

# TETHYS OIL

Annual Report 2008



# Contents

ANNUAL MEETING	2
FINANCIAL INFORMATION	2
TETHYS OIL IN BRIEF	3
2008 IN BRIEF	3
LETTER TO THE SHAREHOLDERS	4
THE LIFE CYCLE OF AN OIL AND GAS PROJECT	6
THE OIL AND GAS MARKET	9
HISTORY	12
TETHYS OIL	14
OPERATIONS	15
CORPORATE RESPONSIBILITY	25
BOARD OF DIRECTORS, MANAGEMENT AND AUDITORS	28
THE TETHYS OIL SHARE	30
KEY FINANCIAL DATA	33
ADMINISTRATION REPORT	35
NOTES	48
AUDITOR'S REPORT	58
DEFINITIONS AND ABBREVIATIONS	59
ADDRESSES	60

## Information regarding Annual Meeting

The Annual General Meeting of the shareholders of Tethys Oil will be held on Wednesday 20 May 2009, 3 p.m. at Van der Nootska Palatset, S:t Paulsgatan 21 in Stockholm. The notice and the complete proposals of the Board of Directors etc. are available at [www.tethysoil.com](http://www.tethysoil.com). To be entitled to participate, shareholders must be included in the register of shareholders maintained by Euroclear Sweden AB, in their own names, as of 14 May, 2009 and must notify Tethys Oil no later than 14 May, 2009 4 p.m. According to the Swedish Companies Act, a shareholder who wishes to attend by proxy, must present a proxy in writing, dated and signed by the shareholder.

## Financial Information

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

Three months report (January–March 2009) on May 20, 2009

Annual General Meeting – 20 May 2009

Six months report (January–June 2009) on August 20, 2009

Nine months report (January–September 2009) on November 13, 2009

Year end report 2009 (January–December 2009) on February 16, 2010



# *Tethys Oil in Brief*

Tethys Oil is a Swedish energy company focused on identification and development for production of oil and natural gas assets. Tethys' core area is Oman, where the company is the second largest onshore oil and gas concession-holder with licence interests in three onshore blocks. 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 and Sweden. The shares are listed on First North (TETY) in Stockholm. Remium AB is Certified Adviser.

## *2008 in Brief*

### **Highlights**

- JAS-2 in Oman drilled to total depth of 4,018 metres – suspended awaiting production test
- 3D seismic acquisition in Block 15 onshore Oman completed
- No production flow from Copkoy-1 exploration well in Turkey
- Private Placement in first quarter 2009 raised MSEK 13.0 before issue cost



# *Letter to the Shareholders*

## **Dear Friends and Investors,**

“The best laid schemes of mice and (oil) men...”

Indeed things do not always work out as planned. But at the time of writing Tethys cannot complain.

The world seems to be in one of the worst economic downturns for possibly 100 years and yet the oil price hovers around USD 50 per barrel -a number unheard of at the best of economic booms, just ten years ago. Taking into account that all of Tethys' current projects have been designed to be economic at USD 40 per barrel or better, indeed, we cannot complain.

As our projects mature, and in Darwinian fashion, some are not fit to pursue and are thus discarded, whereas others are prioritized. During 2008, we saw an increased focus on Oman while several other areas were relinquished.

Our star project of 2007, Block 15 onshore Oman, was put to test by the drill bit again in 2008. Although still looking good, we had an unfortunate delay when water appears to have broken into the reservoir from a fault while testing, forcing testing operations to be stopped and the well to be suspended. At first sight this might actually look as a reason to complain. But a closer look reveals several mitigating circumstances. First, with the drop in oil prices, virtually all costs relating to oil field activities from steel and rig rates, to trucks and personnel, have dropped and continue to drop. All elements of capital expenditures are coming down. Second, the delay in testing and continued appraisal/ development activity have offered up free time to address other scenarios for Block 15, which when coupled with the high quality data received from the recently completed 3D seismic study, offers good prospects for the future. And third, the delay on Block 15 coincided with increased appraisal activity on Tethys' other large Omani project – Blocks 3 and 4.





On Block 3 the Farah South 3 well, designed to appraise the Farah south oil discovery from 1986, came in at flow rate of more than 750 barrels of 40 degree API oil per day. An excellent result made even better by indications from the logs that other previously unmapped oil-bearing sections were penetrated. Together with our partner CCED, the Block's operator, we are now eagerly awaiting further results from Block 3 and detailed plans for the way forward. Our expectations would certainly be to see a long term production test in place on Block 3 maybe already this year.

Tethys now has two excellent potential developments in Oman, and at least one very exciting and enticing appraisal opportunity on Block 4 – the potentially very large Saiwan East heavy oil discovery. The appraisal well Saiwan East-2 will soon be drilling with results expected in May 2009. So we must insist, there is really no reason for Tethys to complain.

One area outside of Oman must be mentioned separately- Sweden and Morocco.

