inevitably have caused a drop in oil prices. But maybe the world is changing. As yet other economic factors have proven to be much more important and in particular rising demand from emerging economies.

It is therefore difficult to envisage any major drop in oil prices for the foreseeable future. When the dollar strengthens again oil prices may drop in dollar terms though but will most likely remain stable in non dollar denominations as non dollar denominated demand seems currently to determine the price.

Should oil prices come under fundamental pressure OPEC will likely have a sufficient share of marginal supply to stabilise prices more or less at the level of its choice.

A price fall in two to four years should however still not be ruled out. The price increases we have witnessed since 2004 have followed five years of historically low investment in exploration and production infrastructure. Over the last three years such investment has increased dramatically and is likely to eventually lead to an increase in output.

Lead times are long in this industry and new investment often does not come on stream until after five years or more. However by 2010–2011 supply should increase which most likely will have a stabilizing to downward pushing effect on price. Should such an increase in supply co-inside with a decrease in demand, say following an economic slowdown in China or India, also a dramatic price fall could not be ruled out. A scenario similar to what we saw in the mid 80's could repeat itself. It is however unlikely that substantially lower prices could be sustained for any longer period of time, but a sharp correction can certainly not be ruled out and could present a valuable opportunity to acquire assets for any player able to maintain a long term view.

Natural gas market in Europe

Overview

Natural gas has become an increasingly important source of energy in Western Europe accounting for 24 per cent of total primary energy supply in 2006. 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 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 2006–2007)

Pricing of natural gas

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

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

Between July 2005 and July 2006, industrial consumers across the EU spent an average of €308 per mcm of natural gas. The price received by producers is less due to transportation and marketing costs. Details of natural gas sales contracts between producers and buyers are normally held confidential for commercial reasons. Therefore, it is difficult to estimate what producers of natural gas could expect to receive for their production. (Source: Eurostat)

Environment

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

Pipeline infrastructure

The natural gas pipeline network of Europe is a great technological and business achievement. Over 1,800,000 kilometres of pipeline extend across the European Union and thousands of kilometres of pipeline interconnections and extensions are being built or planned, to ensure a secure and reliable supply of energy. (Source: Eurogas Annual Report 2006–2007) EU legislation has provided for both third party access to transportation networks and transparency of transport tariffs.

Tethys Oil

Overview

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Asset portfolio

Tethys Oil's strategy to create value for its shareholders through exploration as well as acquisition of assets in different development phases has proven to be quite successful. For the next couple of years, focus will therefore likely be more at bringing the current assent base into cash generating production with less emphasize on new licences.

Organization

Tethys Oil's head office is located in Stockholm, Sweden and in addition the company has technical offices in Geneva, Switzerland and Muscat, Oman. Furthermore, there are representation offices where deemed necessary. The Group today has nine (9) full and part time employees and has historically relied on technical and geological consultants where the Group is operator at times when activity has been high. This way, the company has maintained low over head costs and a stream lined result orientated organization. With Omani projects reaching developing modes, Tethys will staff up with permanent long-term technical employees to be based in the Gulf region.

Country	Licence areas	Tethys Oil	Total area, km²	Operator
Oman	Block 15 Blocks 3&4	40% 50%	1,389 33,125	Tethys Oil CCED*
France	Attila	40%	1,986	Galli Coz
Morocco	Bouanane	12.5%	2,100	Dana Petroleum
Sweden	Gotland Större	100%	540	Tethys Oil
Spain	Sedano project Cameros project	50% 26%	556 252	Leni Gas&Oil SHESA
Turkey	Ispandika Trace	10% 25%	965 994	Aladdin Middle East Aladdin Middle East
Total			**41 907**	

** Consolidated Contractors Energy Development (Oman)*

History

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

Drilling history, Tethys' 5 exploration wells 2004-2007

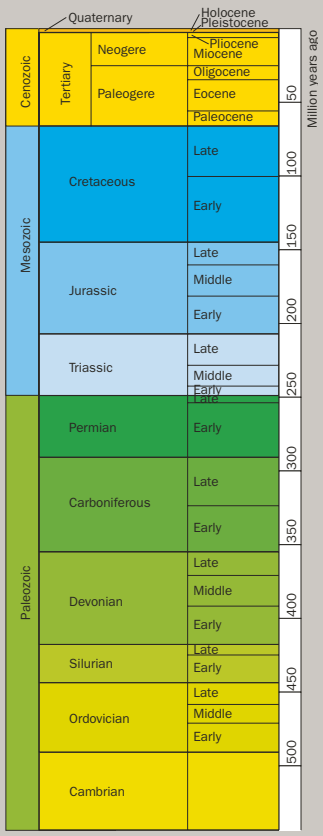
Kocetepe-1 (2004)

The drilling of Tethys' first exploration well – Kocetepe-1 – commenced on the Hoto prospect in Turkey in July 2004. The Partner and Operator, holding 55 per cent, was Aladdin Middle East Ltd. The prognosed final depth of 1,650 metres was reached during the last week of August. Separate oil bearing zones were encountered while drilling, but these zones did not have sufficient permeability to produce oil at commercial flow rates. Tethys subsequently abandoned the licence.

Karlebo-1 (2006)

Tethys second drilling of an exploration well came with the drilling of Karlebo-1 in Autumn 2006. This time with Tethys as Operator. After almost five years of preparatory work, Karlebo-1 on licence 1/02 onshore Zealand north of Copenhagen in Denmark spudded in late September with an official inauguration on September 27. The well was drilled to a total depth of 2,489 metres and on November 17, it was clear that no hydrocarbons had been found. Tethys has subsequently abandoned the Danish licences.

Despite the result of the well, the accomplishment in itself has been a major asset and firmly put Tethys on the map as an operator capable of conducting a complicated operation in one of the technically and environmentally most demanding jurisdictions in the world – the European Union. A case study can be found in the corporate responsibility study on page 35.



Research indicates that the Earth is about 4 500 million years old. The geological way of describing the development of the Earth is to describe the timing and relationships between events that have occurred during the history of Earth. The table of Geologic Periods shows major phases in the Earth's development. It is the geological way to tell from which time different rocks or layers of sediments were depostited. The scale is divided into Eons, Eras and Periods, where Eons are the largest scale and Period the smallest. The exact age of the different periods are not fixed, but are instead changed based on new findings with new technology.

The hydrocarbons of the Earth can be found in rocks of several different periods – not in just one. For example, Tethys Oil's condensate and gas in Oman was found in Cretaceous limestones and the oil within Tethys' licence on Gotland, Sweden, was produced from Ordovician reef structures.

Hontomin-4 (2007)

In March 2007, the drilling of the Hontomin-4 well on the Sedano Project onshore Spain commenced with Ascent Resources as partner and operator. The well was drilled to a depth of 1,610 metres and was completed at the end of April. The well was logged but no oil was encountered although the target formations were present. Analysis suggests that the complexity of the faulting in the formations above the target has resulted in the lack of an adequate seal for the reservoir.

Jebel Aswad (2007)

Almost on the day, 1 year after Tethys acquired the 40 per cent interest in Block 15 onshore Oman, the re-entry of Jebel Aswad commenced with Tethys as Operator in April, 2007. The Jebel Aswad well was originally drilled in 1994 and encountered oil in two limestone intervals called Naith and Shuaiba. On 25 June, the drilling and testing were completed. The Natih limestone penetrated a total of 848 metres of hydrocarbon bearing limestone in a horizontal sidetrack that had a total measured depth of 3,830 metres. On testing the Natih flowed 11.03 mmscfpd and 793 bpd of 57API condensate (total of 2,626 boepd) through a 1-inch choke. The Shuaiba could not be fully tested due to a faulty down hole motor, however gas was produced to surface during the drilling of the Shuaiba.

Preliminary estimates of recoverable reserves for Tethys indicates 55 BCF of gas and 2.8 million barrels of condensate, a total of 12 mmboe, from the top (Natih) reservoir layer of Jebel Aswad alone. Leaving upside for the deeper layers (the Shuaiba and the Natih C) as well as from half a dozen other leads and prospects on Block 15.

Pierre Maubeuge 2 (2007)

After less than three weeks of drilling operations, the well was finalized in mid October 2007 at a total depth of 1,310 metres. During the drilling gas shows were recorded in the Triassic formation. The well was subsequently logged and an 80 metre zone of gross pay was identified. Over this mainly limestone section, a total of 10.5 metres net natural gas pay was encountered. This result is sufficiently promising, and a decision to carry out a production test was taken, which is planned to be done in the second quarter of 2008.

Oman

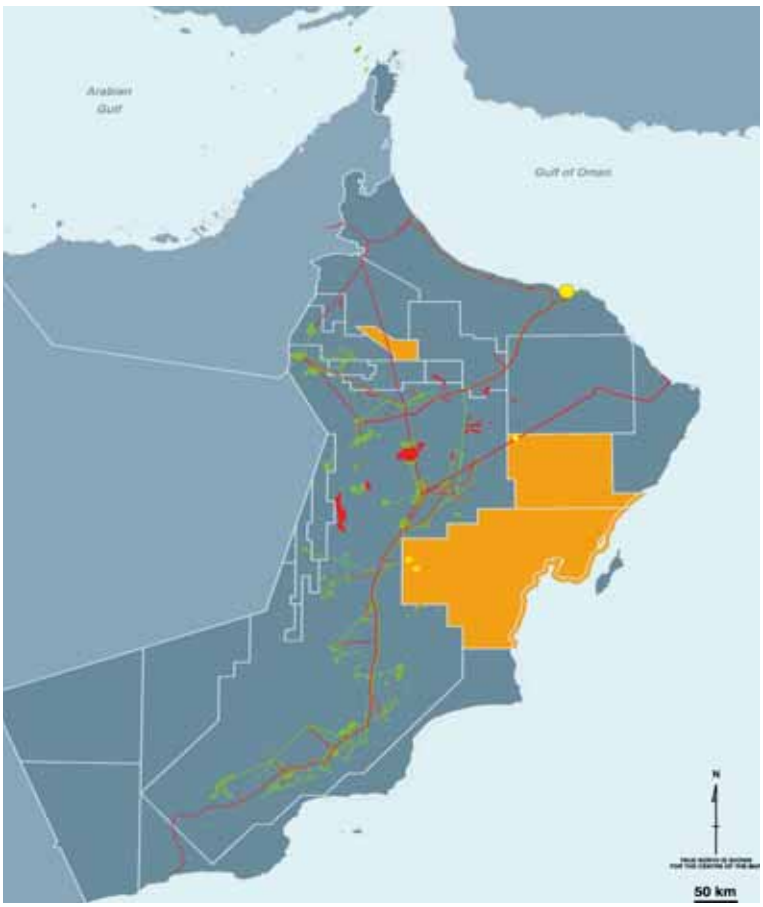
Tethys Oil's desire and ambition is to become a dedicated and successful player in the Omani oil and gas industry. This ambition grew stronger with the successful drilling of Jebel Aswad in the summer of 2007 and the acquisition of Blocks 3 and 4 in the last quarter of 2007. To further emphasise Tethys' commitment to the Middle East region, Tethys decided in September to apply for a secondary listing of our shares on the Dubai International Financial Exchange (DIFX).

Photo: Lars Plougmann, www.flickr.com/criminalintent

Background

Tethys Oil holds interests in two projects in Oman. In Block 15, in the north western part of central Oman, Tethys holds 40 per cent interest and is Operator. Block 15 has been a part of Tethys project portfolio since May 2006. In the summer 2007, the Jebel Aswad re-entry well on Block 15 flowed 2 626 boepd of natural gas and condensate. The well is located 8 kilometres from a regional natural gas pipeline crossing Block 15.

Since the fourth quarter 2007, Tethys also holds 50 per cent interest in Blocks 3 and 4 in the south eastern part of Oman. These blocks have a combined area of over 30,000 square kilometres, which currently makes Tethys one of the largest onshore oil and gas concession-holders in Oman.



Block boundaries and infrastructure onshore Oman
Yellow: Tethys Oil. Red: gasfield/gaspipeline. Green: oilfield/oilpipeline.

Block 15

Geology

Block 15 is situated in the north western part of central Oman, and more specifically in the northern part of western Oman's Fahud basin. Block 15 covers an area of 1,389 square kilometres. The prospective reservoir horizons in Block 15 are the Cretaceous limestones of the Shuaiba and Natih formations. Both the Shuaiba and the Natih are productive reservoir horizons in a number of nearby fields.

History of Block 15

Over the years, some 2,500 kilometres of 2D seismic data has been acquired, processed and interpreted. The two previously drilled exploration wells on Block 15, Jebel Aswad and Wadi Saylah were drilled in 1994 and in 1997 respectively. After being re-entered in 1995, Jebel Aswad-1 tested 204 bbls of 40 degree API oil from the Natih limestone reservoir. Well logs of Jebel Aswad indicate a gross hydrocarbon bearing limestone section of 210 feet. Well logs of Wadi Saylah indicate a 132 feet gross hydrocarbon bearing column but was never tested.

Tethys' re-entry of Jebel Aswad 2007

The re-entry of Jebel Aswad commenced with Tethys as operator on 9 April, 2007. The mobilization of the 126 truck-loads of rig and camp had started some two weeks before. The re-entry was designed to appraise both the Shuaiba and Natih reservoir intervals in order to determine well deliverability and a likely recovery factor. Underbalanced drilling fluids were used in order to eliminate damage to the reservoir and maximize oil production.

On 25 June, the drilling and testing of both the Shuaiba and the Natih limestone sections were completed. Both reservoirs produced hydrocarbons to

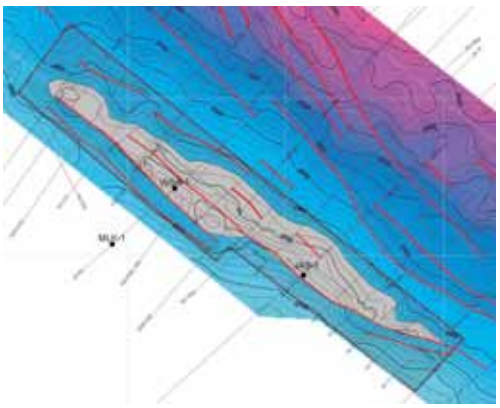
Oman Oil and Gas

Commercial export of oil began in the late 60's, and since then there has been continued development in the Omani Oil and Gas industry. The government majority owned PDO (Petroleum Development of Oman) in cooperation with multinational petroleum companies have successively expanded the Omani reserves and it is only in recent years that there has been a reduction in the amounts produced. The peak production of crude oil in Oman came in 2000 when production reached 970,000 bbl/d. This figure as stated has declined, as Omani production today has found steady ground around 710,000 bbl/d and 886 bcf (25.1 bcm) per year. Oman is not a formal member of OPEC. The estimated reserves of Oman at the end of 2006 were 5,600 mmbbl of oil and 34.6 tcf (1 tcm) of natural gas.

PDO as part of its gas operations supplies 50,000 barrels per day of condensate (liquid hydrocarbons that condense out of natural gas), 589,000 boe/d of oil and 376,000 boe/d of gas. Gas and gas condensate has become increasingly important as local demand has increased whilst oil remains a valuable export product.

Licence	Tethys Oil's share	Total area, km²	Operator
Block 15	40%	1,389	Tethys Oil
Blocks 3&4	50%	33,125	CCED*
Total		**34,514**	

** Consolidated Contractors Energy Development (Oman)*



The structure is approximately 45 km long and 5 km wide and covers an approximate area of 225 square kilometres.

surface. The Natih limestone penetrated a total of 848 metres of hydrocarbon bearing limestone in a horizontal sidetrack that measured 3,830 metres from the surface.

On testing the Natih flowed 11.03 mmscfpd and 793 bpd of 57 API condensate (total of 2,626 boepd) through a 1 inch choke.

The Shuaiba could not be fully tested due to a faulty down hole motor that prevented the well from being steered horizontally into the productive layers. However, wet gas was produced and flared during the underbalanced drilling phase.

	Low	Mid	High
Gas Cumulative (Bscf)	13.84	130.64	435.99
Condensate Cumulative (MMbbls)	0.69	6.53	21.80
Recovery Factor (%)	70.35	77.45	88.02
Number of wells	5	10	16
Recovery per well	2.77	13.06	27.25
Plateau level (MMscf/d)	20	50	100
Time on Plateau (years)	1.1	4.8	8.5

Source: Helix RDS, Jebel Aswad test interpretation & conceptual development plan, August 2007

Following from the above, Tethys' share of 40 per cent before government take equates to:

Tethys Oil's share, 40%	Low	Mid	High
Gas Cumulative (BSCF)	5.54	52.26	174.40
Condensate cumulative(MMbbls)	0.28	2.61	8.72
Tethys Oil's share expressed in million barrels of oil equivalents (MMBOE)	1.20	11.32	37.79

(Conversion factor: 1 boe = 6 MSCF)

Reserve estimates

Based on information obtained in June this year from the Jebel Aswad Sidetrack (JAS-STK2) and the original well test from 1995, a preliminary in-house reserve estimate of the Natih 'A' reservoir is calculated at some 138 BCF of gas and some 7.0 MM barrels of condensate, of which Tethys' share of 40 per cent corresponds to 55 BCF and 2.8 MM barrels of condensate. No hydrocarbon reserves have been attributed to the underlying Natih 'C' reservoir and the deeper Shuaiba reservoir, despite firm indications of hydrocarbons in these two separate reservoirs. Gas was flowed to surface and flared whilst drilling underbalanced in the Shuaiba.

Tethys Oil commissioned Helix RDS (UK) Ltd. to model the test results from JAS-STK1 & 2 along with the original data from the 1995 test. The study provides for the following:

"Using the volumetrics supplied by Tethys and assuming this is a gas/condensate reservoir with a constant CGR of 50 bbl/mmscf, Helix RDS developed a series of production profiles which would encompass potential results of developing the Natih 'A" formation in Jebel Aswad Shuaiba formation has not been satisfactorily tested as yet, and as such it is still in a prospect level. No economic analysis has been done for the profiles created and as such the recoverable hydrocarbon should be cataloged as resources."

Work Programme

A comprehensive programme of flow tests and collection of gas and oil samples was conducted in the Jebel Aswad well in the fourth quarter 2007. A higher condensate gas ratio – up to 25% higher – was measured during this test. The data confirm the production results obtained in June.

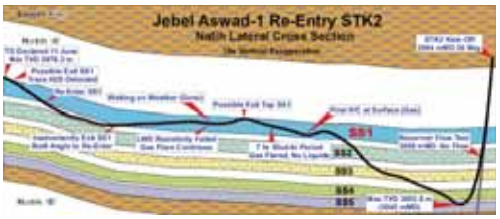
The preparation of a preliminary field development plan is ongoing. Engineering Firm WS Atkins have been contracted to design the field facilities. Al Safa Environmental Company have also been contracted to commence the environmental impact assessment for the field development. A 3D seismic survey is currently being planned over the Jebel Aswad structure.

A second delineation well with two horizontal sidetracks in the hydrocarbon bearing Natih limestone is planned for the second quarter of this year to prove up reserves and test the southern part of the Jebel Aswad structure.