On the beautiful Baltic Island of Gotland, Tethys is reviving the oil dream. Gotland will never become a Saudi Arabia, but the island has in the not too distant past produced more than 700 000 barrels of oil from small shallow Ordovician limestone reefs. Tethys is about to finalise a survey of existing data and should

be in a position to gather new geophysical and geological data with a view to take up drilling activities in the not too distant future.

In addition we have ongoing an exciting exploration well going down in Morocco at this moment. The Tafejjart-1 wildcat, on the Bouanane Permit, is drilling ahead towards potential gas-bearing reservoirs. Though very high risk, the potential reward is up to the task.

And to finalize the list of no complaints – our market cap and share price have returned to the same levels as the corresponding time last year, which on a relative comparison shows strength and in itself creates business opportunities.

So stay with us, we actually do not believe we will have any reasons to complain for quite some time...

Stockholm in April 2009

**Vincent Hamilton**

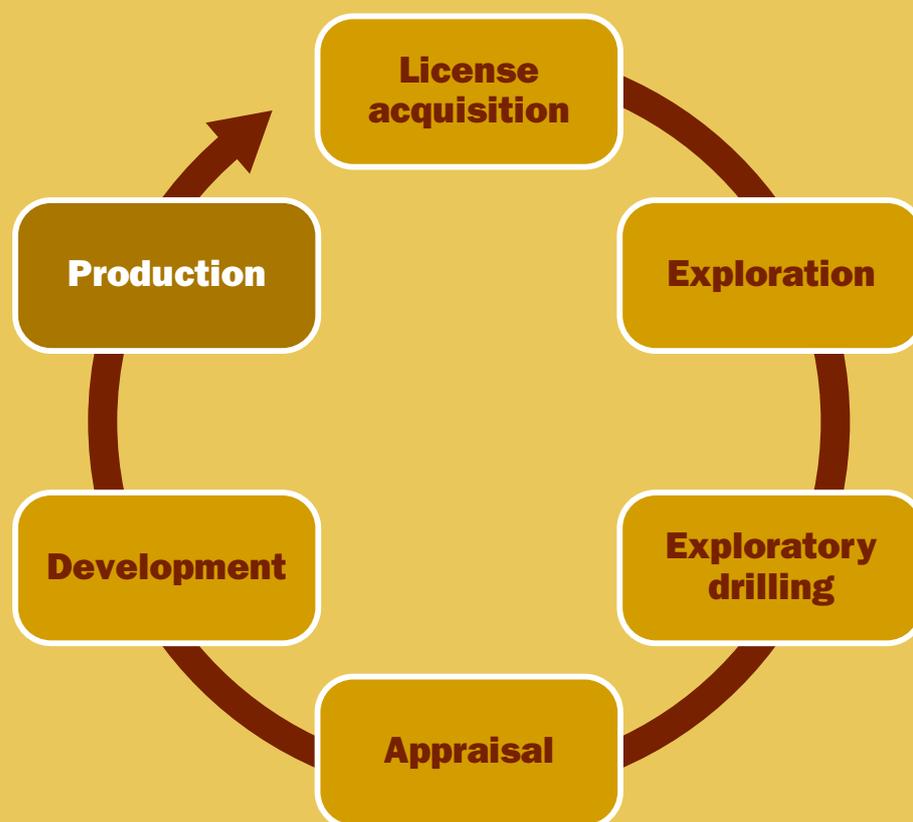
*Chairman*

*Chief Operating Officer*

**Magnus Nordin**

*Managing Director*

# *The life cycle of an oil and gas project*



The oil industry is divided into two main categories, upstream and downstream. Upstream includes finding the crude oil and producing it. Downstream operations are about refining and distribution of oil products like heating oil or gasoline. The life cycle of an upstream oil project could be divided into six categories, starting with licence acquisition and ending with commercial production. Each step has its own characteristics, with different risk/reward ratio. The value of the project is gradually built up, and an oil company could after or within each step “cash in” on successful work.

## **Licence acquisition**

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, licences or blocks.

A licence could be granted by the authorities of a country, bought on auctions or acquired from another oil company. A license is usually connected with special demands – the oil company has to undertake certain exploration work within an area during a specified period of time in order to fulfill the licence regulations.

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 licensee and the country in a production licence varies widely throughout the world. The duration of a production licence is usually 20–30 years.

## **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. Exploration drilling for oil or natural gas is normally both a costly and risky adventure. Before the drill bit is used, a lot of other exploration work is therefore done in order to minimize the risks and eliminate less prospective areas. This exploration work is normally geological, geochemical and geophysical studies (seismic studies).

On the Bouanane license in Morocco, Tethys used gravity and magnetic studies to narrow the risks. Gravity data consists of measurements of the earth's gravitational field at various locations over an area. The objective is to measure variations and distributions of rock densities. 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.

Geochemical survey is another exploration activity Tethys has used in the past. Surface geochemistry is a technique that uses the presence and character of hydrocarbons within the soil to indicate deeper hydrocarbon accumulations. This is possible because all oil and gas fields leak minute quantities of hydrocarbons towards the surface through a process called micro-seepage. The method does not say anything about the volume of gas there, only the area it occupies. However, the method has been proven very useful and thus significantly reducing exploration risk.