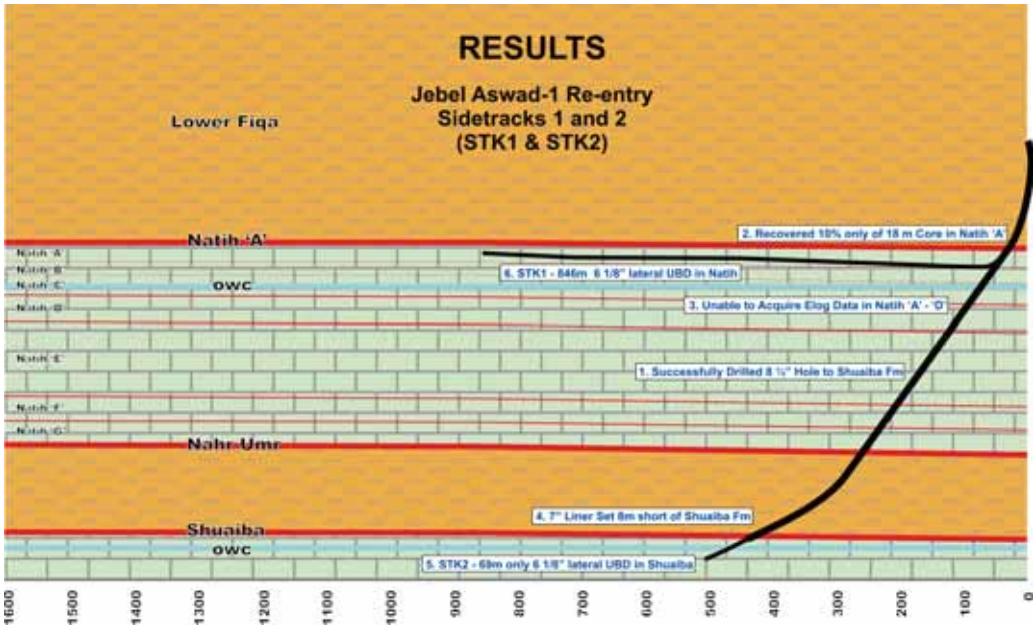
According to the present development plan, early production could commence in July 2009with full field production following during the fourth quarter 2010.

Jebel Aswad Christmas tree, pressure tests JAS A1

The production targets and the current development plan is based on the mid case of 12 mmboe of resources net to Tethys before government take in The Natih A reservoir section. Additional reserve work carried out by Tethys based on information from seismic and the wells drilled so far indicate that two additional levels, Natih C and Shuaiba, are hydrocarbon bearing with a resource potential of about the same amount as in the Natih A. These estimates are still preliminary and no reserve status can be attributed before additional drilling has been carried out. In addition to Jebel Aswad, several other structures have also been identified on the Block. These will be subject to additional seismic studies.



The Jebel Aswad A1 reentry well penetrated three hydrocarbon bearing layers. The horizontal section in the Natih A carbonates measures more that 800 metres.



Blocks 3 and 4

In December 2007, Tethys Oil AB finalized the agreement to acquired 50 per cent interest in Blocks 3 and 4 onshore Oman from Norwegian Energy Company (Noreco) affiliate Altinex. The remaining 50 per cent of the Blocks is held by CCED, who is the operator.

Exploration history

Blocks 3 and 4 onshore Oman cover a combined area of over 30,000 square km. More than 30,000 km of 2D seismic has been collected and 27 wells have been drilled on the Blocks. 18 wells have encountered oil shows. Block 3 contains the South Farha oil discovery originally made in 1986 by Japan Petroleum Development Corp and today delineated by 3 wells. South Farha contains an estimated 9 million barrels of recoverable oil from thin sandstone layers in a regional productive reservoir. The discovery well flowed 260 bbl of 40 degree API oil in 1986. The well is still completed and may be re-entered in the near future.

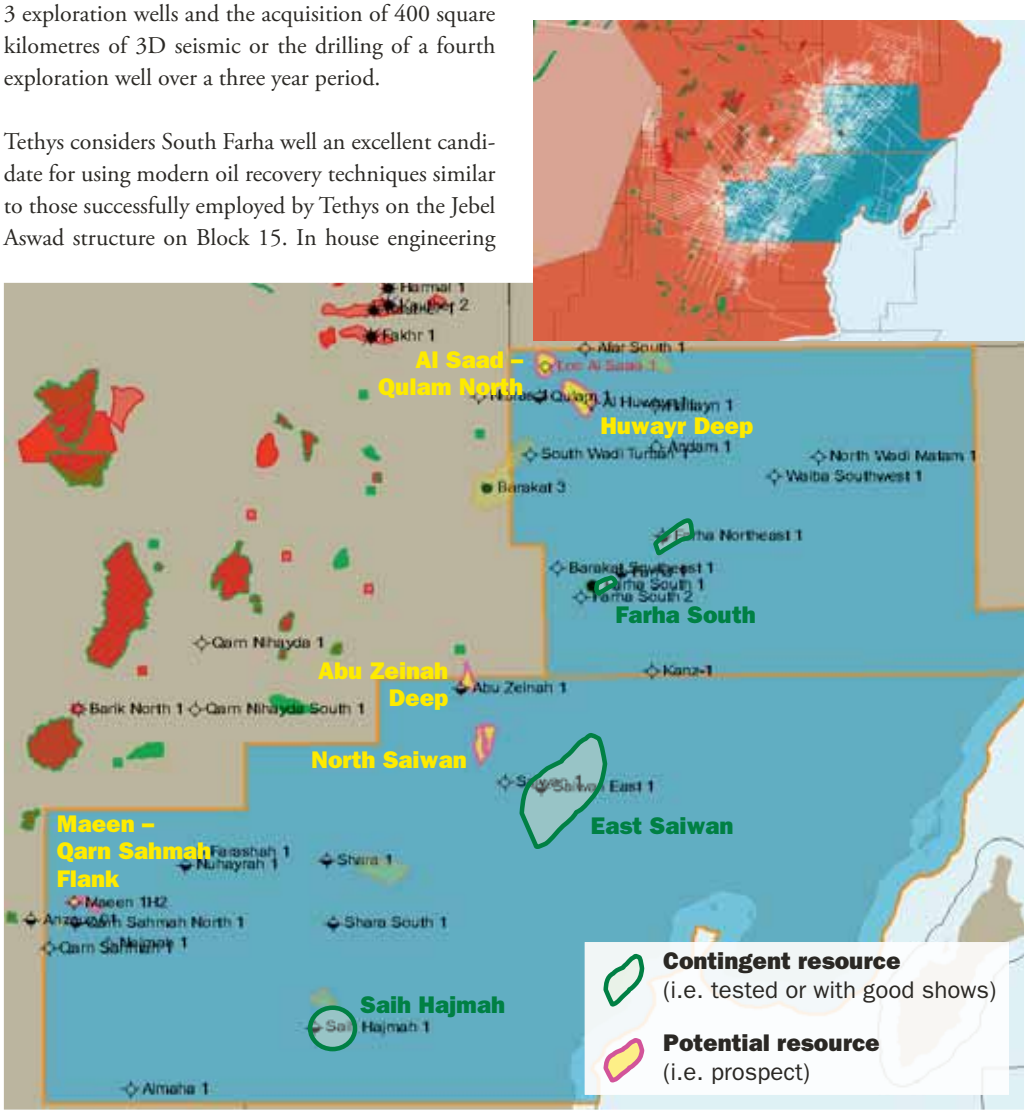
Work programme

Under the EPSA the second exploration phase for Blocks 3 and 4 carry a minimum work commitment of acquiring 800 km of 2D seismic and the drilling of 3 exploration wells and the acquisition of 400 square kilometres of 3D seismic or the drilling of a fourth exploration well over a three year period.

Tethys considers South Farha well an excellent candidate for using modern oil recovery techniques similar to those successfully employed by Tethys on the Jebel Aswad structure on Block 15. In house engineering calculations suggest that significant flow rates can be sustained by drilling this highly stratified reservoir at a high angle. Additionally, the reservoir is a good candidate for acid fracturing where the immediate wellbore region is acidized and fractures opened up in the reservoir by pumping acid under high pressure.

The preliminary analysis of this field suggests that the early efforts will focus on this structure which could prove to be a good candidate for an early production system, as the oil is of excellent quality and contains manageable amounts of gas.

The Blocks also contain several other hydrocarbon plays, which Tethys will focus on in the long term. In addition to the very prospective deep gas zones on the block, it also contains several structures which contain heavy oil in various degrees. The E. Saiwan well logged over 13 metres of net pay of highly oil saturated sandstone. Although the section was extensively evaluated by electric logs it was never drill stem tested. Preliminary electric log analysis suggest the oil to be immobile, however Tethys hopes to revisit these results with a view to prove the mobility and future production through new technology and ideas.



Seismic coverage, drilled wells and potential oil- and gas fields in Blocks 3 and 4

France

The highlight of third quarter 2007 was the successful drilling of the PLM-2 exploration well on the Attila licence in France which so far indicates that a gas discovery is in the making. PLM-2 is the second well in a row with Tethys' participation to suggest a discovery.

Photo: www.leuropevueduciel.com

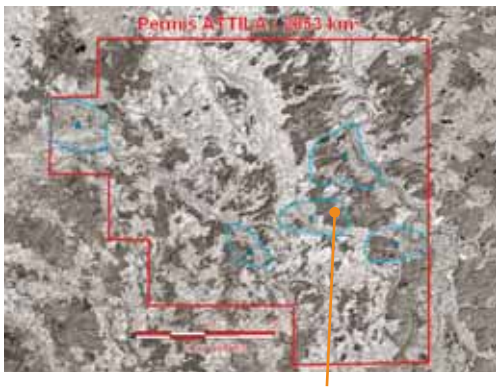
Background

In the first quarter 2006, Tethys Oil and the operator Galli Coz S.A. were awarded the Attila licence by the French government. The licence is located about 250 kilometres east of Paris in the oil and gas producing Paris basin. Attila covers 1,986 square kilometres. Tethys has a 40 per cent interest in the licence with the operator Galli Coz S.A. having 60 per cent. The licence is valid for a period of five years.

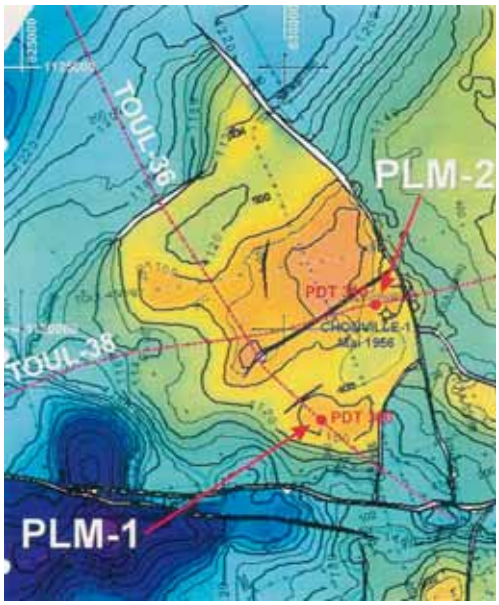
The exploration well Pierre Maubeuge 2 was drilled during Autumn 2007. The result was sufficiently promising, and a decision to carry out a production test was taken. This test is planned to be done in April or May 2008, and without the result from this test it is not possible to draw any kind of conclusions concerning commerciality.

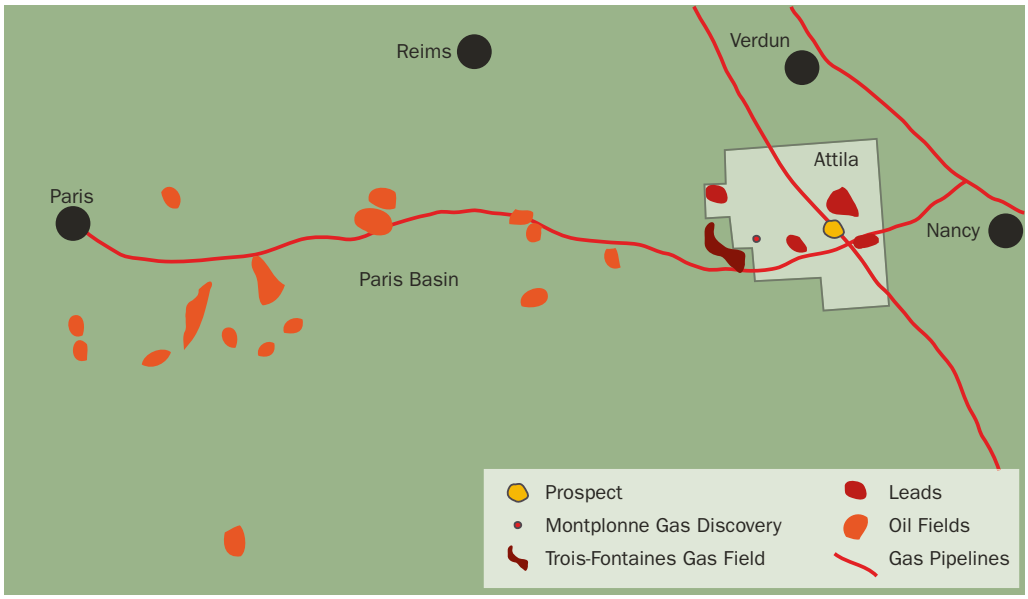
Geology

In general, the Paris basin is an oil basin because the depth of burial of the source rock is enough to generate oil but not deep enough, i.e. hot enough, to make natural gas. However to the east, starting under the Trois-Fontaines field and extending into Germany, there are gas generating source rocks present in the subsurface. Tethys' objective in France is to find natural gas accumulations similar to the adjacent gas field Trois-Fontaines. A small natural gas discovery called Montplonne was made within the licence by Esso. The discovery was however non-commercial at the time due to lack of infrastructure. Since then a 36 inch natural gas pipeline has been constructed across the middle of the licence area.

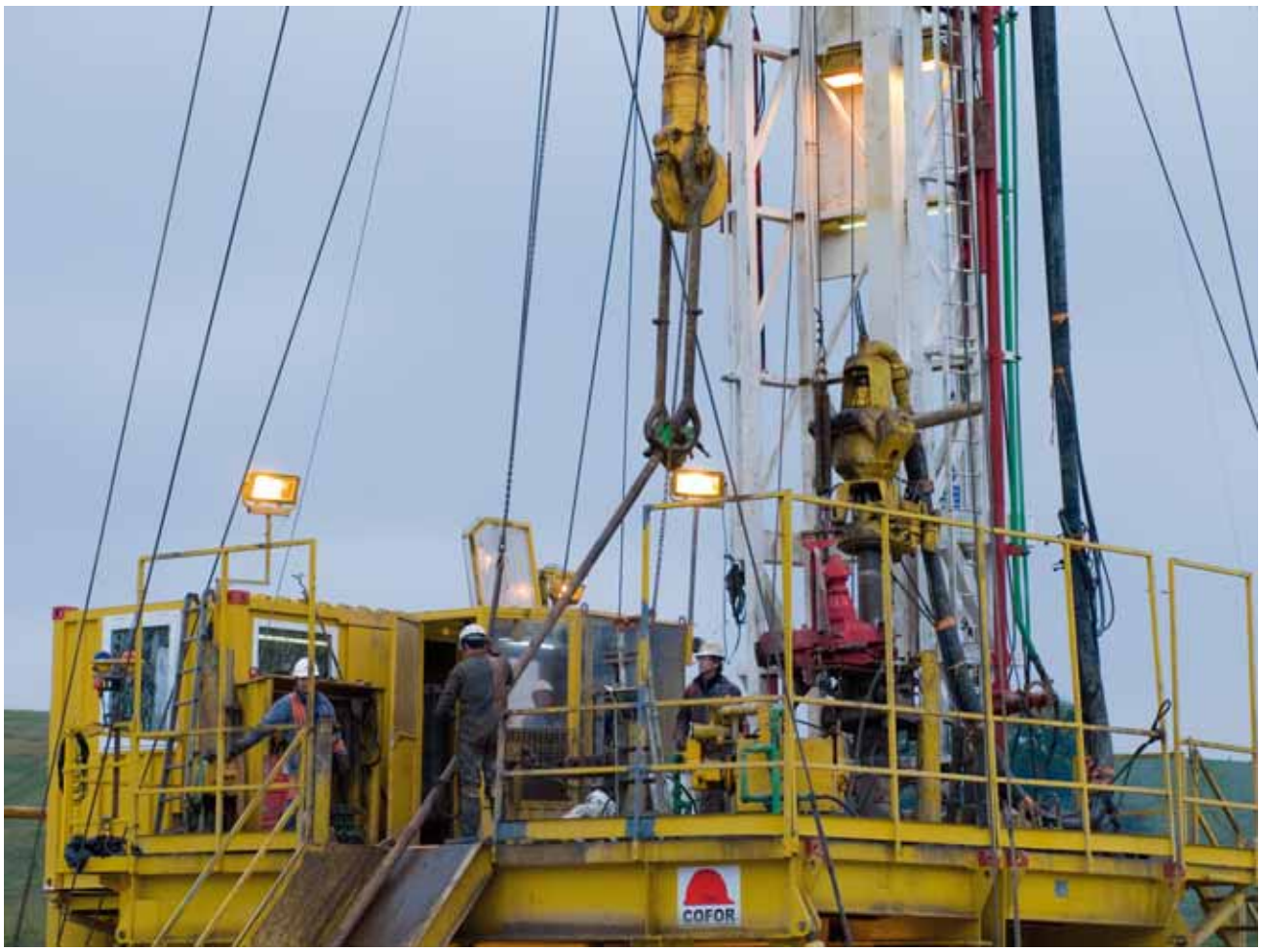


Attila licence with prospect and PLM-2 drilling location





Licence	Tethys Oil's share	Total area, km²	Operator
Attila	40%	1,986	Galli Coz S.A.
Total		**1,986**	



The gas source rocks on the licence are of Carboniferous age, and they are excellent natural gas-generating source rocks. For example, all of the gas produced in the southern North Sea, United Kingdom and Netherlands, were derived from these coals.

The presence of a gas field in this region of France is encouraging because it shows that there is in existence a working system to generate and trap natural gas.

Tethys' belief is that there has not been sufficient exploration to find more fields. Within the near 2,000 square kilometres Attila licence area, only 12 wells have been drilled deep enough to penetrate the Triassic-aged reservoirs that contain gas in Trois-Fontaines. This drilling density, 1 well per 166 square kilometres, could be compared with the average drilling density for Europe with one exploration well for every 116 square kilometres and in the USA with one per 28 square kilometres.

The drilling of Pierre Maubeuge 2, Autumn 2007

Work programme

In order to identify fault trends, a comprehensive work programme was carried out in 2006. The programme included acquisition and analyzing of satellite and radar data and reprocessing of about 180 kilometres of existing seismic data. Geochemical surface samples were also collected and analyzed. The result confirmed the prospectivity of the area, and a deci-

sion to carry on with the exploration drilling of the Pierre Maubeuge 2 well (PLM-2) was taken

The main work in France during the last part of 2006 was geared at securing permits for suitable well locations and detailed discussions and negotiations with local communities involved. The operator conducted several meetings and evaluated a number of possible surface locations from the perspective of suitability and accessibility. On April 24, 2007, drilling permission was received from the French local administration.

By August, all necessary permits had been obtained and preparations at the drill site had started. In mid August, the partner group entered into a drilling contract with French contractor COFOR for the drilling of the Pierre Maubeuge 2 (PLM-2) exploration well. At the end of August, the drilling pad was cemented in place.

The mobilization of the MR-7000 drilling rig commenced on September 18, and near the end of the month PLM-2 was spudded. After less than three weeks of drilling operations, the well was finalized at a total depth of 1,310 metres. During drilling gas shows were recorded in the Triassic formation below a salt layer. The well was subsequently logged and an 80 metre zone of gross pay was identified. Over this mainly limestone section, a total of 10.5 metres net natural gas pay was calculated. This result is sufficiently promising, and a decision to carry out a production test was taken. The completion and subsequent testing will be done with a workover rig which is a smaller and less expensive rig than the one used for the exploration drilling. This test is now planned to be done in April or May 2008, depending on equipment availability.

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

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

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

Spain

Tethys Oil's has two areas of interest in northern Spain. The Sedano Project comprises three exploration licences located south of the Cantabrian Mountains, within the Duero basin, between the cities of Burgos and Bilbao. The Cameros project includes two licences located in the Ebro basin, within La Rioja state.

Photo: Ramón Sitomon. www.flickr.com/sitomon

The Sedano project

The three exploration licences in the Sedano project are called Valderredible, Huermeces and Basconcillos-H. Tethys has a 50 per cent share in the project. The new partner and operator, London AIM-listed Leni Gas and Oil plc., is holding the remaining part. Leni acquired it's stake from the former Operator Ascent Resources during Autumn 2007.

The Valderredible exploration licence contains the Huidobro discovery that was made by Chevron in the 1960s. The Huermeces exploration licence contains the Hontomin 4 well. The Basconcillos-H includes the Tozo wells that were drilled from 1965 to 1967. These wells encountered oil saturated sandstone at shallow depths of less than 500 metres.

Technical work on the Sedano project

With the previous partner Ascent Resources as operator, the drilling The Hontomin-4 well in the Huermeces Block onshore Spain commenced on 17 March 2007. The well was designed to appraise potential reserves on the Hontomin structure. The well was drilled to a depth of 1,610 metres and was completed in April. The well was logged but no oil was encountered although the target formations were present. Analysis carried out by Ascent Resources suggests that the complexity of the faulting in the formations above the target has resulted in the lack of an adequate seal for the reservoir.

The drilling of Hontomin 4, Spring 2007. Tethys' chairman Vince Hamilton and Tethys' partner Phil Paris inspect the proceedings.

Licence/Project	Tethys Oil's share	Total area, km²	Operator
Sedano	50%	556	Leni Gas and Oil Plc.
Cameros	26%	252	SHESA
Total		**808**	

The Cameros project

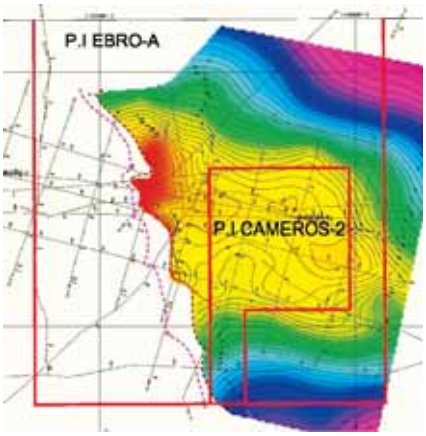
The Cameros licences are of interest for a large natural gas prospect, Najera, which has been identified through the reprocessing of existing seismic data. The concept of the Najera prospect is to find gas in Cretaceous sandstone reservoirs that migrated from underneath the structure from Mesozoic aged source rocks that have been buried deeply enough for gas generation to occur from them. The structure itself is an anticline formed during Tertiary times by mountain- building episodes in Spain.

The Cameros Project comprises the two exploration licences Cameros-2 and the surrounding Ebro-A, located in the Ebro basin of northern Spain within the state of La Rioja. The Cameros-2 contains the Rioja-5 well, drilled in 1983 by ENIEP, a former state oil company. Gas shows were encountered in this well which was drilled east of the Najera prospect. No well has been drilled before within the Ebro-A licence. Three gas fields have been discovered and produced in the Ebro basin before, making it a proven gas basin. The Ebro river valley also holds one of the countries main gas pipelines passing through the Ebro -A licence. Tethys has a 26 per cent interest in both licences that is registered directly with the government. The Operator of the licences in 2007 was the Basque oil company SHESA. The other partners are the Spanish energy companies Union Fenosa, Nuelgas and Net Oil.

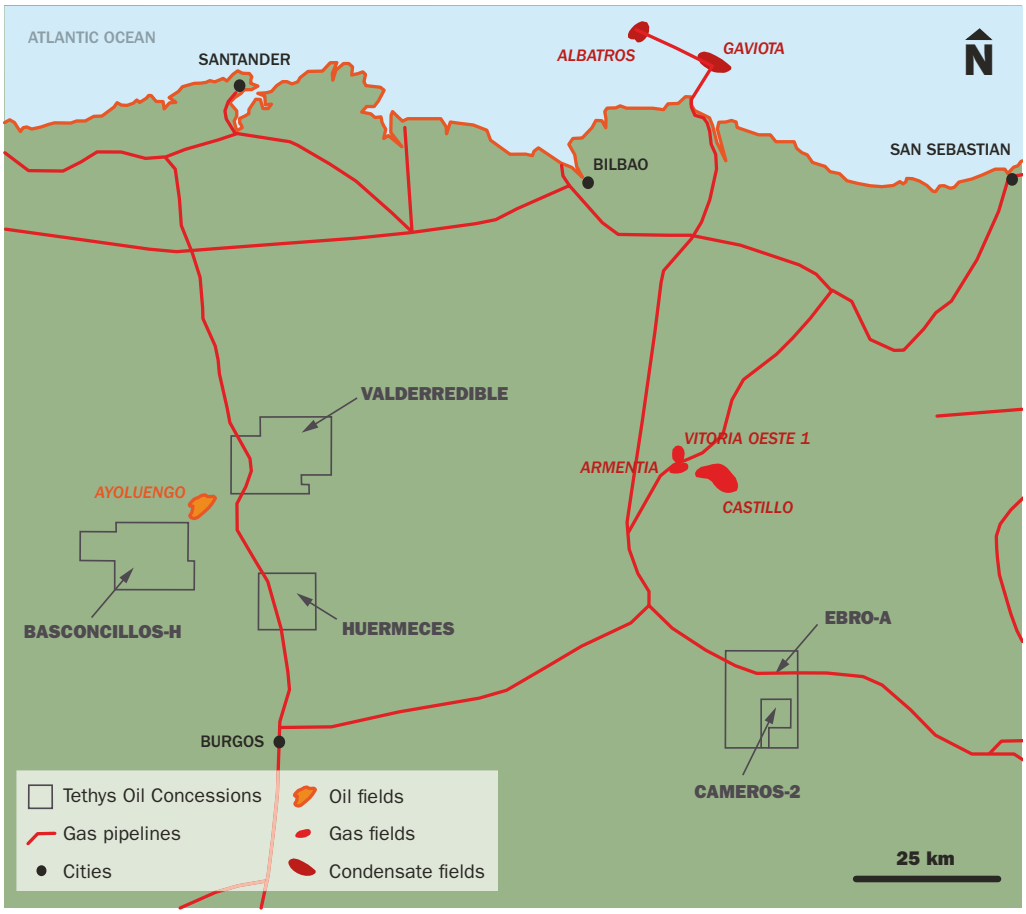
Technical work on the Cameros project

A large amount of technical work has been conducted by the other licence holders prior to Tethys joining. This included interpretation of existing seismic data and nearby well logs, stratigraphy studies of wells and outcrops, geochemical analyses, and reprocessing and interpretation of one seismic survey. The latter work is most significant since it is from these reprocessed seismic lines that the Najera prospect has been identified and mapped. This particular seismic survey was acquired in 1997 by Enagas, a Spanish energy company, for the purpose of finding suitable gas storage sites.

An environmental impact study has now been completed over the area and an exploration well will be drilled. Future work remaining to be done now is detailed well planning and sourcing a suitable drilling rig.



Expected size of Cameros structure



Morocco

In June 2007, Tethys signed an agreement concerning the Bouanane licence. According to this agreement, Tethys has 12.5 per cent carried interest in an exploration project with tremendous potential.

Photo: Andrew Larsen, www.flickr.com/apal

Tethys interest in Morocco, the Bouanane licence, is located in the north east part of the country, on the border to Algeria. Tethys has 12.5 per cent interest in the licence. The agreement is the result of a process that started in July 2005, when Tethys as operator was awarded 50 per cent in a one year Reconnaissance Licence over the Bouanane area. Eastern Petroleum Cyprus Ltd. was partner with the remaining 50 per cent. The work programme associated with the licence was completed by the summer of 2006. The results confirmed the prospectivity of the area, in particular for natural gas and better defined the potential of the giant Tafejjart structure.

In June 2007, Tethys Oil signed a Petroleum Agreement with the Moroccan state oil and mining company, ONHYM, and partners Dana Petroleum Ltd. and Eastern Petroleum for the Bouanane Exploration Permits.

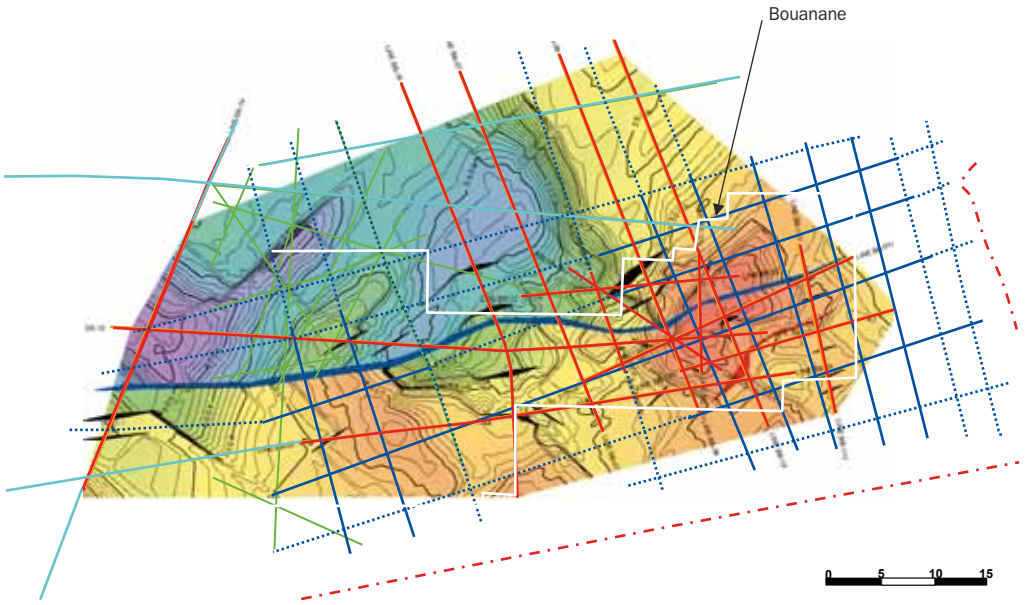
According to the agreement, Dana will be the Operator holding a 50 per cent interest in the licence, with Tethys and Eastern holding 12.5 per cent each. ONHYM has a carried 25 per cent interest. The Agreement is valid for a term of 8 years, divided into 3 periods. During the first period either 2D seismic needs to be acquired, or an exploration well needs to be drilled. Dana will pay all of Tethys' and Easterns' costs associated with the remaining exploration work planned to consist of seismic work up to MUSD 5 and the drilling of one exploration well up to MUSD 7. In addition Dana has reimbursed Tethys for expenditures associated with the licence, including the seismic reprocessing and gravimetric study Tethys has conducted in the area.

Geology

In the subsurface, in and around the Bouanane licence, the Silurian oil source rocks have been buried and heated, thus releasing their organic carbon content in the form of hydrocarbons (oil and gas). These source rocks are also present at the surface in the Moroccan Atlas Mountains. The released hydrocarbons are believed to have been migrated into Ordovician sandstone reservoirs.

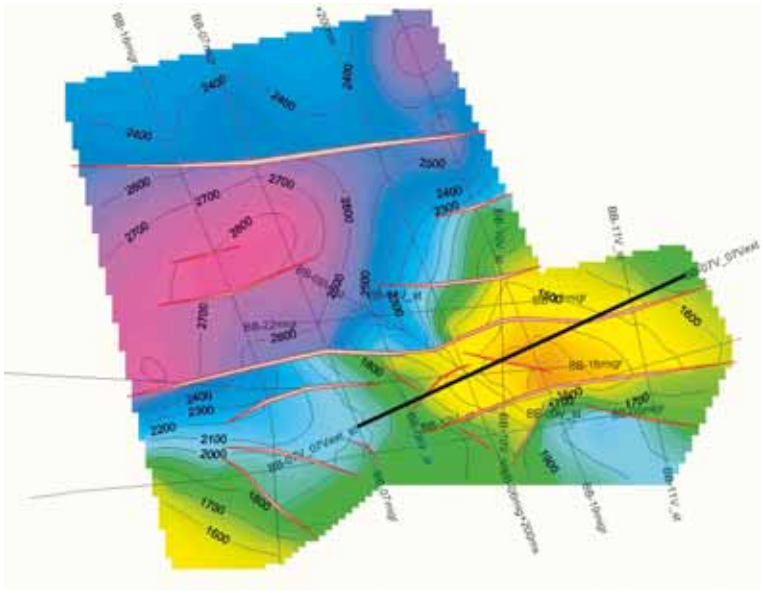
Another piece of the exploration puzzle requires the presence of a geological feature that could concentrate and trap hydrocarbons. The Tafejjart prospect is suitably placed to have received any migration of hydrocarbons in its direction. Existing technical data shows that the Tafejjart structure was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

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

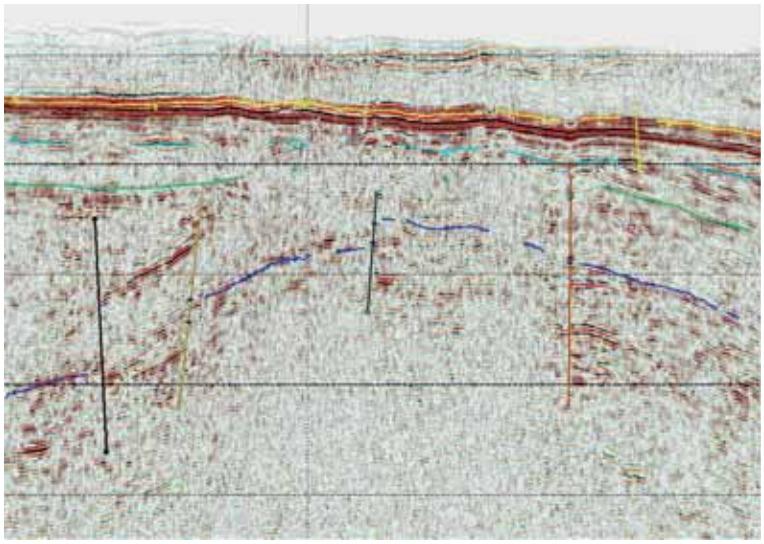


Bouanane seismic grid

Licence	Tethys Oil's share	Total area, km²	Operator
Bouanane	12,5%	2,100	Dana Petroleum
Total		**2,100**	



Bouanane; seismic line with crossection



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

Main risks and potential of the reservoir

A successful exploration well in Morocco could show very large quantities of hydrocarbon, and a large discovery could be tied back to the trans-Morocco gas pipeline that supplies domestic markets and exports to Spain. Since Dana is covering all initial costs up to 12 MUSD, the economic risk with the licence is small. However, the licence offers great possibility of a large discovery.

Work programme

The purpose of the work programme carried out in 2005 and 2006 was to determine a drill site in order to test the large Tafejjart prospect/structure.

The field work on the Bouanane licence started in February 2006. The work programme included satellite and radar acquisition and interpretation, acquisition and interpretation of about 900 square kilometres of new gravity and magnetic data, as well as reprocessing and interpretation of nearly 600 kilometres of seismic data.

Dana is currently checking for the availability of drilling rigs to mobilize to Morocco. The drilling of an exploration well could be carried out in late 2008 or early 2009.

Gravity and magnetic studies

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

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

DANA PETROLEUM PLC is a United Kingdom-based company engaged in oil and gas exploration and production. The company's shares are quoted on the main list of the London Stock Exchange.

Dana's daily production was by summer 2007 some 26,000 boepd, with that target to deliver over 45,000 boepd by end 2007. The group produces from 15 oil and gas fields with the main operations in the North Sea. Proven and probable reserves amounts to 130.6 million barrels of oil equivalent at end 2006. Dana has also won new licences in the UK and agreed deals for strategic entries into offshore Egypt and Morocco.

Turkey

Tethys Oil has interest in two projects in Turkey. The Trace project is located onshore the European Part of the country with exposure to shallow gas plays. The Ispandika project is located in the south east corner and is a high risk/high reward project.

Photo: Oskar Lindström, www.flickr.com/osli73

The Thrace licences

In 2005, Tethys increased the company's operations in Turkey with two onshore exploration licences in Thrace. In 2007, a third licence has been added to the project. Aladdin Middle East is the operator. Tethys is partner with 25 per cent interest. The licences cover 994 square kilometres in the middle of the Thrace basin.

Geological overview

The early exploration wells in the area were mainly targeting oil accumulations in a Cretaceous limestone. This exploration resulted however in the discovery of Hamitabat Field, still the largest gas field in the basin, plus a number of smaller discoveries. Since 1990 a number of further discoveries have been made by targeting shallow natural gas accumulations in Tertiary sandstones.

Work programme

A seismic survey acquiring about 100 kilometres of new 2D seismic data on the Trace licences was conducted in the first six month of 2007. A first processing and interpretation of the data was completed during the summer, which confirms the integrity of the prospect and the presence of a four way trap. It however raised the need for some additional processing and interpretation, which is now ongoing.

The Ispandika licences

Tethys Oil entered into the Ispandika project in 2003. The project covers two exploration licences in the south east part of Turkey. Aladdin Middle East is the operator of licences and Tethys has ten per cent interest. Ispandika is located close to the Iraq border. The security situation in the region has deteriorated, and no ground work has been carried out during the major part of 2007.

Tethys Oil's geological model over the licences in Ispandika

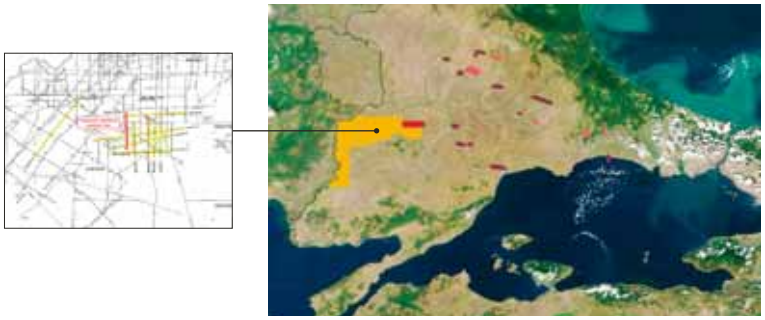
The Ispandika area is to a large extent unexplored for hydrocarbons and lies between the producing fields in Turkey and the producing fields in northern Iraq and northern Syria. To date, a single well, Girdara-1, has been drilled in the licence area. The well, which was drilled by Aladdin in 1965 to a depth of 2,233 metres, encountered oil shows in the Tertiary.

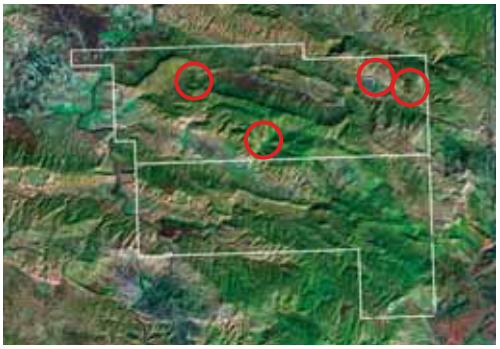
Main risks and potential of the reservoir

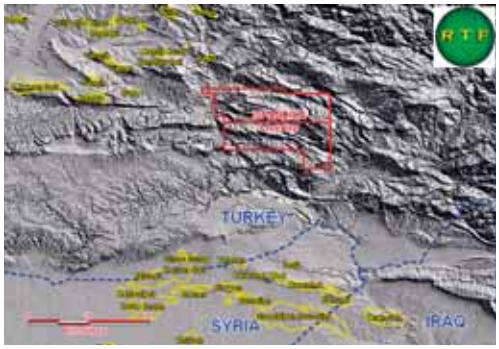
The Ispandika licences are located in an area with high risk, but the potential for very large discoveries are in proportion to the risk. The south eastern part of Turkey is an area for elephants though few have been found due both to geographical and political difficulties. Seismic coverage and well density are both poor.