The most common exploration activity is geophysical seismic. The principal behind seismic is that sound waves are transported at different speeds 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.

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 infor-

mation about the subsurface but is much more costly and covers a smaller area. During the autumn of 2008, Tethys acquired new 3D seismic over the Jebel Aswad structure in Oman. Previous seismic over the Jebel Aswad structure was 2D seismic with relatively low resolution and with sparse coverage over parts of the structure. The new seismic lines cover the whole structure, and are acquired with a geophone spacing of 15 x 15 metres.

### **Exploratory 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.

#### *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. Many times, oil is clearly visible in the rock without the use of a microscope. 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.

### **Appraisal**

Appraisal is the phase of the cycle of an upstream oil project that follows a successful exploratory drilling. Appraisal is about determination of the size of the oil or gas structure, that is – determine how much reserves it contains.

In the appraisal, delineation wells are being drilled. The delineation well is drilled at a distance from the discovery well in order to determine physical extent, reserves and likely production rate of a new oil or gas field. Both Jebel Aswad-2 drilled in 2008 and Farha South-3 drilled in 2009 are delineation wells drilled some kilometers away from the original discovery wells.

Different techniques than previously could also used. When Tethys in 2007 re-entered the original Jebel Aswad -1 discovery, it was done with horizontal and underbalanced drilling.

There are many advantages of horizontal drilling. The main advantage is to achieve higher production rates through the increased exposure of formation surface area. Horizontal, or directional drilling, is also used when it is not possible to access a target vertically below the drilling site, for instance when the target is under a town.

Underbalanced drilling is a procedure used where the hydrostatic pressure in the wellbore is kept lower than the fluid pressure in the formation being drilled. The main advantage of using underbalanced drilling is to eliminate damage to the reservoir rock. In a conventional well, the higher hydrostatic pressure of the drilling mud is forced into the reservoir rock, which frequently causes damage that may not be reversible. With less pressure at the bottom of the wellbore, it is also easier for the drill bit to cut and remove rock.

As noted, appraisal is about proving up 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.

### **Development**

When a structure is proven to be hydrocarbon bearing and the reserves are booked, the field is ready to be brought into production. This is the development phase. This phase starts with the detailed geological, technical and economical studies in order to construct a field development plan. The goal is to develop a plan that optimizes the recoverable reserves, find the most suitable technical solution, maximize profitability and handle the risks associated with the project on an acceptable level.

Once a field development plan is approved by the authorities, the operations on the field enter an intense phase. An extensive construction period starts, with a number of different specialists involved. Oil and natural gas fields are often located in remote areas, where no or little infrastructure is available. Everything has to be constructed. The workers need places to sleep, wash and eat. The field has to be equipped with electricity, either through cables or – if the field produces natural gas – through gas generator. It is possible to transport smaller amounts of crude through trucks, but for larger volumes a pipeline must be constructed. Natural gas is even more depending on pipelines. Drilling-, production-, transportation and storage plants are constructed. Production wells are being drilled.

# *The oil and gas market*

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

## **Sources of energy**

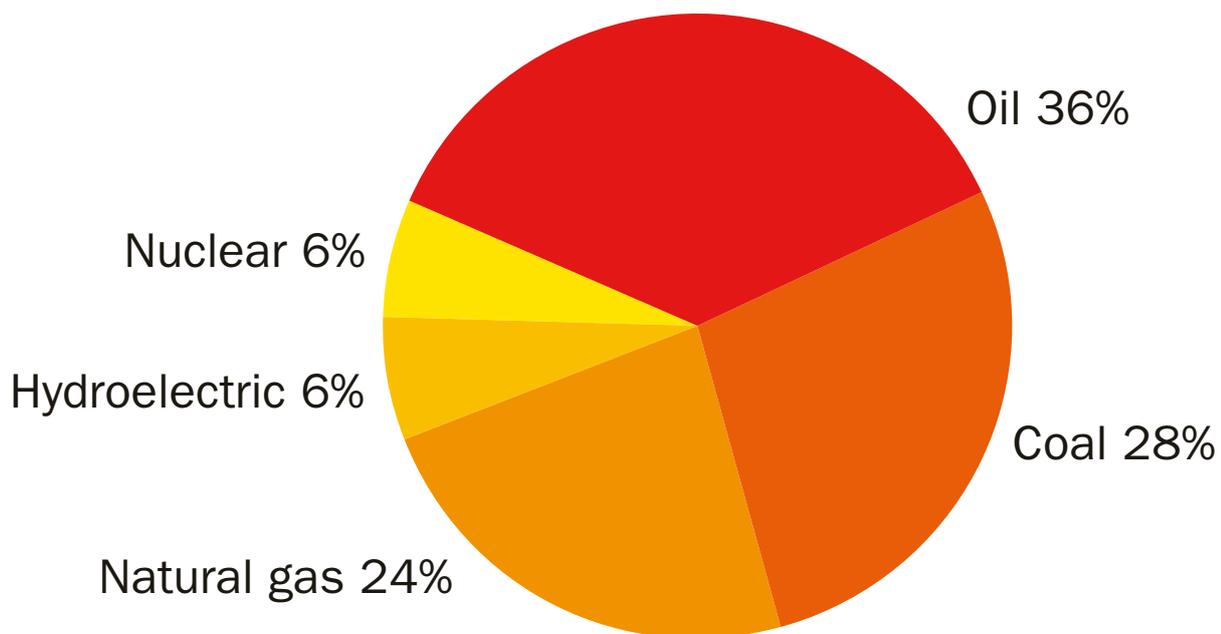
Energy comes from a number of sources, the dominant ones being oil, coal and natural gas. Alternative energy sources such as wind and wave power, solar energy and biofuels are relatively insignificant. Oil and natural gas account for more than half of all primary energy sources.