Work programme

Given the comparative shortage of seismic data, a shallow stratigraphic (geological research) well was drilled in order to gain a better knowledge of the near surface lithology in the area. Geological information gained from this well did not increase the knowledge of the area substantially. The security situation in the region has deteriorated, and no ground work has been carried out.







Ispandica licences, structures and proposed drilling locations

Licence/Project	Tethys Oil's share	Total area, km²	Operator
Thrace	25%	944	Aladdin Middle East Ltd.
Ispandika	10%	965	Aladdin Middle East Ltd.
Total		**1,909**	

Sweden

The Swedish Mining Inspector granted in December 2007 Tethys' application to explore for oil and gaseous hydrocarbons on the island of Gotland. The licence, called "Gotland Större" (Greater Gotland), covers an area of 540 square kilometres of the northern part of the Baltic island. The licence is valid for three years and is subject to customary conditions relating to work programme and environmental assessments.

Photo: Umberto Lugarelli; www.flickr.com/Rumby

Background

Gotland is the only oil region of Sweden, with a historic production of almost 700,000 barrels of oil. Oil exploration started already in the 1930s on the island, when two wells were drilled. Oil was encountered in both, but not in commercial quantities. In 1969, Oljeprospektering AB (OPAB) started operations on the island. During the company's 17 years on Gotland, OPAB drilled 241 wells and acquired over 2,500 kilometres of seismic. After OPAB left, Gotlandsolja AB took over operations in 1987. Before they left in 1992, they drilled another 82 wells.

In the Baltic states, oil has been found in a Cambrian sandstone buried under a Ordovician layer. These rocks can be traced along a trend line originating on the other side of the Baltic Sea and terminating on Gotland. On Gotland however, oil has been produced from the Ordovician reef structures. The oil has been of high quality with low sulphur content.

A limited review of historic data suggests that only a limited number of the reefs present on Gotland have actually been mapped and drilled. Statistic data indicates that there could be as many as 600 of these reefs. About 150 of these have been drilled and mapped. Of the 150 drilled, about 10 per cent encountered oil.

Work programme

According to Tethys' estimates, there could be another million barrels of oil to be found and produced on Gotland. This oil is not gathered in one field, but distributed on several reefs. These reefs are however shallow and inexpensive to drill.

It is Tethys' intention to conduct additional work based on historic data and supplemented by new technology such as modern gravimetry and radar technology, to further the understanding of the distribution of the reefs. Tethys may also propose to do a geochemical ground study to further complement the database. A geochemical survey uses small samples of topsoil collected from a number of points that are then screened and compared with samples taken over known hydrocarbon reservoirs.

If the results from the work programme are encouraging, Tethys may, in the future, submit applications to relevant authorities and land owners requesting permission to collect seismic data and in the end conduct exploratory drilling.

Licence	Tethys Oil's share	Total area, km²	Operator
Gotland Större	100%	540	Tethys Oil
Total		**540**	

Corporate Responsibility

Policy statement

Like everything else, Tethys Oil, its employees, customers, partners and shareholders are part of our common society and environment. We, as individuals or companies may from time to time operate in different positions and play different roles but we are always a part of the society, at large or local, and 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 has not and will not embark on any major industrial activity without commissioning appropriate health, safety, environmental and social (HSES) studies from suitable experts. Acquired assets not operated by Tethys Oil are and will be independently reviewed by Tethys Oil out of a HSES perspective and Tethys Oil will closely monitor any contractor or operator. Wherever changes can be favourably 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 society and our environment and will do its utmost to act responsible.

The driling of Karlebo-1, Autumn 2006

Spectator at the driling of Pierre Maubeuge, Autumn 2007

Case studies

Denmark – Karlebo well from an HSES perspective

The Karlebo well was drilled in the vicinity of the Danish village of the same name, north of Copenhagen. The drilling commenced in autumn of 2006 with Tethys as operator. Prior to planning the well an environmental screening report was conducted so as to identify site-specific risks and hazards. In order to be open the local community, Tethys Oil provided continuous information on the Karlebo well operations before and during the drilling. Public meetings were held before the drilling equipment arrived. During drilling an information cabin was open daily, as well as an observatory at the well site. Even an internet webcam was installed to allow people to see the activity as it happened. Coordination was made with local school, church and kindergarten in order for them to be aware. Special traffic measures to protect "soft traffic" were put in place, and special hours and speed limits for heavy truck traffic were set. Efforts to reduce impact on nearest neighbour were made, especially to reduce noise pollution caused by the drilling rig. The well site location was fully asphalted to prevent any soil pollution. There were no underground pits for drilling fluids, instead metal tanks were used. Cuttings and drilling fluids have been taken away from site to a safe processing and treatment facility. The drill site was also self-contained for drainage of rain water and other fluids, and an oil skimmer was installed between site drainage and public sewer but was never needed to be used.

Oman – Water is life!

Good drinking water is scarce in the deserts of Oman. So when good clean and abundant drinking water was discovered at 60 metres whilst drilling for oil west of Ibri in northwestern Oman, the Department of Water and Electricity was quick to develop and distribute this important resource. The Al Massarrat water catchment area includes most of Block 15 in its' boundary, and this important fresh water aquifer supplies thousands of inhabitants with clean drinking water every day. The inner core of the Al Massarrat water catchment area straddles the Jebel Aswad structure and there are clear and unambiguous rules on what type of activities are allowed inside the Al Massarrat water protection zone.

Tethys Oil re-entered the Jebel Aswad well in 2007 under strict surveillance by the Al Massarat water protection team. A zero discharge policy was in effect and all areas where spills were likely had to be covered with an impermeable membrane. Additionally, all potentially contaminated soils and gravel were collected and transported to registered hazardous waste sites. In addition to adhering to a strict emission standard, two water observation wells were drilled, one upstream and one downstream of the re-entry site. Weekly samples were taken and analysed for pollutants by the Water Department as well as Tethys Oil's third party Environmental Consultant "Al Safa".

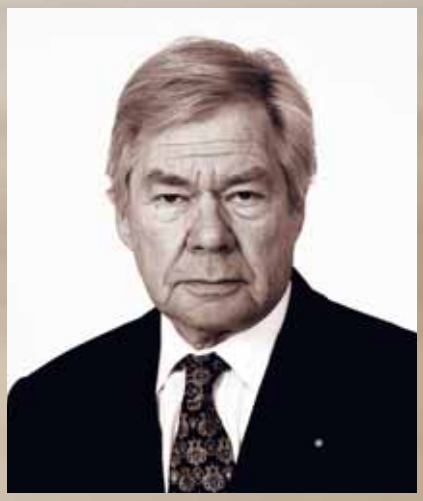
After 80 days of drilling and producing well fluids and after moving thousands of tonnes of equipment and supplies, there were no environmental problems. At the end of the drilling operations, Al Safa conducted a "Legacy Investigation" on the site where several 5 metres deep boreholes were drilled in multiple areas of the site to examine the subsoil for pollutants. The site was given a clean bill of health.

The water well that was drilled to supply the drilling operations with water has now been handed over to the Al Massarrat water Department so that the well can continue to provide good clean drinking water to the inhabitants of Ibri.

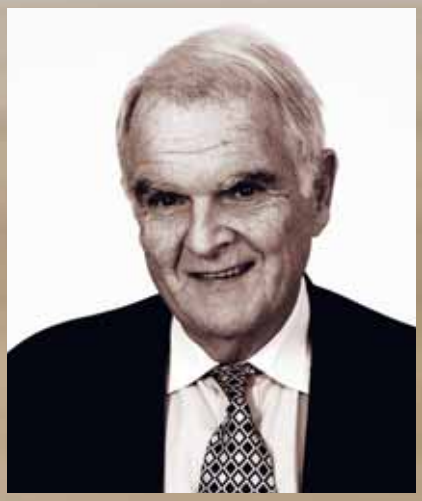
Board of Directors, Management and Auditors

Board of directors

Vincent Hamilton, born in 1963.
Chief Operating Officer and Chairman of the Board since 2004 (member of the Board since 2001). Education: Master of Science in Geology, Colorado School of Mines in Golden, Colorado. 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: 2,008,713.

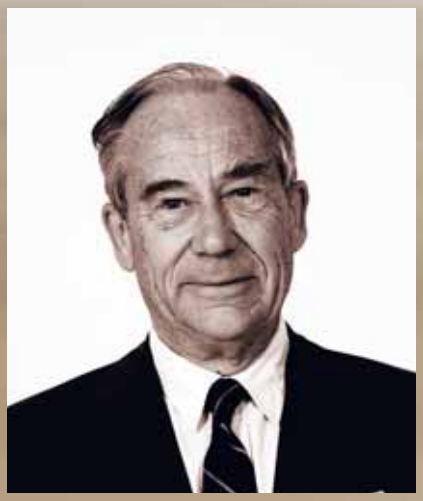


Håkan Ehrenblad, born in 1939.
Member of the board since 2003. Education: Mechanical engineer HTLS, Chemical/ Paper manufacturing Royal Institute of Technology, Stockholm, PED from the Institute for Management Development (IMD), Lausanne, Switzerland. Mr. Ehrenblad served at various executive positions 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 of Tanganyika Oil Company Ltd.
Number of shares in Tethys Oil: 178,197.



John Hoey, born in 1939.
Member of the board since 2001. Education: Bachelor of Science, University of Notre Dame, Indiana and MBA, Harvard University, Boston, Massachusetts. John Hoey has a management background in corporate finance and energy sector. 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 and served as President and director. 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. He is a co-founder, Vice-Chairman and Director of VietNam Holding Ltd. traded on AIM in London.
Number of shares in Tethys Oil: 1,317,828.

Magnus Nordin, born in 1956.
Chief Executive Officer and Member of the Board since 2001. Education: Bachelor of Arts, Lund University and Master of Arts, University of California in Los Angeles, California. 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 Minotaurus AB.
Number of shares in Tethys Oil: 1,276,356.



Carl-Gustaf Ingelman, born in 1935.
Member of the board since 2005. Education: Bachelor of Science Engineering, Royal Institute of Technology in Stockholm and Master of Management, Stockholm School of Economics. Until 1992, he was head of quality at Televerket Teletest. Previously he held executive positions at among others Swedish Telecommunication Consulting and The Swedish Bankers' Association. Nowadays Mr Ingelman is active as private investor at the Swedish stock market. He is a member of the management group of the Östermalm branch of the Swedish Shareholders' Association and a Director in Nordic Holding AB, GeVe Spirits AB, Midgård Equity AB, Nationella Spel i Sverige AB, Payer AB and Scandinavian Clinical Nutrition i Sverige AB.
Number of shares in Tethys Oil: –

Jonas Lindvall, born in 1967.
Head of drilling operations, head of operations in Oman and member of the board since 2006. Chief Executive Officer of Tethys Oil's subsidiary Tethys Oil Oman Ltd. Education: Bachelor of Science in Petroleum Engineering, University of Tulsa, Tulsa, Oklahoma. Lindvall worked for IPC/Lundin Oil until 1998, culminating as head of the Bukha oil field. Between 1998 and 2000, Lindvall worked for Shell Petroleum in Oman. From 2000, he worked with his own company, GotOil Resources. Between 2001 and 2004, he was head of the drilling department of Talisman Energy in Malaysia. Lindvall has experience in drilling over 100 holes on five continents, both onshore and offshore.
Number of shares in Tethys Oil: 1,218,000.

Maha Resources Ltd is entitled to an overriding annual cash remuneration of the total profit hydrocarbon entitlement due Tethys Oil Oman Ltd of 3 per cent. Jonas Lindvall is in control of Maha Resources Ltd.

Jan Risberg, born in 1964.
Member of the board since 2004. Education: Bachelor of Science Economy, University of Stockholm. Jan Risberg has several years of experience from the financial sector. Jan Risberg 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: 643,266.

Management

Magnus Nordin,
Chief Executive Officer

Vincent Hamilton,
Chief Operating Officer

Morgan Sadarangani,
born in 1975.
Chief Financial Officer. Employed since January 2004. Education: Master of Economics in Business Administration, University of Uppsala. Different positions within SEB and Enskilda Securities, Corporate Finance, between 1998–2002.

Number of shares in Tethys Oil: 66,000.

Auditors

Klas Brand, born in 1956.
Authorized Public Accountant
Company's auditor since 2001
PricewaterhouseCoopers AB, Gothenburg

Johan Rippe, born in 1968.
Authorized Public Accountant
Company's auditor since 2007
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.

Shares and options outstanding

Tethys Oil's registered share capital at 31 December 2007 amounts to TSEK 3,196 represented by 6,392,762 shares with a quota value of SEK 0.50. All shares represent 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. As per 31 December 2007 the Board of Directors have remaining outstanding authorization from the AGM to issue 549,000 shares up until next AGM.

Share data

Since the company's inception in September 2001 and up to 31 December 2007 the parent company share capital has developed as shown below:

Year	Share capital development	Ratio value, SEK	Change in number of shares	Total number of shares	Change in total share capital, SEK	Total share capital SEK
2001	Formation of the company	100.00	1,000	1,000	100,000	100,000
2001	Share issue	100.00	4,000	5,000	400,000	500,000
2001	Share split 100:1	1.00	495,000	500,000	–	500,000
2003	Share issue	1.00	250,000	750,000	250,000	750,000
2004	Share split 2:1	0.50	750,000	1,500,000	–	750,000
2004	Share issue	0.50	2,884,800	4,384,800	1,442,400	2,192,400
2006	Rights issue	0.50	876,960	5,261,760	438,480	2,630,880
2006	Non-cash issue	0.50	400,000	5,661,760	200,000	2,830,880
2006	Directed issue	0.50	80,000	5,741,760	40,000	2,870,880
2007	Directed issue July	0.50	300,000	6,041,760	150,000	3,020,880
2007	Warrant exercise December	0.50	2	6,041,762	1	3,020,881
2007	Directed issue December	0.50	125,000	6,166,762	62,500	3,083,381
2007	Set off issue December	0.50	226,000	6,392,762	113,000	3,196,381

Distribution of shareholdings in Tethys Oil as per 29 February 2008.

Size categories as per 29 February 2008	Number of shares	Percentage of shares	Number of shareholders	Percentage of shareholders
1 – 1,500	480,171	2.50%	790	67.01%
1,501 – 30,000	2,110,710	11.01%	346	29.35%
30,001 – 150,000	1,612,929	8.41%	24	2.04%
150,001 – 300,000	980,097	5.11%	5	0.42%
300,001 –	13,994,379	72.97%	14	1.19%
Total	19,178,286	100.00	1,179	100.00

Source: VPC and Tethys Oil

Share ownership structure

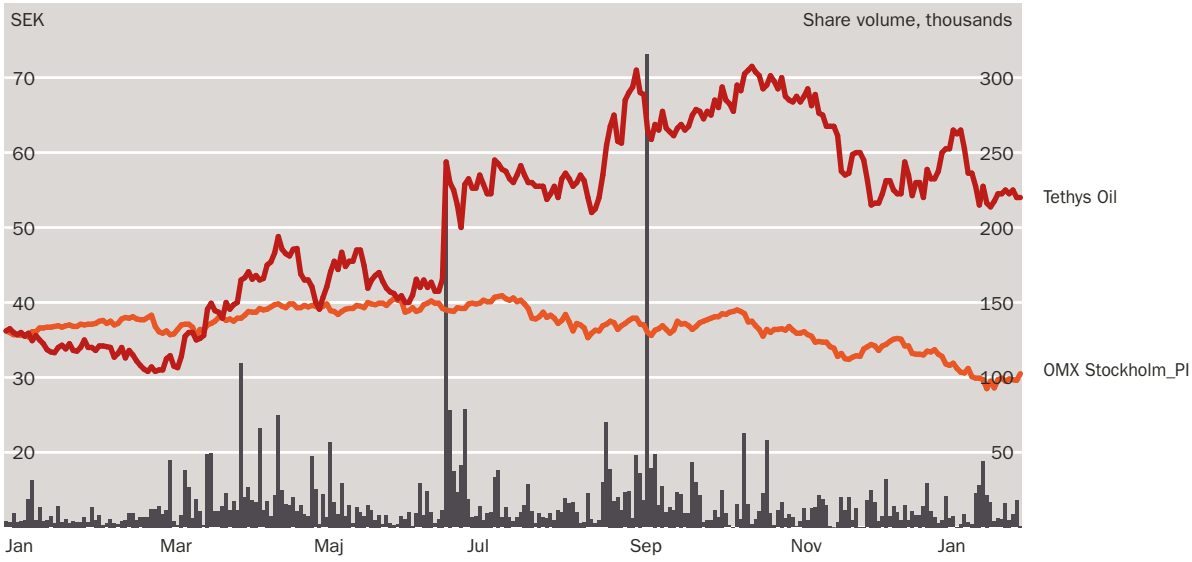
The 10 largest shareholders in Tethys Oil as per 29 February 2008.

Share holders as of 29 February 2008	Number of shares	Capital and votes, %
Vincent Hamilton*	2,008,713	10.47
SIS Segaintersettle	1,842,360	9.61
BNP Paribas (Suisse) SA	1,737,300	9.06
John Hoey*	1,317,828	6.87
Magnus Nordin**	1,276,356	6.66
Jonas Lindvall*	1,218,000	6.35
Bank Julius Baer und Co AG	1,164,408	6.07
Lorito Holdings S.A.	879,408	4.59
SEB Private Bank S.A.	669,000	3.49
Jan Risberg	643,266	3.35
Other (1,170 shareholders)	6,421,647	33.48
Total	**19,178,286**	**100.00**

** Through company*
*** Including 60,000 shares lent to HQ Bank AB.*

Source: VPC and Tethys Oil

Share price development and turnover, January 2007 to February 2008



Share statistics 2007

The shares in Tethys Oil are traded on First North in Stockholm.

Ticker name	TETY
Year high	76.50 (15 October 2007)
Year low	29.40 (28 February 2007)
Average turnover per day, shares	17,086
Period turnover, shares	4,271,389
Period turnover/outstanding shares	72.82 %

Key Financial Data

Group	2007	2006	2005	2004	2003
Items regarding the income statement and balance sheet					
Gross margin, TSEK	n.a.	n.a.	n.a.	n.a.	n.a.
Operating result, TSEK	-23,533	-30,976	-14,998	-5,810	-934
Operating margin, %	neg.	neg.	neg.	neg.	n.a.
Result before tax, TSEK	-24,704	-29,802	-14,368	-5,062	-891
Net result, TSEK	-24,721	-29,802	-14,368	-5,062	-891
Net margin, %	neg.	neg.	neg.	neg.	n.a.
Shareholders' equity, TSEK	103,196	95,230	52,375	66,743	3,542
Balance sheet total, TSEK	105,586	118,983	54,833	69,102	4,139
Capital structure					
Equity ratio, %	97.74%	80.04%	95.52%	96.59%	85.58%
Leverage ratio, %	n.a.	n.a.	n.a.	n.a.	n.a.
Adjusted equity ratio, %	97.74%	80.04%	95.52%	96.59%	85.58%
Interest coverage ratio, %	n.a.	n.a.	n.a.	n.a.	n.a.
Investments, TSEK	51,765	35,207	6,491	12,696	1,570
Profitability					
Return on shareholders' equity, %	neg.	neg.	neg.	neg.	neg.
Return on capital employed, %	neg.	neg.	neg.	neg.	neg.
Key figures per employee					
Average number of employees	9	5	4	3	–
Number of shares					
Dividend per share, SEK	n.a.	n.a.	n.a.	n.a.	n.a.
Cash flow used in operations per share, SEK	neg.	neg.	neg.	neg.	neg.
Number of shares on balance day, thousands	6,393	5,742	4,385	4,385	1,500
Shareholders' equity per share, SEK	16.14	16.59	11.94	15.22	2.40
Weighted number of shares on balance day, thousands	5,864	5,110	4,385	3,705	1,003
Earnings per share, SEK	-4.22	-5.83	-3.28	-1.37	-0.89

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.

Parent	2007	2006	2005	2004	2003
Items regarding the income statement and balance sheet					
Gross margin, TSEK	n.a.	n.a.	n.a.	n.a.	n.a.
Operating result, TSEK	-3,996	-4,488	-3,786	-3,903	-934
Operating margin, %	neg.	neg.	neg.	neg.	n.a.
Result before tax, TSEK	-22,558	-28,178	-12,391	-2,970	-891
Net result, TSEK	-22,558	-28,178	-12,391	-2,970	-891
Net margin, %	neg.	neg.	neg.	neg.	n.a.
Shareholders' equity, TSEK	113,197	100,945	56,444	68,835	3,542
Balance sheet total, TSEK	115,179	121,232	58,982	70,346	4,139
Capital structure					
Equity ratio, %	98.28%	83.27%	95.70%	97.85%	85.58%
Leverage ratio, %	n.a.	n.a.	n.a.	n.a.	n.a.
Adjusted equity ratio, %	98.28%	83.27%	95.70%	97.85%	85.58%
Interest coverage ratio, %	n.a.	n.a.	n.a.	n.a.	n.a.
Investments, TSEK	21,887	59,096	5,874	11,651	1,570
Profitability					.
Return on shareholders' equity, %	neg.	neg.	neg.	neg.	neg.
Return on capital employed, %	neg.	neg.	neg.	neg.	neg.
Key figures per employee					
Average number of employees	5	4	4	3	–
Number of shares					
Dividend per share, SEK	n.a.	n.a.	n.a.	n.a.	n.a.
Cash flow used in operations per share, SEK	neg.	neg.	neg.	neg.	neg.
Number of shares on balance day, thousands	6,393	5,742	4,385	4,385	1,500
Shareholders' equity per share, SEK	17.71	16.59	12.87	15.70	2.40
Weighted number of shares on balance day, thousands	5,864	5,110	4,385	3,705	1,003
Earnings per share, SEK	-3.85	-5.51	-2.83	-0.80	-0.89

Investments
Total investments during the year.

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.

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

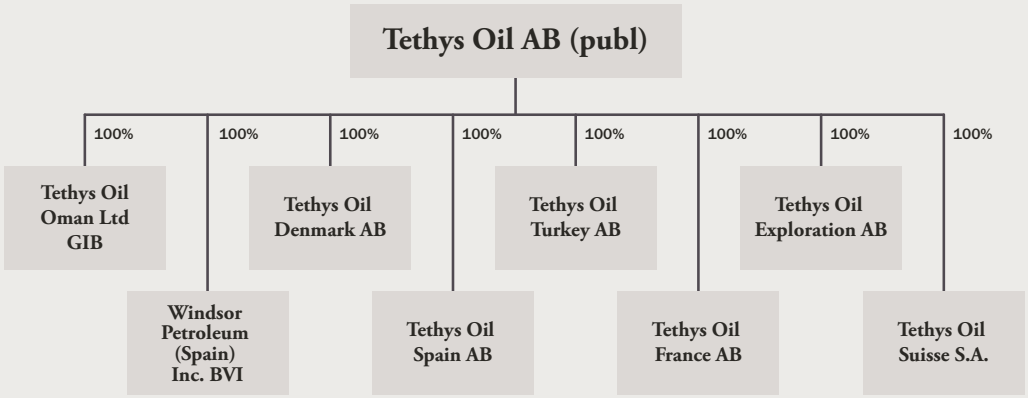
Weighted numbers of shares
Weighted number of shares during the year.

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

N.a.
Not applicable

Administration Report

(An English translation of the Swedish original)



Operations

Tethys Oil is a Swedish company focused on exploration for and production of oil and natural gas. Tethys Oil aims to maintain a well balanced portfolio of high risk/high reward exploration opportunities coupled with lower risk exploration and appraisal development assets. The company'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. The company has interests in licences in Oman, France, Sweden, Morocco, Spain and Turkey.

Tethys Oils shares are listed on First North (TETY) in Stockholm. Remium AB is Certified Adviser. Tethys Oil has decided to apply for a secondary listing of the Company's shares on the international exchange in Dubai (DIFX). The Dubai based brokerage house MAC Capital Limited has been appointed to act as sponsor for Tethys on DIFX. Tethys Oil expects that

Country	Licence name	Tethys Oil	Total area, km²	Partners (operator in bold)	Book value 31 Dec 2007	Book value 31 Dec 2006
Oman	Block 15	40%	1,389	**Tethys Oil**, Odin Energi	60,746	26,700
Oman	Blocks 3&4	50%	33,125	**CCED***, Tethys Oil		
France	Attila	40%	1,986	**Galli Coz**, Tethys Oil	8,844	1,033
Morocco	Bouanane	12.5%	2,100	**Dana Petroleum**, Tethys Oil, Eastern Petroleum	971	2,912
Spain	Valderredible – lic. no. 4600	50%	241	**Leni Gas&Oil**, Tethys Oil	1,455	1,878
Spain	Huermeces – lic. no. 4599	50%	121	**Leni Gas&Oil**, Tethys Oil		
Spain	Basconcillos – Basconcillos-H	50%	194	**Leni Gas&Oil**, Tethys Oil		
Spain	Cameros – Cameros-2	26%	35	**SHESA**, Union Fenosa, Nuelgas, Tethys Oil		
Spain	Cameros – Ebro-A	26%	217	**SHESA**, Union Fenosa, Nuelgas, Tethys Oil		
Turkey	Ispandika – AR/TMO-EPS-GYP/3795	10%	499	**Aladdin Middle East**, Terralliance, Tethys Oil	4,614	1,270
Turkey	Ispandika – AR/TMO-EPS-GYP/3794	10%	466	**Aladdin Middle East**, Terralliance, Tethys Oil		
Turkey	Thrace – AR-AME-3999	25%	492	**Aladdin Middle East**, Tethys Oil		
Turkey	Thrace – AR-AME-3998	25%	405	**Aladdin Middle East**, Tethys Oil		
Turkey	Thrace – AR-AME-4187	25%	47	**Aladdin Middle East**, Tethys Oil		
Sweden	Gotland Större	100%	540	**Tethys Oil**	259	–
Denmark	Relinquished licences	n.a	n.a	n.a	–	687
New ventures					23	612
Total			**41,907**		**76,932**	**35,092**

** Consolidated Contractors Energy Development (Oman)*

an application for a secondary listing on the DIFX will be submitted during the second quarter 2008.

Oman

Tethys Oil has interest in two licence areas in Oman, Block 15 and Blocks 3 and 4. Tethys Oil holds 40 per cent interest of Block 15 and is the operator of the licence and partner Odin Energi, a private Danish company, holds the remaining 60 per cent. In December 2007, Tethys Oil acquired 50 per cent interest in Blocks 3 and 4 from Norwegian Energy Company affiliate Altinex. The consideration for the acquisition was MUSD 2. Operator of the licence is CCED holding remaining 50 per cent.

Block 15

The re-entry of Jebel Aswad was drilled with Tethys Oil as operator during the second quarter of 2007. The Jebel Aswad well was originally drilled in 1994 and encountered oil in two limestone intervals, the Natih and Shuaiba. The re-entry was designed to appraise both intervals and underbalanced drilling fluids were used in order to minimize damage to the reservoir and maximize production.

The testing of both limestone sections were completed in June. Both reservoirs produced hydrocarbons to surface. On testing the Natih flowed 11.03 mmscfpd and 793 bpd of 57 API condensate (total of 2,626 boepd) through a 1 inch choke. The Shuaiba could not be fully tested due to a faulty down hole motor, but Shuaiba produced wet gas during the underbalanced drilling.

Tethys' own preliminary in-house reserve estimate of the Natih 'A' reservoir indicates some 138 BCF of gas and some 7.0 MM barrels of condensate, of which Tethys' share of 40 per cent corresponds to 55 BCF and 2.8 MM barrels of condensate. No hydrocarbon reserves were attributed to the underlying reservoirs, despite firm indications of hydrocarbons being present in two additional reservoirs.

Tethys Oil also commissioned Helix RDS (UK) Ltd. to model the test results along with the original data from the 1995 test. In their study, they did not do an economic analysis for the profiles created and as such the recoverable hydrocarbon should be catalogued as resources. Following the Helix report, Tethys' share of 40 per cent before government take equates to:

Tethys Oil's share, 40%	Low	Mid	High
Gas Cumulative (BSCF)	5.54	52.26	174.40
Condensate cumulative (MMbbls)	0.28	2.61	8.72
Tethys Oil's share expressed in million barrels of oil equivalents (MMBOE)	1.20	11.32	37.79

(Conversion factor: 1 boe = 6 MSCF)

In the fourth quarter 2007, oil service company MB Petroleum Services conducted additional well testing on the Jebel Aswad well. The testing involved a comprehensive programme of flow tests and collection of gas and oil samples.

A total of 13 surface samples, 4 down hole samples and over 240 litres of condensate have been collected for further analysis. Fluid samples have been sent for detailed laboratory analysis and the results are expected at the end of February. A higher condensate gas ratio (up to 25 per cent higher) was measured during the test. The data confirms the production results obtained in June 2007. Pressure gauges were also installed at the bottom of the hole for an extended pressure test, which was completed in January 2008.

The preparations of the preliminary field development plan continue. Engineering Firm WS Atkins have been contracted to design the field facilities. Al Safa Environmental Company have also been contracted to commence the environmental impact assessment for the field development.

A 3D seismic survey is currently being planned over the Jebel Aswad structure. Tenders for this have been sent out to seismic contractors and if availability allows, then the acquisition will be done later in 2008.

Blocks 3 and 4

During the last quarter of 2007, Tethys Oil's operations in Oman were significantly enlarged when the acquisition of Blocks 3 and 4 from Norwegian Energy Company affiliate Altinex was finalized. Tethys holds 50 per cent interest in the Blocks that cover a combined area of over 30,000 square kilometres onshore Oman. Tethys is through the acquisition now one of the largest onshore land holders in Oman.

Block 3 contains the South Farha oil discovery with an estimated 9 million barrels of recoverable oil from thin sandstone layers. More than 30,000 kilometres of 2D seismic has been collected and 27 wells have been drilled on the Blocks, of which 18 wells have encountered oil shows. A large number of prospects have been identified on the blocks. The remaining 50 per cent of the Blocks is held by CCED, who is the operator.

Denmark

Tethys Oil previously held interest in two exploration licences in Denmark, licence 1/02 and licence 1/03. Tethys Oil was the operator of the licences and the exploration well Karlebo-1 on Licence 1/02 onshore Zealand was drilled at the end of 2006. All necessary geological elements were found except for the source rock and the exploration well failed to encounter hydrocarbons. Karlebo-1 was plugged and abandoned as a dry hole.

The company conducted a post-drilling appraisal of licences 1/02 and 1/03 during 2007. The results

were negative for continued exploration in these licences and the Danish licences were relinquished on 22 May 2007 and all outstanding commitments have been fulfilled on the licences.

France

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

After a comprehensive work programme at the Attila licence in France in 2006, which confirmed the prospectivity of the area, a decision to carry on with an exploration drilling of the Pierre Maubeuge 2 well (PLM-2) was taken. The construction of the drill site commenced during the summer and was completed in September 2007. The mobilization of the MR-7000 drilling rig from French contractor COFOR commenced on 18 September 2007.

After less than three weeks of drilling operations, the well was finalized in the last quarter 2007 at a depth of 1,310 metres. During the drilling gas shows were recorded in the Triassic formation. The well was subsequently logged and an 80 metre zone of gross pay was identified. Over this mainly limestone section, a total of 10.5 metres net natural gas pay was calculated.

This result is sufficiently promising, and a decision to carry out a production test was taken. Based on detailed analysis of the well logs, the PLM-2 well is expected to be able to produce gas to surface. Therefore the operator will run completion tubing in the well in anticipation of commercially viable production rates. The completion and subsequent testing will be done with a workover rig which is a smaller and less expensive rig than the one used for the exploration drilling. This test is planned to be done in April or May 2008, depending on equipment availability.

Spain

Tethys Oil has interest in five licences in Spain in two separate areas. Three exploration licences, jointly referred to as the Sedano project, are located south of the Cantabrian Mountains in northern Spain within the Duero basin, between the cities of Burgos and Bilbao. Tethys interest in these licences called Huermeces, Valderredible and Basconcillos-H is 50 per cent. Leni Gas&Oil Plc., which is an oil and natural gas company listed on AIM at the London Stock Exchange, is through its subsidiary the operator of all three licences.

The remaining two licences jointly referred to as the Cameros project are located in the Ebro basin in northern Spain within the state of Rioja. Tethys interest in these licences called Cameros and Cameros-2 is 26 per cent. Operator of the licences is the Basque oil company SHESA. The other partners include the Spanish energy companies Union Fenosa and Nuelgas.

The Sedano Project

The Hontomin-4 well on the Huermeces licence onshore Spain was completed in the second quarter 2007, with former partner Ascent Resources as operator. The well was logged but no oil was encountered. The planned re-entry of the Tozo-1 well in the Basconcillos-H exploration permit has been postponed. In the end of 2007, Ascent sold its 50 per cent interest in the exploration licences to Leni Gas&Oil Plc.

The Cameros Project

The Cameros project, in the Ebro basin of northern Spain, is of interest for a large natural gas prospect that has been identified. When the government in February 2007 awarded the partner group the second licence Ebro-A, in an area surrounding the original licence Cameros-2, the total area of the Cameros project expanded to 252 square kilometres. An environmental impact study has now been completed over the area and an exploration well will be drilled. Future work remaining to be done now is detailed well planning and sourcing a suitable drilling rig.

Turkey

Tethys Oil has interests in five exploration licences in Turkey. Tethys Oil holds interest in two exploration licences in the Ispandika area located in south-eastern Turkey close to Syria and Iraq. Partners in the licences in Ispandika are Aladdin Middle East (operator) and Terralliance. The other three licences are located in north-western and European part of Turkey close to Bulgaria and Greece. Partner and operator in the Thrace licences is Aladdin Middle East. Tethys Oil has 10 per cent interest in the two Ispandika licences and 25 per cent interest in the two exploration licence in Thrace. Tethys Oil has established a branch in Turkey that holds the licence interests directly.

Thrace

A seismic survey acquiring about 100 kilometres of new 2D seismic data on the Trace licences in Turkey was conducted in the first and second quarter of 2007. A first processing and interpretation of the data was completed during the summer, which confirms the integrity of the prospect and the presence of a four way trap. Additional processing and interpretation was carried out on the seismic in order to identify a drilling location. According to plan, one exploration well targeting shallow natural gas will be drilled during the first half of 2008.

In June Tethys obtained 25 per cent in a third licence in Thrace, licence 4187, adjacent to the two previous licences. The licence covers 84 square kilometres and increases the total area of the Thrace project to 994 square kilometres.

Ispandika

Given the comparative shortage of seismic data, a shallow stratigraphic (geological research) well was drilled around the year end 2006 in order to gain a better knowledge of the near surface lithology in the area.

Geological information gained from this well did not increase the knowledge of the area substantially. The security situation in the region has deteriorated, and no ground work has been carried out since the first quarter 2007.

Morocco

Tethys Oil holds 12.5 per cent interest in the Bouanane licence located in the eastern part of Morocco. Operator of the licence is UK oil and gas company Dana Petroleum Plc. Also partner of the licence is Eastern Petroleum.

In June 2007, a Petroleum Agreement was formalized and signed between Tethys Oil, the Moroccan state oil and mining company, ONHYM, and partners Dana Petroleum and Eastern Petroleum for the Bouanane Exploration Permits.

According to the agreement, Dana is the operator holding a 50 per cent interest in the licence, with Tethys and Eastern holding 12.5 per cent each. ONHYM has a carried 25 per cent interest. The Agreement is valid for a term of 8 years, divided into 3 periods. During the first period either 2D seismic needs to be acquired, or an exploration well needs to be drilled. Dana will pay all of Tethys' and Easterns' costs associated with the remaining exploration work planned to consist of seismic work up to MUSD 5 and the drilling of one exploration well up to MUSD 7. In addition Dana has reimbursed Tethys for expenditures associated with the licence so far including the seismic reprocessing and gravimetric study Tethys has conducted in the area.

Dana is currently checking for the availability of drilling rigs to mobilize to Morocco. The drilling of an exploration well could be carried out in late 2008 or early 2009.

Sweden

Tethys Oil holds 100 per cent interest in the northern Gotland licence "Gotland Större" located onshore of the Swedish island Gotland, in the Baltic Sea.

Gotland

In December, 2007, the Swedish Mining Inspector granted Tethys' application to explore for oil and gaseous hydrocarbons on the Swedish island of Gotland. The licence, called "Gotland Större" (Greater Gotland), covers an area of almost 540 square kilometres of the northern part of the Baltic island. The licence is valid for three years and is subject to customary conditions relating to work programme and environmental assessments.

Oil has previously been produced on Gotland, proving the existence of a viable petroleum system within the licence area. Production has occurred from Ordovician reef structures that can be traced along a trend line originating on the other side of the Baltic Sea and terminating on Gotland. A limited review of historic data suggests that only a limited number of the reefs present on Gotland have actually been mapped and drilled. It is Tethys' intention to conduct additional work based on historic data and supplemented by new technology such as modern gravimetry and radar technology, to increase the understanding of the distribution of the reefs.

Potential licence areas – Latvia

In connection with the acquisition of Block 15 in Oman in 2006, Tethys Oil received options to acquire an 11 per cent interest in the Dunalka production licence onshore Latvia. The licence remains under review and the option covering that licence has been extended until 1 July 2008.

Significant agreements and commitments

In Tethys Oil's operations there are two categories of agreements; one that governs the relationship with the host country; and one that governs the relationship with partners.

The agreements that govern the relationship with host countries are referred to as licences or Exploration and production sharing agreements (EPSA). Tethys Oil holds its interest directly through aforementioned agreements in Oman, France, Turkey, Sweden and Morocco. In Spain, Tethys Oil holds its interest indirectly through agreements with partners. The agreements with host countries have a time limit and are normally divided into periods. Financial commitments and or work commitments normally relates to the different periods. Tethys Oil has commitments in Oman following from the EPSAs of Block 15 and Blocks 3&4. These commitments amount to MUSD 5.6, of which most relate to Blocks 3&4, and are estimates of expenditures in order to fulfil work commitments. In the other areas of operations the commitments are either fulfilled or there are no commitments of which Tethys Oil can be held liable for. In some of Tethys Oil's areas of interest there are requirements of work to be done or minimum expenditures in order to retain the licences, but no commitments of which Tethys can be held liable for.

The agreements that govern the relationship with partners are referred to as Joint Operating Agreements (JOA). Except for Sweden where Tethys Oil is the sole licence holder, Tethys Oil has JOAs with its partners in all areas of operation.

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.

Result, Financial Position and Cash Flow

The consolidated financial statements of the Tethys Oil Group (Tethys Oil), where Tethys Oil AB (publ) with organisational number 556615-8266 is the parent company, are hereby presented for the period ended 31 December 2007. The amounts relating to the comparative period (equivalent period of last year) are shown in parenthesis after the amount for the current period. Up until 31 December 2007, Tethys Oil has not reported any sales of oil and gas. Also due to the fact that there have been no sales in Tethys Oil, seasonal variations do not impact the result.