## **The oil market**

### **Oil price – trends and variables**

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

The amount of variables that can affect oil supply and demand are vast and much resources and brain power is devoted to create dynamic models aiming



to explain past developments, understand the current 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.

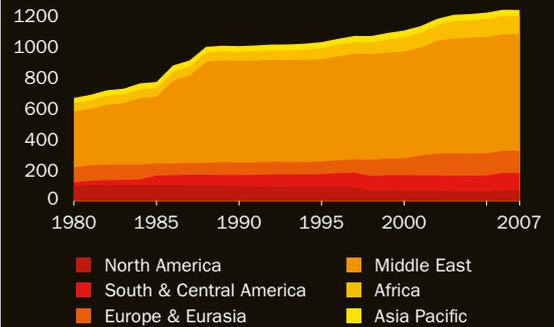
A first variable to consider is the available amount of oil. Figure 1 shows that the increase in available reserves has fallen over the last 20 years. Add to this that new discoveries tend to be smaller and further in between than in the past and the trend seem to be towards an eventual limit to available 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.

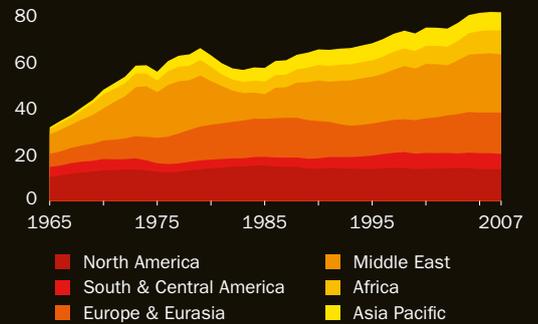
Small changes in demand and supply can however have dramatic effects on price in the short run. A notable example is the effects of the Saudi production increase in 1998 which came to coincide with the downturn in Asia. Note however, that Chinese consumption never actually declined. Only the rate of 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.

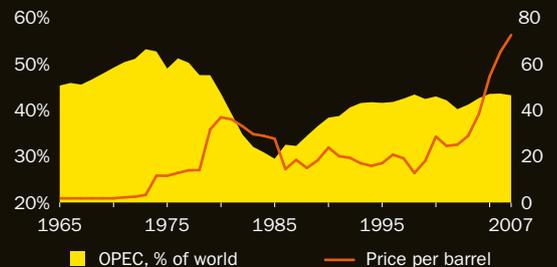
### 1. Known global oil reserves, thousand million barrels



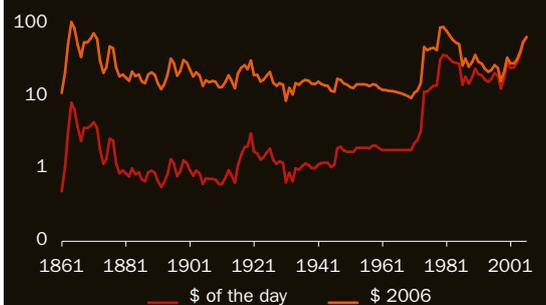
### 2. Global oil production, million barrels per day



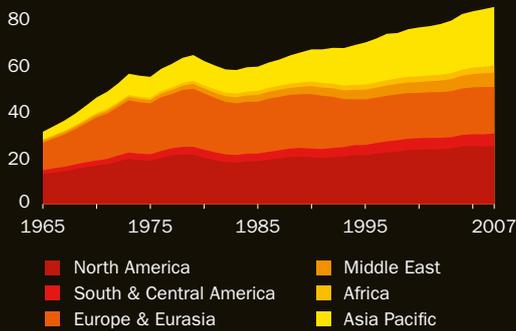
### 3. OPEC share of global oil production and price per barrel (USD)