Loss for the period and sales

Tethys Oil reports a loss for the full year 2007 of TSEK -24,721 (TSEK -29,802 for last year), representing earnings per share of SEK -4.22 (SEK -5.83) for the full year 2007. Write downs of oil and gas properties of TSEK 16,220 has negatively affected the result of the full year 2007. TSEK 9,269 of the write downs regards previous investments in the well Hontomin on the Huermeces licence in Spain. Also part of the write downs are previous investments in licence 1/02 and 1/03 in Denmark where the two licences have been relinquished. Cash flow used in operations before changes in working capital during the full year 2007 amounted to TSEK -8,372 (TSEK -7,129).

The loss for the full year 2007 has not been significantly impacted by net foreign exchange losses or gains.

Tethys Oil has not recorded any sales or production of oil and gas for 2007. As there has been no production there has accordingly been no depletion of oil and gas properties.

Other income, administrative expenses

Administrative expenses including depreciation amounted to TSEK -10,563 (TSEK -9,000) for the full year 2007. Depreciation amounted to TSEK 122 (TSEK 125) during 2007. Administrative expenses are mainly salaries, rents, listing costs and outside services. These costs are corporate costs and are accordingly not capitalised. Depreciation is referable to office equipment. The increase in administrative expenses compared to last year is related to an increased overall corporate activity as well as new administration costs relating to the acquired company Tethys Oil Oman Ltd. Most of the administrative expenses in Tethys Oil Oman Ltd are charged to the joint venture in Oman where the expenditures are capitalised and, in line with the Production Sharing Agreement, recoverable. These administrative expenditures are, through the above, also funded by the partner in Oman by 60 per cent. The chargeout to the joint venture is presented in the income statement as Other income. Part of the administrative expenditures are capitalised in the subsidiaries. In the consolidated income statement these internal transactions are eliminated.

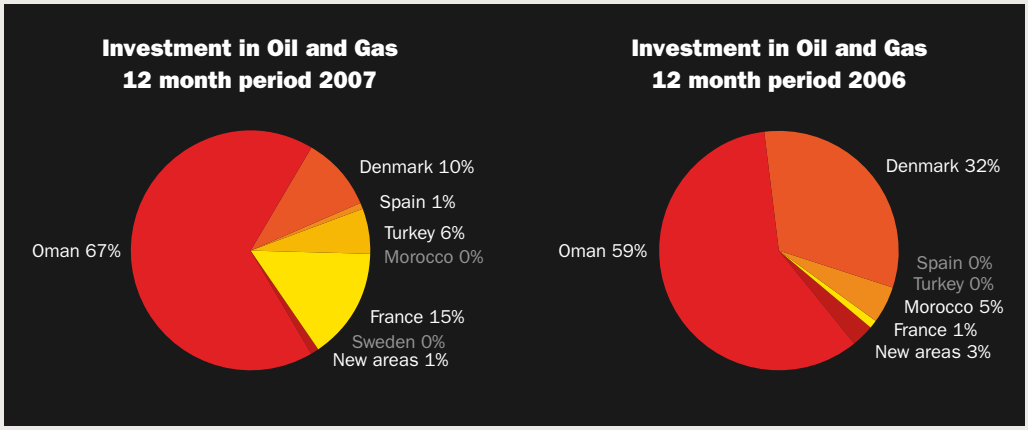
Movement in oil and gas properties

Oil and gas properties as at 31 December 2007 amounted to TSEK 76,932 (TSEK 35,072). Investments in oil and gas properties of TSEK 51,481 (TSEK 26,408) were incurred for the twelve month period ended 31 December 2007. Write downs of oil and gas properties during 2007 amounted to TSEK 16,220 (TSEK 22,519).

Of the investments TSEK 36,213 are referable to Oman. Out of these expenditures in Oman TSEK 23,431 were spent on Block 15 Oman where Tethys Oil drilled an appraisal well during the second quarter. Tethys Oil is operator on Block 15 and pays 40 per cent of expenditures. Remaining expenditures in Oman, TSEK 12,782, has been invested in Blocks 3 & 4 in Oman through the acquisition of 50 per cent of these blocks from Altinex which was made during the fourth quarter. TSEK 7,810 has been invested in France where an exploration well was drilled during the third and fourth quarter. Tethys Oil has 40 per cent interest in the French licence, but pays 44 per cent through an exploration well. TSEK 5,236 of investments regard operations in Denmark and to a large extent it regards additional expenditures for the Karlebo-1 exploration well drilled during 2006. Total investment in licence 1/02 including the Karlebo well came close to MUSD 8. To the extent this is related to the drilling of the Karlebo-1 well Tethys Oil's share was 30 per cent and other partners funded the remaining 70 per cent. The two licences in Denmark have now been relinquished. Negative investments of TSEK -1,941 in Morocco regard reimbursement of past costs following from the Dana Petroleum farm-in agreement. TSEK 3,047 relate to investments in Turkey, mainly seismic acquisition in Thrace. As per 31 December 2006 prepayment of oil and gas properties amounted to TSEK 8,723. The prepayments mainly regard the Hontomin well drilled in Spain, which commenced during the first quarter 2007. The prepayment has during the first half 2007 consequently moved to oil and gas properties but is not included in the 2007 consolidated cash flow investments as it is a non-cash item 2007.

Liquidity and financing

Cash and bank as at 31 December 2007 amounted to TSEK 12,252 (TSEK 57,112). Short-term investments as at 31 December 2007 amounted to TSEK – (TSEK 973). In December 2007, Tethys Oil acquired 50 per cent interest in Blocks 3 and 4 onshore Oman from Norwegian Energy Company (Noreco) affiliate Altinex. The consideration for the acquisition amounted to MUSD 2, which was paid through a set off issue of 226,000 Tethys Oil shares at SEK 56 in December 2007. Tethys Oil assisted Altinex according to the agreement in placing those shares, the proceeds for which was received in January 2008. As a consequence, the proceeds from this issue amounting to TSEK 12,656 before issue costs are not included in cash and bank in the year-end accounts, but they are instead part of receivables. After the clos-



ing of these year-end accounts, proceeds from this issue were received on 7 January 2008.

In December an additional private placement was completed in order to strengthen company liquidity. From this issue, 125,000 shares were placed at SEK 56 which strengthened the liquidity with TSEK 7,000 before issue costs and are included in cash and bank as per 31 December 2007. These share issues were conducted in line with authorizations from the AGM in May 2007.

Current receivables

Current receivables amounted to TSEK 15,777 (TSEK 16,853) as at 31 December 2007. Current receivables at 31 December 2006 mainly regarded partners' share of previous expenditures in licence 1/02 Denmark, where Tethys Oil Denmark was the operator of the licence. These receivables have all been settled, mainly during the fourth quarter 2007. As per 31 December 2007 current receivables mainly regard proceeds from the share issue of 226,000 shares amounting to TSEK 12,656, which is described above. The proceeds were received 7 January 2008 and have significantly added to liquidity.

Current liabilities

Current liabilities as at 31 December 2007 amounted to TSEK 2,390 (TSEK 23,752), of which TSEK 1,251 (TSEK 22,282) relates to accounts payable, TSEK 733 (TSEK 787) relates to other current liabilities and TSEK 406 (TSEK 684) relates to accrued expenses. Accounts payable have been significantly reduced since 31 December 2006 as invoices for the Karlebo well have been paid.

Parent company

The parent company reports a loss for 2007 amounting to TSEK -22,558 (TSEK -28,178). Write down of shares in group companies of TSEK 20,119 has negatively affected the result of 2007. Administrative expenses including depreciation amounted to TSEK -7,225 (TSEK -7,742) for 2007. Net financial income amounted to TSEK -18,561 (TSEK 24,551) during 2007. The write down of shares in group companies are included in the net financial income. Investments during 2007 amounted to TSEK 42,005 (TSEK 59,096). Financial investments are financial loans to subsidiaries for their oil and gas operations. Other income in the parent company relates to chargeouts of services to subsidiaries.

Subsequent Events

In January 2008, the Board of Directors decided to call an Extra General Meeting. The General Meeting (EGM) was held in Stockholm on 20 February 2008 and the following resolutions were adopted:

Share split

The EGM resolved to carry out a share split. Each share will be divided in to three shares (3:1). The current number of issued and outstanding shares has increased from 6,392,762 to 19,178,286. Section 5 of the Articles of Association was altered accordingly to read: The number of shares shall be not less than 12,000,000 and not more than 48,000,000. The record date for the split was 5 March, 2008 and the last day for trading in the shares prior to the split was 29 February 2008.

Authorisation for the Board of Directors to resolve on new issues

The EGM resolved to authorize the Board of Directors to resolve, at one or more occasions until the next Annual General Meeting, to issue new shares and warrants with consideration in cash or by set-off or otherwise with conditions and thereby be able to resolve to disapply the shareholders pre-emption rights.

The purpose with the authorization and the reason for disapplying the shareholders' pre-emption rights is to enable the Company to raise capital for the Company's business operations and to facilitate a widening of ownership of the Company's shares in conjunction with the listing of the Company's shares on the Dubai International Financial Exchange (DIFX).

The total number of shares that can be issued based on the authorization may not exceed 1,600,000 (before split). The total number of warrants that can be issued based on the authorization may not correspond to subscription of more than 1,600,000 shares (before split).

The Board of Directors has decided to appoint MAC Capital Limited to act as advisor for the private placement.

Financial Instruments

Tethys Oil has not during the period used any financial instruments in order to hedge risks.

Board of Directors and Management

At the Annual Meeting of shareholders on 16 May 2007 Håkan Ehrenblad, Vincent Hamilton, John Hoey, Carl-Gustaf Ingelman, Jonas Lindvall, Magnus Nordin and Jan Risberg were re-elected members of the board. No deputy directors were appointed. At the same meeting Vincent Hamilton was appointed Chairman.

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 Board had 12 meetings during 2007. Most importantly the Board has adopted the interim reports of the year as well as the budget of 2008.

The seven member board consists of three executive and four non-executive directors. Vince Hamilton has acted both as Chairman of the Board and as Chief Operating Officer. The four non-executive directors are also members of the Audit committee which had 5 meetings during 2007. Chairman of the Audit committee is Jan Risberg.

Group Structure

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

Share Data

The number of shares in Tethys Oil amount to 6,392,762 (5,741,760), with a quota value of SEK 0.50 (SEK 0.50). All shares represent one vote each. Tethys Oil does not have any incentive program.

Following from the authorisation from the AGM of shareholders held on 16 May 2007, Tethys Oil has conducted three share issues during the year which have increased the number of shares with 651,000. 300,000 shares were issued in July and in December two share issues were made of 226,000 and 125,000 shares. These share issues were all made at a share price of SEK 56. Additionally, two (2) warrants were exercised from the rights issue in 2006 at SEK 78. Following from these issues, the share capital has during the year increased with SEK 325,501 to SEK 3,196,381 (SEK 2,870,880).

Risk and Uncertainties

A statement of risks and uncertainties are presented in note 1, page 58.

Dividend

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

Treatment of accumulated deficit

The Board of Directors propose that the accumulated deficit of SEK 67,554,794, of which the loss for the year, SEK 22,557,588, be brought forward.

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, 8 May 2008.

The Board of Directors and the Managing Director declare that the consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU and give a true and fair view of the Group's financial position and results of operations. The financial statements of the Parent Company have been prepared in accordance with generally accepted accounting principles in Sweden and give a true and fair view of the Parent Company's financial position and results of operations. The statutory Administration Report of the Group and the Parent Company provides a fair review of the development of the Group's and the Parent Company's operations, financial position and results of operations and describes material risks and uncertainties facing the Parent Company and the companies included in the Group.

Stockholm 18 March 2008

Vincent Hamilton, Chairman of the Board

Håkan Ehrenblad, Director

John Hoey, Director

Carl-Gustaf Ingelman, Director

Jonas Lindvall, Director

Jan Risberg, Director

Magnus Nordin, Managing Director

Our audit report was submitted on 18 March 2008

Klas Brand	Johan Rippe
Authorized Public Accountant	Authorized Public Accountant
PricewaterhouseCoopers AB	PricewaterhouseCoopers AB

Consolidated Income Statement

TSEK	Note	1 Jan 2007– 31 Dec 2007 12 months	1 Jan 2006– 31 Dec 2006 12 months	1 Jan 2005 31 Dec 2005 12 months
Net sales of oil and gas		–	–	–
Depreciation of oil and gas properties	4	–	–	–
Write off of oil and gas properties	4	-16,220	-22,519	-8,412
Other income		3,195	543	23
Other gains, net	5	55	868	–
Administrative expenses	6–8	-10,563	-9,000	-6,609
Operating result		**-23,533**	**-30,108**	**-14,998**
Financial income and similar items	9	417	1,276	774
Financial expenses and similar items	10	-1,587	-970	-144
Net financial income		**-1,170**	**306**	**630**
Result before tax		**-24,704**	**-29,802**	**-14,368**
Income tax		-17	–	–
Loss for the period		**-24,721**	**-29,802**	**-14,368**
Number of shares outstanding		6,392,762	5,741,760	4,384,800
Number of shares outstanding (after dilution)	13	6,392,762	5,741,760	4,384,800
Weighted number of shares		5,863,963	5,109,599	4,384,800
Earnings per share, SEK		-4.22	-5.83	-3.28
Earnings per share (after dilution), SEK	13	-4.22	-5.83	-3.28

Consolidated Balance Sheet

TSEK	Note	31 Dec 2007	31 Dec 2006	31 Dec 2005
ASSETS				
Fixed assets				
Oil and gas properties	4	76,932	35,072	11,404
Office equipment	11	308	145	195
Prepayment of oil and gas properties		–	8,723	–
Total fixed assets		**77,240**	**43,940**	**11,599**
Current assets				
Other receivables	12	15,777	16,853	1,681
Prepaid expenses		316	105	451
Financial assets held for trading		–	973	40,445
Cash and bank		12,252	57,112	657
Total current assets		**28,346**	**75,043**	**43,234**
TOTAL ASSETS		**105,586**	**118,983**	**54,833**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity	13			
Share capital		3,196	2,871	2,192
Paid in capital		177,555	143,092	71,071
Other reserves		-2,182	-21	–
Retained earnings		-75,374	-50,711	-20,888
Total shareholders' equity		**103,196**	**95,230**	**52,375**
Non interest bearing current liabilities				
Accounts payable		1,251	22,282	2,055
Other current liabilities		733	787	117
Accrued expenses	14	406	684	286
Total non interest bearing current liabilities		**2,390**	**23,752**	**2,458**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**105,586**	**118,983**	**54,833**
Pledged assets	16	500	–	780
Contingent liabilities	17	36,509	18,193	14,527

Consolidated Statement of Changes in Equity

TSEK	Share capital	Paid in capital	Other reserves	Retained earnings	Total equity
Opening balance at 1 January 2005	2,192	71,071		-6,520	66,743
Loss for the period 2005	–	–		-14,368	-14,368
Closing balance at 31 December 2005	**2,192**	**71,071**		**-20,888**	**52,375**
Opening balance at 1 January 2006	**2,192**	**71,071**		**-20,888**	**52,375**
Currency translation difference	–	–	-21	–	-21
Total income and expenses recognised directly in equity	**–**	**–**	**-21**	**–**	**-21**
Loss for the period 2006	–	–		-29,802	-29,802
Non-cash issue	200	19,600	–	–	19,800
Rights issue	438	52,179	–	–	52,617
Issue costs	–	-4,539	–	–	-4,539
Directed issue	40	4,760	–	–	4,800
Closing balance at 31 December 2006	**2,871**	**143,050**	**-21**	**-50,690**	**95,230**
Opening balance 1 January 2007	**2,871**	**143,050**	**-21**	**-50,690**	**95,230**
Currency translation difference	–	–	-2,160	–	-2,160
Total income and expenses recognised directly in equity	**–**	**–**	**-2,160**	**–**	**-2,160**
Loss for the period 2007	–	–	–	-24,721	-24,721
Directed issue July	150	16,650	–	–	16,800
Issue costs	–	-1,076	–	–	-1,076
Directed issue December	63	6,937	–	–	7,000
Issue costs	–	-88	–	–	-88
Set off issue December	113	12,543	–	–	12,656
Issue costs	–	-88	–	–	-88
Costs related to on-going share issue	–	-394	–	–	-394
Closing balance at 31 December 2007	**3,196**	**177,555**	**-2,182**	**-75,374**	**103,196**

Consolidated Cash Flow Statement

TSEK	Note	1 Jan 2007– 31 Dec 2007 12 months	1 Jan 2006– 31 Dec 2006 12 months	1 Jan 2005 31 Dec 2005 12 months
Cash flow from operations				
Operating result		-23,532	-30,976	-14,998
Interest received		374	296	–
Interest paid		–	-3	-3
Income tax		-17	–	–
Adjustment for write down of oil and gas properties	4	16,220	22,519	8,412
Adjustment for depreciation and other non cash related items		-1,461	72	1,087
Total cash flow used in operations before changes in working capital		**-8,416**	**-8,092**	**-5,502**
Decrease/increase in receivables		13,408	-14,825	-1,228
Decrease/increase in liabilities		-21,363	21,294	99
Cash flow used in operations		**-16,371**	**-1,623**	**-6,631**
Investment activity				
Acquisition of subsidiary, net of cash acquired		–	-4,383	–
Investment in oil and gas properties	4	-51,481	-22,025	-6,420
Investment in other fixed assets	11	-284	-75	-72
Prepayment of oil and gas properties		–	-8,723	–
Cash flow used for investment activity		**-51,765**	**-35,206**	**-6,491**
Financing activity				
Share issue, net after issue costs		22,267	52,879	–
Return on other short term investments		43	962	188
Cash flow from financing activity		**22,310**	**53,841**	**188**
Cash flow for the period		**-45,827**	**17,013**	**-12,936**
Cash and cash equivalents at the beginning of the period*		58,085	41,102	54,037
Exchange losses on cash and cash equivalents		-5	-29	–
Cash and cash equivalents at the end of the period*		12,252	58,086	41,102

** Presented as cash and bank and financial assets held for trading in the balance sheet.*

Parent Company Income Statement

TSEK	Note	1 Jan 2007– 31 Dec 2007 12 months	1 Jan 2006– 31 Dec 2006 12 months	1 Jan 2005 31 Dec 2005 12 months
Net sales of oil and gas		–	–	–
Depreciation of oil and gas properties	4	–	–	–
Write off of oil and gas properties	4	–	–	–
Other income		2,923	3,253	2,812
Other gains, net	5	306	862	–
Administrative expenses	6–8	-7,225	-7,742	-6,598
Operating result		**-3,996**	**-3,627**	**-3,786**
Financial income and similar items	9	3,145	2,581	1,226
Financial expenses and similar items	10	-1,587	-586	-139
Write down of shares in group company	15	-20,119	-26,546	-9,692
Net financial income		**-18,561**	**-24,551**	**-8,605**
Result before tax		**-22,558**	**-28,178**	**-12,391**
Income tax		–	–	–
Loss for the period		**-22,558**	**-28,178**	**-12,391**
Number of shares outstanding		6,392,762	5,741,760	4,384,800
Number of shares outstanding (after dilution)	13	6,392,762	5,741,760	4,384,800
Weighted number of shares		5,863,963	5,109,599	4,384,800

Parent Company Balance Sheet

TSEK	Note	31 Dec 2007	31 Dec 2006	31 Dec 2005
ASSETS				
Subscribed capital unpaid		12,656	–	–
Fixed assets				
Oil and gas properties	4	12,782	–	–
Other fixed assets	11	308	145	195
Total fixed assets		**13,090**	**145**	**195**
Financial assets				
Shares in subsidiaries	15	26,347	25,831	1,203
Long term receivables to group companies		52,746	44,441	16,794
Total financial fixed assets		**79,093**	**70,272**	**17,998**
Current assets				
Other receivables	12	320	522	28
Pre paid expenses		315	85	156
Financial assets held for trading		–	973	40,445
Cash and bank		9,656	49,234	160
Total current assets		**10,341**	**50,814**	**40,789**
TOTAL ASSETS		**115,179**	**121,232**	**58,982**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity	13			
Restricted equity:				
Share capital		3,196	2,871	2,192
Statutory reserve		71,071	71,071	71,071
Share premium reserve		106,484	72,000	–
Unrestricted equity:				
Retained earnings		-44,997	-16,820	-4,428
Net result		-22,558	-28,178	-12,391
Total shareholders' equity		**113,197**	**100,945**	**56,444**
Non interest bearing current liabilities				
Accounts payable		1,181	19,164	2,055
Other current liabilities		694	641	312
Accrued expenses	14	107	482	170
Total non interest bearing current liabilities		**1,982**	**20,287**	**2,538**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**115,179**	**121,232**	**58,982**
Pledged assets	16	500	–	780
Contingent liabilities	17	36,245	4,696	–

Parent Company Statement of Changes in Equity

	Restricted equity			Non restricted equity		
TSEK	Share capital	Statutory reserve	Share premium reserve	Retained earnings	Net result	Total Equity
Opening balance at 1 January 2005	**2,192**	**71,071**	**–**	**-1,458**	**-2,970**	**68,835**
Transfer of prior year net result	–	–	–	-2,970	2,970	–
Loss for the period 2005	–	–	–	–	-12,391	-12,391
Closing balance at 31 December 2005	**2,192**	**71,071**	**–**	**-4,428**	**-12,391**	**56,444**
Opening balance at 1 January 2006	**2,192**	**71,071**	**–**	**-4,428**	**-12,391**	**56,444**
Transfer of prior year net result	–	–	–	-12,391	12,391	–
Loss for the period 2006	–	–	–	–	-28,178	-28,178
	2,192	**71,071**	**–**	**-16,820**	**-28,178**	**28,266**
Non-cash issue	200	–	19,600	–	–	19,800
Rights issue	438	–	52,179	–	–	52,617
Issue costs	–	–	-4,539	–	–	-4,539
Directed issue	40	–	4,760	–	–	4,800
Closing balance at 31 December 2006	**2,871**	**71,071**	**72,000**	**-16,820**	**-28,178**	**100,945**
Opening balance at 1 January 2007	**2,871**	**71,071**	**72,000**	**-16,820**	**-28,178**	**100,945**
Transfer of prior year net result	–	–	–	-28,178	28,178	–
Loss for the period 2007	–	–	–	–	-22,558	-22,558
	2,871	**71,071**	**72,000**	**-44,997**	**-22,558**	**78,387**
Directed issue July	150	–	16,650	–	–	16,800
Issue costs	–	–	-1,076	–	–	-1,076
Directed issue December	63	–	6,937	–	–	7,000
Issue costs	–	–	-88	–	–	-88
Set off issue December	113	–	12,543	–	–	12,656
Issue costs	–	–	-88	–	–	-88
Costs related to on-going share issue	–	–	-394	–	–	-394
Closing balance at 31 December 2007	**3,196**	**71,071**	**106,484**	**-44,997**	**-22,558**	**113,197**

Parent Company Cash Flow Statement

TSEK	Note	1 Jan 2007– 31 Dec 2007 12 months	1 Jan 2006– 31 Dec 2006 12 months	1 Jan 2005 31 Dec 2005 12 months
Cash flow from operations				
Operating result		-3,996	-4,488	-3,786
Interest received		3,101	1,619	473
Interest paid		–	-2	-3
Adjustment for depreciation and other non cash related items		-1,468	403	464
Total cash flow used in operations before change in working capital		**-2,363**	**-2,468**	**-2,852**
Decrease/increase in receivables		-191	-423	4,271
Decrease/increase in liabilities		-18,305	17,749	1,026
Cash flow used in operations		**-20,859**	**14,858**	**2,445**
Investment activity				
Acquisition of subsidiary, net of cash acquired	18	-557	-4,384	–
Investment in oil and gas properties		-12,782	–	–
Investment in long term liabilities		-28,383	-54,637	-15,494
Investment in other fixed assets	11	-283	-75	-72
Cash flow used for investment activity		**-42,005**	**-59,096**	**-15,566**
Financing activity				
Share issue, net after issue costs		22,267	52,879	–
Return on other short term investments		43	962	188
Cash flow from financing activity		**22,310**	**53,841**	**188**
Period cash flow		**-40,555**	**9,602**	**-12,933**
Cash and cash equivalents at the beginning of the period*		50,207	40,605	53,537
Exchange gains on cash and cash equivalents		4	–	–
Cash and cash equivalents at the end of the period*		9,656	50,207	40,604

** Presented as cash and bank and financial assets held for trading in the balance sheet.*

Notes

General information

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

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

These consolidated financial statements have been approved for issue by the Board of Directors on 18 March 2008.

Accounting principles

The principle accounting policies applied in the preparation of these consolidated financial statements are set out below. The same accounting principles were used in the annual report 2006 and have been consistently applied to all the years presented, unless otherwise stated.

The Annual Report of the Group has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the Annual Accounts Act, RR 30 "Supplementary rules for groups". The annual report for the parent company has been prepared in accordance with the Annual Accounts Act and Swedish Financial Accounting Standards Council's RR 32.06 "Accounting for legal entities". RR 32.06 means that the parent company in the annual report for the legal entity shall apply IFRS' rules and statements as adopted by the EU, so far this is possible within the framework of the Annual Accounts Act and with regard to the connection between accounting and taxation. The recommendation states which exceptions and additions that shall be made from IFRS. The accounting principles of the parent company are the same as for the group. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. These areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 1.

Standards, amendments and interpretations effective in 2007

IFRS 7, "Financial instruments: Disclosures", and the complementary amendment to IAS 1, "Presentation of financial statements – Capital disclosures", introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables.

IFRIC 8, "Scope of IFRS 2", requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. This standard does not have any impact on the Group's financial statement.

IFRIC 10, "Interim financial reporting and impairment", prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statement.

Standards, amendments and interpretations effective in 2007 but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2006 but they are not relevant to the Group's operations:

- IFRS 4, "Insurance contracts"
- IFRIC 7, "Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies"; and
- IFRIC 9, "Re-assessment of embedded derivatives".

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

- IAS 1 (Amendment), "Presentation of financial statements (effective from 1 January 2009). The amendments to the standard are still subject to endorsement by the European Union. The amendments mainly mean changes to the structure and content of the financial reports. Consequently the Group's future presentation of the financial reports will be affected by the introduction of this standard.
- IAS 23 (Amendment), "Borrowing costs" (effective from 1 January 2009). The amendment to the standard are still subject to endorsement by the European Union. It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply IAS 23 (Amended) from 1 January 2009 but is currently not applicable to the Group as there are no qualifying assets.
- IFRS 8, "Operating segments" (effective from 1 January 2009. IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The

Group will apply IFRS 8 from 1 January 2009.The expected impact is still being assessed in detail by management, but most likely it will have no major impact on the Group's financial statement.

Interpretations to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant for the Group's operations;

- IFRIC 11, "IFRS 2 – Group and treasury share transactions"
- IFRIC 12, "Service concession arrangements" (effective from 1 January 2008)
- IFRIC 13, "Customer loyalty programmes" (effective from 1 July 2008)
- IFRIC 14, "IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction" (effective from 1 January 2008).

Principles of consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Foreign currencies

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

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- all assets and liabilities are translated at the balance sheet date rates of exchange. Transactions in foreign currencies are translated at exchange rates prevailing at the transaction date.
- income and expenses are translated at average exchange rates
- all resulting exchange differences are recognised as a separate component of equity.

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.

Foreign exchange gains and losses resulting from the translation at the reporting period's exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Segment reporting

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments. The result of the Group regard to a large extent write downs and remaining costs that are not capitalized are not allocated to a specific segment.

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' equity is presented in shareholders' equity.

Deferred tax is prepared using the balance sheet method on all temporary differences which arises from timing in recognition of items. Deferred tax claim, regarding tax losses carried forward of TSEK 16,032, has not been presented, as the company is in an exploration phase and it is therefore difficult to predict if and when such deductible tax loss can be used. The tax loss carried forward as per 31 December 2006 amounted to TSEK 13,593, and as per 31 December 2005 it amounted to TSEK 8,072.

Fixed assets other than oil and gas

Fixed assets are presented at historical cost less depreciation. Expenditures on improvement of the fixed assets, exceeding original level are included in the asset's carrying amount. All other repairs and mainte-

nance are charged to the income statement during the financial period in which they are incurred.

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

Office equipment	5 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition

Financial assets and liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Assets are also measured less provision for impairment.

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term.

Oil and gas operations

a) Accounting for costs of exploration, appraisal and development

In the Company's oil and gas operations all costs for acquiring concessions, licences or interests in production sharing contracts and for the survey, drilling and development of such interests have been capitalized on a field-by-field cost centre basis. Net capitalized costs, together with anticipated future capitalized 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. Up until 31 December 2007, there has been no depletion of oil and gas properties in the Company. 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 per cent 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 per cent 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.

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

The Group's interests in jointly controlled entities are accounted for by proportional consolidation. Oil and gas operations are conducted by the Group as co-licences 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, carried out on a field by field basis, are carried out at least annually to determine that the net book amount of capitalized costs within each field less 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 inter-

nal forecasting. If the Group decides not to continue with a field specific exploration programme then the capitalized costs will be expensed.

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, at first production or when significant facilities or installations are made in the exploration phase, 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) 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.

Pension obligations

The majority of the pension obligations of the Group are governed by legally required social costs. Additional pension schemes exists which are funded through paymetns to insurance companies. These are defined contribution plans. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions should this legal entity not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods.

Severance pay

Severance pay is payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for the severance pay. The Group recognises severance pay when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing severance pay as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

Note 1, Risk management

The Group's activities expose it to a number of risks and uncertainties which are continuously monitored and reviewed. Presented below are the main risks and uncertainties of the group as identified by the directors and how the group handles these risks.

Operational risk management

Technical and geological risk

Tethys Oil has up to 31 December 2007 not presented any sales of oil and gas. At its current stage of development the group is exploring for oil and gas and appraising undeveloped known oil and/or gas accumulations. The main operational risk is that the interest the group has in oil and gas assets will not evolve into commercial reserves of oil and gas. There are no methods to establish with full certainty how much oil and gas there is in a geological layer situated a couple of kilometres under the earth's surface. Probabilities that commercial oil reserves will not be found are highest before and during exploration drilling. Even when the presence of oil and natural gas reserves are established during exploration drilling, significant uncertainty remain as to when and how these reserves can be extracted. The group currently holds interest in 14 licences all subject to different risks. In the high risk end there are licences where oil and gas never has been proved to exist and the lower risk area there are licences where known quantities of oil exists and the risk is if it can be commercially produced. The selection process of new venture licences are subject to careful and detailed analysis by Tethys Oil. The risks are significant and Tethys Oil's principal approach to deal with these risks are through diversification of assets, sharing risks with industry partners and by attracting and engaging, both externally and internally, highly skilled technical professionals.

Oil and natural gas price

The oil price is of significant importance to Tethys Oil as income and profitability will be dependent on prices prevailing from time to time. As the group currently does not produce oil and gas the direct effect is limited. Significantly lower oil prices would reduce expected profitability in projects and could make projects sub economic even if discoveries are made. Lower oil prices could also decrease the industry interest in Tethys Oil's projects regarding farmouts or sale of assets. The sensitivity to oil price fluctuations differs depending on which asset it relates to. Again, Tethys Oil's principal approach to this risk factor is asset diversification. Some of Tethys Oil's assets are less sensitive to oil prices than others. Also, some projects are expected oil projects and some are gas projects. Tethys Oil does not currently hedge oil prices.

Access to equipment

An operational risk factor is access to equipment in Tethys Oil's project. Especially in the drilling phase of a project the group is dependent on advanced equip-

ment such as rigs, casing, pipes etc. A shortage of theses supplies can present difficulties for Tethys Oil to fulfil projects. In recent years shortages of specialised equipment have increased costs and delayed projects.

Political risk

Tethys Oil has operations, alone or with partners, in several different countries and can therefore be subject to political risk. The political risks are monitored and factored in when evaluating possible projects. Asset diversification is again Tethys Oil's principal approach to deal with this risk. Specifically, Tethys Oil also deals with political risk by emphasising continuous close dialog with host country authorities and interest groups, nationally as well as locally. Tethys Oil holds its oil and gas interest through licences, directly or indirectly, which are granted by national governments. Tethys Oil's operations are often also subject to local permits. Therefore Tethys Oil and the industry are subject to a wide range of political risks on different levels and the business is highly sensitive to political changes.

Environment

Oil and natural gas operations can be environmentally sensitive. Tethys Oil devotes considerable effort and expense to identify and mitigate any perceived environmental risk. The operations are subject to extensive regulatory control with regard to environmental matters, both on national and international levels. Environmental legislation regulates inter alia the control of water and air contamination, waste material, licensing requirements, restrictions on carrying out operations in environmentally sensitive and littoral areas.

Key personnel

Tethys Oil is dependent on certain key personnel, some of whom have founded the company at the same time as they are some of the existing shareholders and members of the Board of Directors of the company. These people are important for the successful development of Tethys Oil. The company actively tries to strike an optimal balance between its dependence of key personnel and its methods for retaining these.

Financial risk management

The Group's activities expose it to a variety of financial risks, mainly categorized as exchange rate risk and liquidity risk. The Group's risks are continuously monitored and analysed by the Board of directors and management. The aim is to minimise potential adverse effects on the Group's financial performance.

Exchange rates

By operating in several countries, Tethys Oil is exposed to fluctuations in a number of currencies. Swedish kronor was not the main currency with regard to invoices paid during 2007. The main currency was US dollars. Possible future income will also most likely be denominated in foreign currencies, especially US dollars. Tethys Oil does not currently hedge exchange rates.

Liquidity risks

Tethys Oil has since inception been entirely equity financed and as the company has not presented any revenues the financing of the company has been through share issues. Projects have so far been financed either by share issue proceeds or funds received from licence partners. It cannot be ruled out that additional capital may be needed to finance Tethys Oil's current operations and/or for acquisition of additional licences. The main risk is that this need may occur during less favourable market conditions.

Note 2, Critical accounting estimates and judgements

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

Impairment of oil and gas properties – The Group annually tests, on a field by field basis, oil and gas properties to determine that the net book amount of capitalized costs within each field less 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. The Group will use its judgement and make assumptions to perform these tests.

Contingent liabilities – The Group is subject to agreements which specify work commitments. The work commitments regard the future and the amounts of these commitments have to be estimated. These work commitments are accounted for using historical experience and expectations regarding future events. The Group will use its judgment and make assumptions to value these work commitments. The expected cost of a specific work commitment can therefore change over time based on new information.

Note 3, Segment information

The primary segment of the Group, in accordance with IAS 14, is geographical markets. Within the Group there are only assets and write downs for these geographical markets which are presented below in note 4 as per geographic market.

Note 4, Oil and gas properties

TSEK	2005				2006				2007			
Country	Book value 1 Jan	Investments 1 Jan–31 Dec	Write downs 1 Jan–31 Dec	Book value 31 Dec	Book value 1 Jan	Investments 1 Jan–31 Dec	Write downs 1 Jan–31 Dec	Book value 31 Dec	Book value 1 Jan	Investments 1 Jan–31 Dec	Write downs 1 Jan–31 Dec	Book value 31 Dec
Oman	–	–	–	**–**	–	26,700[1]	–	**26,700**	26,700	36,213	–	**60,746**
Denmark	1,707	3,412	–	**5,119**	5,119	14,553[2]	18,985	**687**	687	5,236	-5,923	**–**
Morocco	9	544	–	**553**	553	2,359	–	**2,912**	2,912	-1,941[3]	–	**971**
Spain	3,118	33	–	**3,152**	3,152	214	1,487	**1,878**	1,878	418	-9,269	**1,455**
Turkey	8,897	615	-8,179	**727**	727	735	192	**1,270**	1,270	3,047	–	**4,614**
France	–	690	–	**690**	690	343	–	**1,033**	1,033	7,810	–	**8,844**
Sweden	–	–	–	**–**	–	–	–	**–**	–	259	–	**259**
New ventures	270	1,125	-233	**1,163**	1,163	1,304	1,855	**612**	612	439	-1,028	**23**
Total	**14,002**	**6,419**	**8,412**	**11,404**	**11,404**	**46,208**	**22,519**	**35,092**	**35,092**	**51,481**	**-16,220**	**76,932**

1 Of which TSEK 24,933 regard the acquisition of Tethys Oil Oman Ltd.
2 Investments in Denmark are reduced as a consequence of the farm out to Star Energy during the third quarter and their payment of back costs.
3 The negative investments are explained by reimbursement of past costs following the Dana farm-in agreement.

Oil and gas properties	Group			Parent		
TSEK	1 Jan 2007–31 Dec 2007 12 months	1 Jan 2006–31 Dec 2006 12 months	1 Jan 2005–31 Dec 2005 12 months	1 Jan 2007–31 Dec 2007 12 months	1 Jan 2006–31 Dec 2006 12 months	1 Jan 2005–31 Dec 2005 12 months
Investments in oil and gas properties						
Opening balance	66,459	20,251	14,437	–	–	–
Investments in Denmark	5,236	14,553	3,412	–	–	–
Investments in France	7,810	343	690	–	–	–
Investments in Morocco	-1,941	2,359	544	–	–	–
Investments in Oman	36,213	26,700	–	12,782		
Investments in Spain	418	214	33	–	–	–
Investments in Turkey	3,047	735	615	–	–	–
Investments in Sweden	259	–	–	–		
Other investments in oil and gas properties	439	1,304	1,125	–	–	–
Closing balance	117,940	66,459	20,856	12,782	–	–
Reclassification of assets[4]	6,578	–	-605	–	–	–
Depletion						
Depletion	–	–	–	–	–	–
Write down						
Opening balance	31,366	8,847	435	–	–	–
Write down	16,220	22,519	8,412	–	–	–
Closing balance	47,586	31,366	8,847	–	–	–
Net book value	**76,932**	**35,092**	**11,404**	**12,782**	**–**	**–**

4 Reclassification of assets in 2007 regards previously prepaid investments of TSEK 8,723 and currency translation differences of TSEK -2,143.