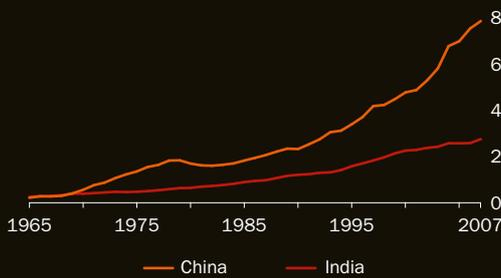
### 4. Oil price development since 1861



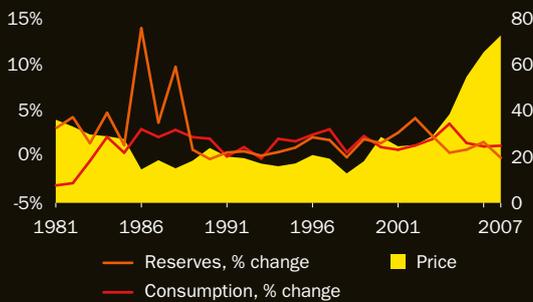
### 5. Global oil consumption, million barrels per day



### 6. Oil consumption – China & India, million barrels per day



### 7. Production change and price change



### 8. Oil price development since 1997



Source graph 1-7: BP Statistical Review of World Energy 2008.  
Source graph 8: Energy Information Administration

### Oil price – future outlook

It is difficult to envisage a continued drop in oil prices for the foreseeable future. When the dollar weakens again oil prices may rise in dollar terms but will most likely remain relatively stable in non dollar denominations as non dollar denominated economies to a larger and larger extent seem to determine the price.

Should oil prices come under additional 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 increase in two to four years seems probable. If today's economic downturn is followed by sharp decreases in investment in exploration and production infrastructure the price increase can be dramatic.

Followingly, it is unlikely that lower prices could be sustained for any longer period of time. But the sharp correction can certainly present a valuable opportunity to acquire assets for any player able to maintain a long term view.

# History

Tethys Oil was founded in 2001 and was awarded its first licence onshore Denmark 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.

As a public company, Tethys has participated in a number of projects and depending on results some licences has been relinquished and others have been added. In 2006, Tethys acquired a 40 per cent interest in Block 15 onshore Oman which covered the Jebel Aswad appraisal project. Following the successful JAS-1 re-entry well, Tethys proceeded to strengthen its presence in Oman by the acquisition in 2007 of a 50 per cent interest in Omani Blocks 3 and 4. As a result, the Sultanate of Oman has become Tethys' main theatre of operations.

## Drilling history, Tethys' 9 wells 2004–2009

### Kocetepe-1 (2004)

Tethys' first participated in an exploration well in July 2004 – Kocetepe-1 – on the Hoto prospect onshore Turkey. The Partner and Operator, holding 55 per cent, was Aladdin Middle East Ltd. The prognosticated 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 exploration was the Karlebo-1 well in autumn 2006. This time Tethys was operator. After almost five years of preparatory work, Karlebo-1 on licence 1/02 onshore Zealand north of Copenhagen in Denmark was 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.

### Hontomin-4 (2007)

In March 2007, Tethys participated in drilling the Hontomin-4 well on the Sedano Project onshore Spain 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 Natih and Shuaiba. By Mid-



summer 2007, drilling and testing operations were completed and it was clear that Tethys had drilled its first live well. 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 mmscfd and 793 bpd of 57API condensate (total of 2,626 boepd) through a 1-inch choke.

#### **Pierre Maubeuge 2 (2007)**

After less than three weeks of drilling, operator Gallicos S/A completed this well 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. Productions test were carried out by the operator during summer 2008 but results remain inconclusive.

#### **Jebel Aswad-2, 2008**

By June 2008 Tethys operated a second well on Block 15, onshore Oman. JAS-2 was drilled as a step out well 1.2 km from Jebel Aswad-1 (JAS-1) to further appraise the Jebel Aswad structure.

By 20 August, JAS-2 was finished after the well had reached a total measured depth of 4,018 metres. A horizontal section of 927 metres was drilled in the reservoir section at a vertical depth of just over 3,000 metres confirming the reservoir extension in this direction. Testing had to be suspended by mid September after water broke into the reservoir section.



#### **Copkoy-1, 2008**

In September and October 2008 Tethys again tried its luck in Turkey by participating with operator Aladdin Middle East ltd in the Copkoy-1 exploration well in the Thrace Basin. Despite good gas shows while drilling and an initial flare, the well failed to test natural gas.

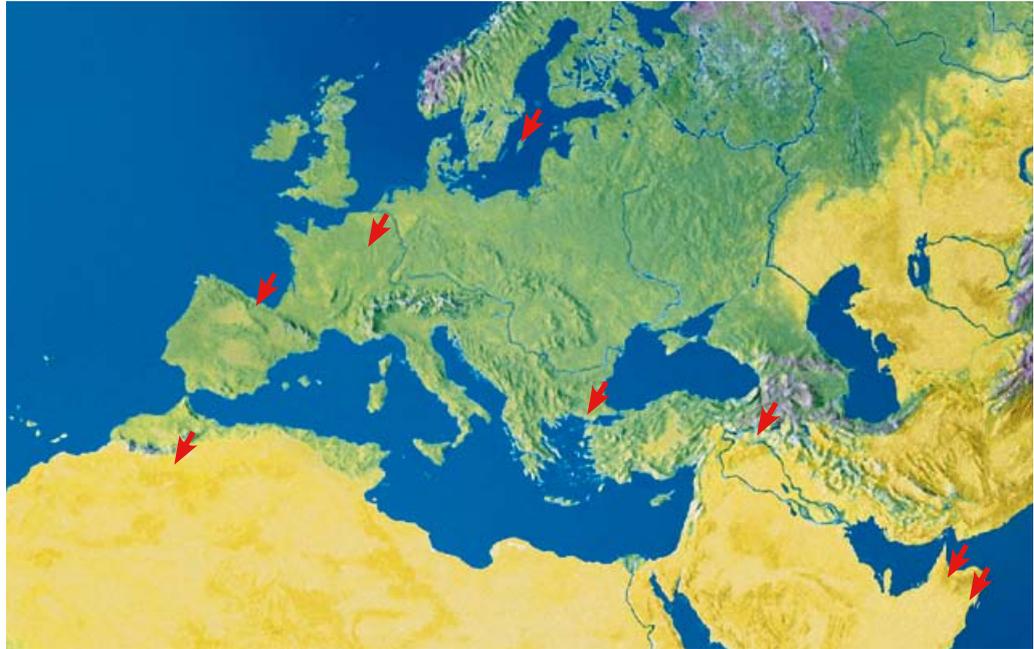
#### **Farha South-3, 2009**

Tethys' second appraisal project in Oman went live in early February 2009 when operator CCED began operations to drill Farha South-3 on Block 3. By early April it was clear that the Farha South structure indeed was worth appraising after FS-3 came in at over 700 bopd after reaching a total measured depth of 2,625 metres.

#### **Tafejjart-1, 2009**

So as not to forget its roots as an exploration company, Tethys as of March 2009 participates in the rank wildcat, Tafejjart-1 onshore Morocco. The well could well drill until mid June in its attempt to find large quantities of Natural Gas below eastern Morocco.

# Tethys Oil



## The company in brief

Tethys Oil is a Swedish energy company focused on identification and development for production of oil and natural gas assets. Tethys core area is Oman, where the company is the second largest onshore oil and gas concession-holder with licence interests in three onshore blocks. 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 and Sweden. Tethys has decided to withdraw from its licenses in Spain and Turkey. The shares are listed on First North (TETY) in Stockholm. Remium AB is Certified Adviser.

## Strategy

Investing in upstream projects offers two main opportunities to over time achieve superior returns on capital invested. One is to consistently invest in rank exploration wells and limit the risk through carry agreements or by keeping absolute investments low by holding only small interests. Another is to not invest in a project until the main risk element, the question of whether hydrocarbons are present, has been eliminated. The risk level of a project is typically under estimated in the exploration phase and over estimated in the appraisal phase. By consistently invest primarily in appraisal projects it is Tethys belief that superior returns on capital invested will be achieved over time.

## Licences

Country	Licence areas	Tethys Oil, %	Total area, km <sup>2</sup>	Operator
<b>Oman</b>	Block 15	40%	1,389	Tethys Oil
	Block 3&4	50%	33,125	CCED
<b>Morocco</b>	Bouanane	12.5%	2,100	Dana Petroleum
<b>Spain</b>	Valderredible	15%	241	Leni Gas&Oil
	Huermeces	15%	121	Leni Gas&Oil
	Basconillos	15%	194	Leni Gas&Oil
	Cameros	26%	35	OGSSA
	Ebro-A	26%	217	OGSSA
<b>Turkey</b>	Ispandika	10%	965	Aladdin Middle East
	Thrace	25%	994	Aladdin Middle East
<b>France</b>	Attila	40%	1,986	Galli Coz
<b>Sweden</b>	Gotland Större	100%	540	Tethys Oil
<b>Total</b>			<b>41,907</b>	