Note 5, Other gains, net

TSEK	Group			Parent		
Other gains, net	**1 Jan 2007–31 Dec 2007**	**1 Jan 2006–31 Dec 2006**	**1 Jan 2005–31 Dec 2005**	**1 Jan 2007–31 Dec 2007**	**1 Jan 2006–31 Dec 2006**	**1 Jan 2005–31 Dec 2005**
Net foreign exchange gains	1,014	928	–	770	922	–
Net foreign exchange losses	-959	-60	–	-464	-60	–
Total	**55**	**868**	**–**	**306**	**862**	**–**

Note 6, Remuneration to company auditor

TSEK	Group			Parent		
Remuneration to company auditor include:	**1 Jan 2007–31 Dec 2007**	**1 Jan 2006–31 Dec 2006**	**1 Jan 2005–31 Dec 2005**	**1 Jan 2007–31 Dec 2007**	**1 Jan 2006–31 Dec 2006**	**1 Jan 2005–31 Dec 2005**
PricewaterhouseCoopers:						
Audit fee	474	416	385	401	285	385
Other	12	477	–	12	477	–
Total	**486**	**893**	**385**	**413**	**762**	**385**

Note 7, Administrative expenses

TSEK	Group			Parent		
Administrative expenses	**1 Jan 2007–31 Dec 2007**	**1 Jan 2006–31 Dec 2006**	**1 Jan 2005–31 Dec 2005**	**1 Jan 2007–31 Dec 2007**	**1 Jan 2006–31 Dec 2006**	**1 Jan 2005–31 Dec 2005**
Staff	-5,587	-4,125	-2,847	-3,108	-3,004	-2,847
Rent	-458	-593	-589	-219	-590	-589
Other office costs	-805	-49	-81	-594	-43	-81
Listing costs	-681	-757	-625	-680	-757	-625
Audit	-474	-416	-385	-401	-416	-385
Costs of external relations	-1,521	-957	-421	-1,384	-957	-421
External accounting costs	–	-52	-157	–	-14	-157
Other costs	-915	-1,924	-1,469	-717	-1,835	-1,458
Depreciation	-122	-125	-35	-122	-125	-35
Total	**-10,563**	**-9,000**	**-6,609**	**-7,225**	**-7,742**	**-6,598**

Note 8, Employees

Average number of employees	**2007**		**2006**		**2005**	
	Total	**Total men**	**Total**	**Total men**	**Total**	**Total men**
Parent company	5	3	4	3	4	3
Subsidiaries	4	3	1	1	–	–
Total	**9**	**6**	**5**	**4**	**4**	**3**

TSEK	2007		2006		2005	
Salaries, other remuneration and social costs	**Salaries, other remuneration**	**Social costs**	**Salaries, other remuneration**	**Social costs**	**Salaries, other remuneration**	**Social costs**
Parent company	2,562	524	2,463	568	2,324	551
Subsidiaries	2,231	247	1,121	–	–	–
Total	**4,793**	**771**	**3,584**	**568**	**2,324**	**551**

Salaries and other remuneration distributed between the board and other employees	2007 Board and Managing Director	2007 Other employees	2006 Board and Managing Director	2006 Other employees	2005 Board and Managing Director	2005 Other employees
Parent company	1,460	1,102	1,704	759	1,694	629
Subsidiaries	2,124	107	1,121	–	–	–
Total	**3,584**	**1,209**	**2,825**	**759**	**1,694**	**629**

The group currently has 9 employees. Due to the low number of employees no information regarding sick leave is presented. Vincent Hamilton in his capacity as Chief Operating Officer and Magnus Nordin as Managing Director are both entitled to twelve months payment if the Company terminates their employment. Vincent Hamilton was an employee of the parent company up to last September 2007 and from 1 October he was employed of the subsidiary Tethys Oil Suisse SA.

Salaries and other remuneration to operative board members and executive management	Salaries	Bonus	Benefits	Total 2007	Total 2006	Total 2005
Vincent Hamilton	912	–	–	912	960	960
Magnus Nordin	732	–	8	740	744	734
Jonas Lindvall	1,145	–	786	1,931	1,578	629
Total	**2,789**	**–**	**794**	**3,583**	**3,282**	**2,324**

TSEK Salaries and other remuneration to board members (in their capacity as board members)	Salaries	Remuneration	Total 2007	Total 2006	Total 2005	Attendance 2007
Vincent Hamilton	–	–	–	–	–	12/12
Magnus Nordin	–	–	–	–	–	12/12
Jonas Lindvall	–	–	–	–	–	12/12
John Hoey	–	25	25	25	–	12/12
Carl Gustaf Ingelman	–	25	25	25	–	11/12
Håkan Ehrenblad	–	25	25	25	–	12/12
Jan Risberg	–	25	25	25	–	12/12
Total	**–**	**100**	**100**	**100**	**–**	

At the Annual Meeting of shareholders on 16 May 2007 Håkan Ehrenblad, Vincent Hamilton, John Hoey, Carl-Gustaf Ingelman, Jonas Lindvall, Magnus Nordin and Jan Risberg were re-elected members of the board. No deputy directors were appointed. At the same meeting Vincent Hamilton was appointed Chairman.

There have neither been any agreements on pensions nor any severance pay agreements in place for any of the directors of the board.

Note 9, Financial income and similar items

TSEK	Group 1 Jan 2007– 31 Dec 2007	Group 1 Jan 2006– 31 Dec 2006	Group 1 Jan 2005– 31 Dec 2005	Parent 1 Jan 2007– 31 Dec 2007	Parent 1 Jan 2006– 31 Dec 2006	Parent 1 Jan 2005– 31 Dec 2005
Interest income	374	296	0	3,101	1,619	473
Gain on currency exchange rates	–	946	145	–	922	125
Fair value adjustment of short term investments	43	962	628	43	962	628
Total	**417**	**2,204**	**774**	**3,145**	**3,503**	**1,226**

Note 10, Financial expenses and similar items

TSEK	Group			Parent		
	1 Jan 2007–31 Dec 2007	1 Jan 2006–31 Dec 2006	1 Jan 2005–31 Dec 2005	1 Jan 2007–31 Dec 2007	1 Jan 2006–31 Dec 2006	1 Jan 2005–31 Dec 2005
Interest expenses	0	-3	-3	0	-2	-3
Fair value adjustment of short term investments	-42	-584	–	-42	-584	–
Loss on currency exchange rates	-1,545	-443	-136	-1,545	-60	-136
Other	–	–	-5	–	–	–
Total	**-1,587**	**-1,030**	**-144**	**-1,587**	**-646**	**-139**

Note 11, Office equipment

TSEK	Group			Parent		
Office equipment	**2007**	**2006**	**2005**	**2007**	**2006**	**2005**
Assets						
1 January	363	287	216	363	287	216
Additions	283	76	72	283	76	72
Disposals	-101	–	–	-101	–	–
31 December	546	363	287	546	363	287
Depreciations						
1 January	-218	-93	-58	-218	-93	-58
Depreciation charges of the year	-122	-125	-35	-122	-125	-35
Disposals	101	–	–	101	–	–
31 December	-239	-218	-93	-239	-218	-93
Net book value	**308**	**145**	**195**	**308**	**145**	**195**

Note 12, Other receivables

TSEK	Group			Parent		
Other receivables	**1 Jan 2007–31 Dec 2007**	**1 Jan 2006–31 Dec 2006**	**1 Jan 2005–31 Dec 2005**	**1 Jan 2007–31 Dec 2007**	**1 Jan 2006–31 Dec 2006**	**1 Jan 2005–31 Dec 2005**
Share issue receivable	12,656	–	–	–	–	–
VAT	845	7,475	0	222	227	–
Receivables operations	1,882	8,397	1,653	–	–	–
Other	394	981	28	148	296	28
Total	**15,777**	**16,853**	**1,681**	**370**	**522**	**28**

Note 13, Shareholders' equity

The number of shares in Tethys Oil amount to 6,392,762 (5,741,760), with a quota value of SEK 0.50 (SEK 0.50). All shares represent one vote each. Tethys Oil does not have any incentive program.

Following from the authorisation from the AGM of shareholders held on 16 May 2007, Tethys Oil has conducted three private placements during the year which have increased the number of shares with 651,000. 300,000 shares were placed in July and in December two placements were made of 226,000 and 125,000 shares. These private placements were all made at a share price of SEK 56. Additionally, two (2) warrants were exercised from the rights issue in 2006 at SEK 78. Following from these issues, the share capital has during the year increased with SEK 325,501 to SEK 3,196,381 (SEK 2,870,880). As per 31 December 2007, there are no outstanding share options in Tethys Oil.

Note 14, Accrued expenses

TSEK	Group			Parent		
Accrued expenses	**1 Jan 2007–31 Dec 2007**	**1 Jan 2006–31 Dec 2006**	**1 Jan 2005–31 Dec 2005**	**1 Jan 2007–31 Dec 2007**	**1 Jan 2006–31 Dec 2006**	**1 Jan 2005–31 Dec 2005**
Accrued expenses – exploration	–	–	116	–	–	–
Other	406	684	170	107	482	170
Total	**406**	**684**	**286**	**107**	**482**	**170**

Note 15, Shares in subsidiaries

Company	**Reg. Number**	**Reg. office**	**Number of shares**	**Percentage**	**Nominal Value per share**	**Parent company Book amount 31 December 2007, TSEK**	**Parent company Book amount 31 December 2006, TSEK**	**Parent company Book amount 31 December 2005, TSEK**
Tethys Oil Denmark AB	556658-1467	Sweden	1,000	100%	SEK 100	100	100	100
Tethys Oil Spain AB	556658-1442	Sweden	1,000	100%	SEK 100	100	100	100
Tethys Oil Turkey AB	556658-1913	Sweden	1,000	100%	SEK 100	100	100	100
Tethys Oil Exploration AB	556658-1483	Sweden	1,000	100%	SEK 100	100	100	100
Tethys Oil France AB	556658-1491	Sweden	1,000	100%	SEK 100	100	100	100
Tethys Oil Oman Ltd	95212	Gibraltar	100	100%	GBP 1	25,280	25,331	–
Tethys Oil Suisse SA	660-1139007-2	Switzerland	100	100%	CHF 1,000	567	–	–
Windsor Petroleum (Spain) Inc.	549 282	British Virgin Islands	1	100%	USD 1	–	–	703
Total						**26,347**	**25,831**	**1,203**

TSEK	Parent company 31 December	Parent company 31 December	Parent company 31 December
Shares in subsidiaries	2007	2006	2005
1 January	25,831	1,203	1,203
Acquisitions	567	25,331	–
Shareholder's contribution	20,068	25,843	9,692
Write down of shares in group companies	-20,119	-26,546	-9,692
31 December	**26,347**	**25,831**	**1,203**

The acquisition of shares in subsidiaries 2007 regards the founding of Tethys Oil Suisse SA in Switzerland.

Note 16, Pledged assets

In the parent company, pledged assets as per 31 December 2007 amounted to TSEK 500, as per 31 December 2006 to TSEK – and as per 31 December 2005 to TSEK 780. The pledged asset at 31 December 2007 regards a bank guarantee for a rental lease. There have been no other pledged assets in the Group during the period 2005-2007.

Note 17, Contingent liabilities

The contingent liabilities in the Group as per 31 December 2007 amounted to TSEK 36,509, TSEK 18,193 as per 31 December 2006 and TSEK 14,527 as per 31 December 2005. The Group's contingent liabilities as per 31 December 2007 mainly regard the newly acquired assets Blocks 3&4 in Oman were Tethys Oil during a three year period has a contingent liability of MUSD 5.5. The contingent liability is a minimum financial commitment in the Exploration and Production Sharing Agreement (EPSA). The contingent liabilities as per 31 December 2006 mainly regarded financial commitments in Oman and France. As per 31 December 2005 the contingent liabilities mainly regarded work commitments in Denmark licence 1/02.

Contingent liabilities in the parent company as per 31 December 2007 amounted to TSEK 36,245 and regard the newly acquired Blocks 3 and 4 in Oman described above. As per 31 December 2006 the parent company had contingent liabilities amounting to TSEK 4,696 regarding work commitment in France and per 31 December 2005 there were no contingent liabilities of the parent company.

Note 18, Acquisition

There have been no acquisitions in the Group during 2007 or 2005. In 2006 the Group acquired 100 per cent of the share capital of Tethys Oil Oman Ltd. on 24 May 2006 from Maha Resources Ltd. Tethys Oil Oman is registered in Gibraltar. As consideration for the acquisition Tethys Oil paid USD 600,000 (SEK 4,383,900) in cash and issued 400,000 new shares of Tethys Oil. The value of the shares were based on the market price of SEK 49.50 for the Tethys Oil share at the effective date of acquisition, 24 May 2006, from which date Tethys Oman is consolidated. The total value of the consideration therefore amounts to SEK 24,183,900. The share issue was registered on 5 June 2006.

TSEK	**2006**
Total purchase consideration	24,184
Costs related to acquisition	1,147
Fair value of assets acquired (see below)	-399
Excess value over acquired net assets allocated to oil and gas properties	**24,933**

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

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

Note 19, Related party transactions

The Group receives income from the joint venture of Block 15 in Oman where it also holds 40 per cent interest. Tethys Oil is the operator of Block 15 and most of the administrative expenditures in the subsidiary Tethys Oil Oman Ltd are charged to the joint venture of Block 15. These expenditures are, in line with the Production Sharing Agreement, recoverable. These administrative expenditures are, through the above, also funded by the partner in Oman by 60 per cent. The chargeout to the joint venture is presented in the income statement as Other income.

In connection with the rights issue during 2006, TSEK 819 was paid to the guarantors of the rights issue. The guarantors were Håkan Ehrenblad, Vincent Hamilton, John Hoey, Carl-Gustaf Ingelman, Jan Risberg, Magnus Nordin and Lorito Holdings Limited.

Note 20, Subsequent events

In January 2008, the Board of Directors decided to call an Extra General Meeting. The General Meeting (EGM) was held in Stockholm on 20 February 2008 and the following resolutions were adopted:

Share split
The EGM resolved to carry out a share split. Each share will be divided in to three shares (3:1). The current number of issued and outstanding shares has increased from 6,392,762 to 19,178,286. Section 5 of the Articles of Association was altered accordingly to read: The number of shares shall be not less than 12,000,000 and not more than 48,000,000. The record date for the split was 5 March, 2008 and the last day for trading in the shares prior to the split was 29 February 2008.

Authorisation for the Board of Directors to resolve on new issues
The EGM resolved to authorize the Board of Directors to resolve, at one or more occasions until the next Annual General Meeting, to issue new shares and warrants with consideration in cash or by set-off or otherwise with conditions and thereby be able to resolve to disapply the shareholders pre-emption rights.

The purpose with the authorization and the reason for disapplying the shareholders' pre-emption rights is to enable the Company to raise capital for the Company's business operations and to facilitate a widening of ownership of the Company's shares in conjunction with the listing of the Company's shares on the Dubai International Financial Exchange (DIFX).

The total number of shares that can be issued based on the authorization may not exceed 1,600,000 (before split). The total number of warrants that can be issued based on the authorization may not correspond to subscription of more than 1,600,000 shares (before split).

The Board of Directors has decided to appoint MAC Capital Limited to act as advisor for the private placement.

Auditor's report

(An English translation of the Swedish original)

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

Corporate Identity Number 556615-8266

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the managing director of Tethys Oil AB (publ) for the year 2007. (The company's annual accounts and the consolidated accounts are included in the printed version on pages 42–65). The board of directors and the managing director are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we 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 our opinion concerning discharge from liability, we 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. We 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. We believe that our audit provides a reasonable basis for our opinion set out below.

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

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

Göteborg 18 March 2008

Klas Brand
Authorized Public Accountant
PricewaterhouseCoopers AB

Johan Rippe
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
MSEK	Millions of Swedish kronor
USD	US dollar
TUSD	Thousands of US dollars
MUSD	Million US dollars
2D	Two-dimensional
3D	Three-dimensional

Petroleum related abbreviations and definitions

bbl	Barrel
bbls	Barrels
bcf	Billion cubic feet
boe	Barrels of oil equivalents
boepd	Barrels of oil equivalents per day
bopd	Barrels of oil per day
mbbl	Thousand barrels (in Latin mille)
mbcpd	Thousand barrels of condensate per day
mmbo	Million barrels of oil
mmboe	Million barrels of oil equivalents
mmboepd	Million barrels of oil per day

Gas related abbreviations and definitions

cf	Cubic feet
mcf	Thousand cubic feet
mcfpd	Thousand cubic feet per day
mmcf	Million cubic feet
mmcfpd	Million cubic feet per day
mcm	Thousand cubic metres

Industry specific terms

Barrel
1 barrel = 159 liters.
1cubic 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 licence and the other company joins them by taking a working interest in the licence.

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

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

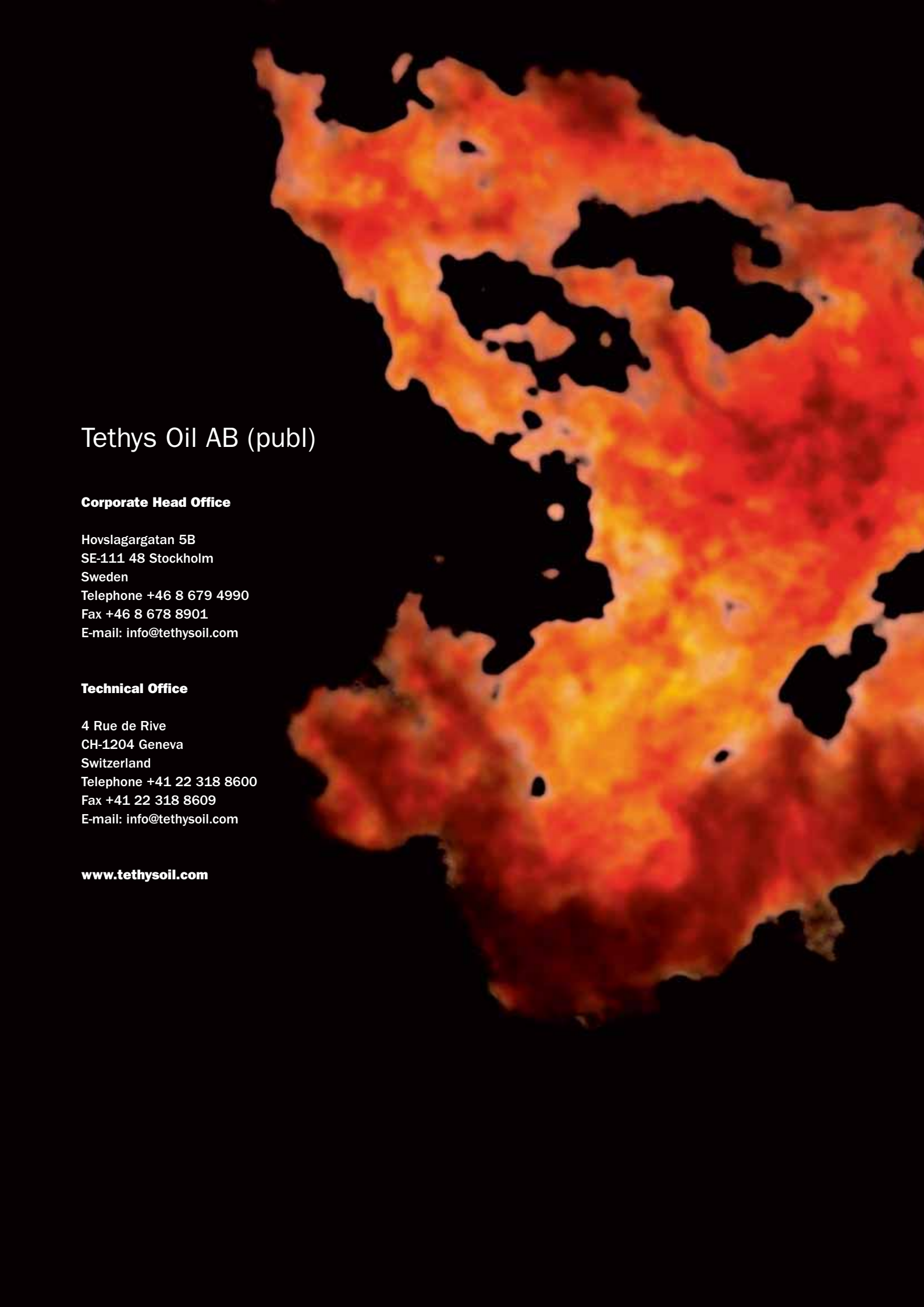
Paying interest
Paying interest is the cost-bearing interest arising out of the obligation to bear initial exploration, appraisal and development costs on behalf of a partner.

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 per cent 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 per cent probability that the quantities actually recovered will equal or exceed the estimates.

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

Working interest
The actual interest owned by a party.



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