# Operations

## Sultanate of Oman

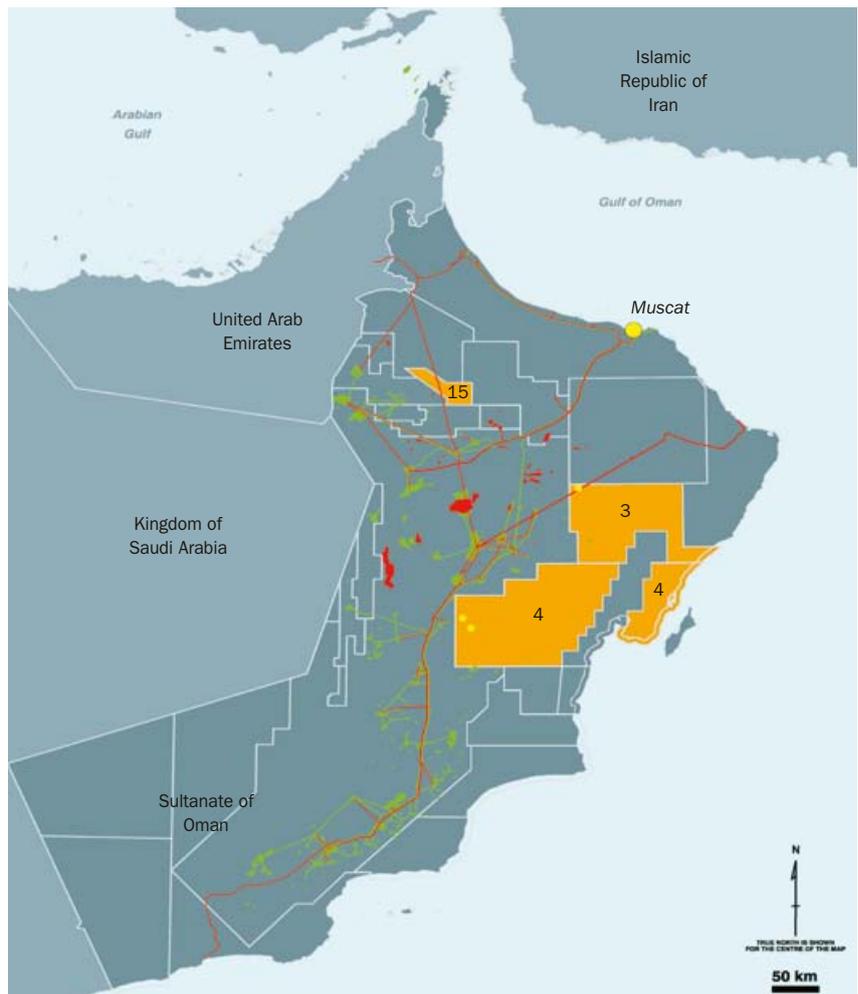
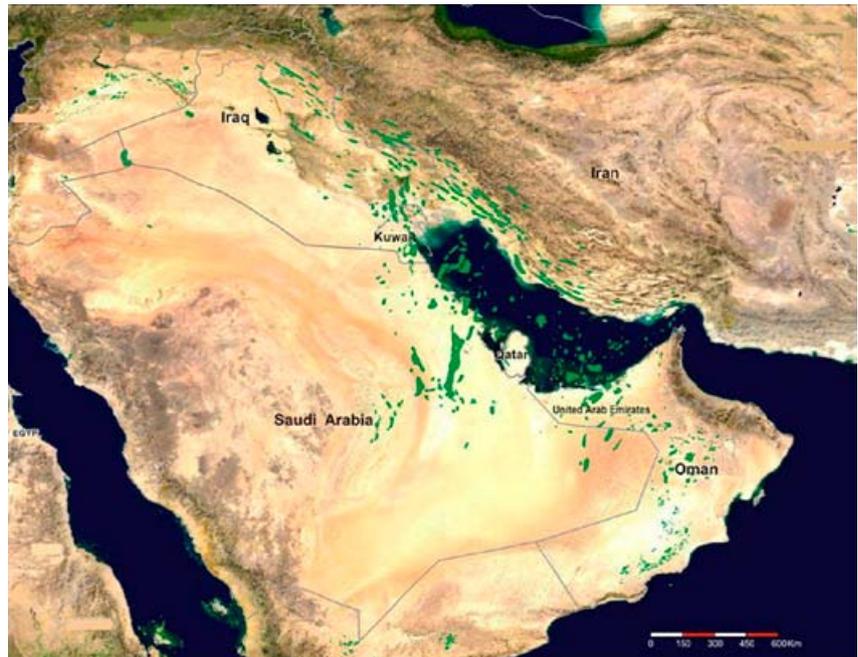
The Sultanate of Oman is located on the tip of the eastern Arabian Peninsula, neighbouring United Arab Emirates in the north-west, Saudi Arabia in the west and Yemen in the southwest. The coast is formed by the Arabian Sea on the south and east and the Gulf of Oman on the northeast, with a coastline of 2,092 kilometres. The area of Oman amounts to 212,460 square kilometres. The capital is Muscat and the population amounts to 3,311,640.

## Oman Oil

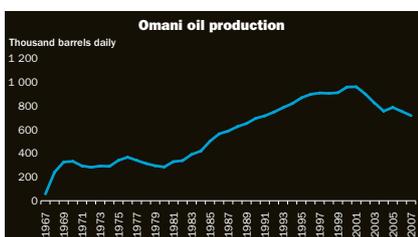
Oman is economically dependent on its oil revenues, which account for about 75 percent of the Oman's export earnings and 40 percent of its gross domestic product (GDP). Oman has about 5,6 billion barrels of proven oil reserves, corresponding to about 0.5 per cent of the worlds proven oil reserves. The oil reserves are not as big as the neighbouring states in the Gulf area, but are definitely comparable on a per capita basis with oil states elsewhere. Oman's proven oil reserves of 1,6 barrel per capita is just slightly less than Norway's of 1,8 but bigger than Russia's of 0,6 barrels.

Oman's petroleum deposits were discovered in 1962, and commercial export of oil began five years later. Oman's oil fields are generally smaller, more widely scattered, less productive, and pose higher production costs than in other Arabian Gulf countries. The average well in Oman produces only around 400 barrels per day (bbl/d), about one-tenth the volume per well of those in neighboring countries.

The Government majority owned Petroleum Development of Oman (PDO) in partnership with multinational petroleum companies, Shell and Total, have successively expanded the Omani reserves and it is only in recent years that the country has



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

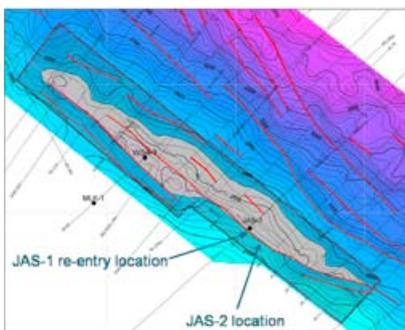


seen a reduction oil production. Peak production of crude oil in Oman occurred in 2000 when production reached 970,000 barrels per day (BOPD). The production in 2007 amounted to about 800,000 BOPD. Oman is not a formal member of OPEC.

**Tethys Oil Oman**

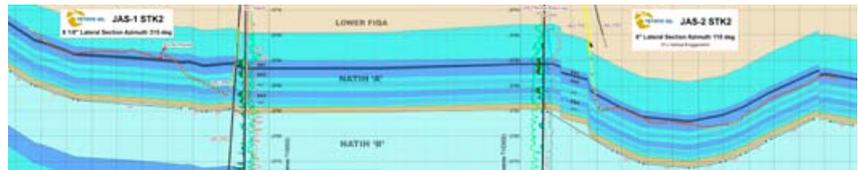
Tethys Oil entered Oman in May 2006 with the acquisition of a 40 per cent interest in Block 15 onshore Oman. With the successful drilling of Jebel Aswad structure in the summer of 2007 and the acquisition of 50 per cent interest in Blocks 3 and 4 in the last quarter of 2007, Oman has become Tethys Oil’s undisputed core area. These three blocks have a combined area of almost 35,000 square kilometres, which currently makes Tethys the second largest onshore oil and gas concession-holders in Oman after PDO. Besides the Jebel Aswad discovery on Block 15, Farha South on Block 3 and Saiwan East on Block 4, the licences hold many exploration plays for both oil and natural gas. Tethys’ ambition is to continue to appraise and develop the known discoveries as well as to explore for new ones.

*(Sources: Wikipedia.org, CIA-The world Fact book, Nationalencyklopedin, EIA.gov)*



# The appraisal of Block 15

Since the successful drilling of Jebel Aswad-1 (JAS-1) in 2007, which flowed 2,626 BOEPD on test, Oman has been at the forefront for Tethys. Preliminary in-house reserve estimate of one reservoir layer is calculated at some 138 BCF of gas and some 7.0 MM barrels of condensate, of which Tethys has a 40 per cent. JAS-1 was followed with the drilling of JAS-2 in the summer 2008. Later in 2008, a comprehensive 3D seismic survey covering the entire hydrocarbon bearing Jebel Aswad structure was completed. Future activities on the block includes re-testing of JAS-2, drilling of JAS-3 and the development of the field.



Block 15 is situated in the north western part of central Oman and 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 productive reservoir horizons in a number of nearby fields.

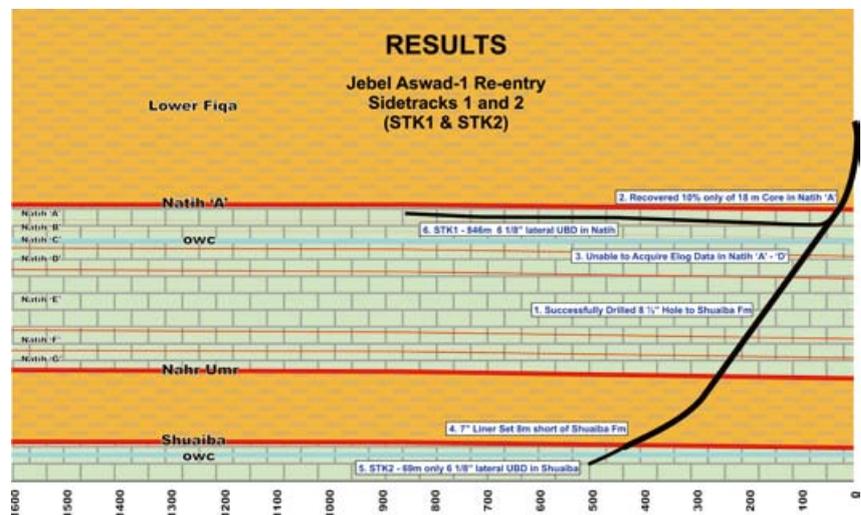
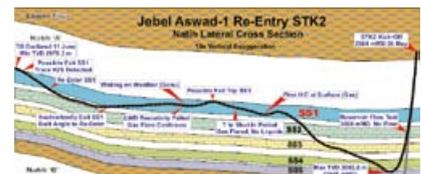
**Tethys’ re-entry of Jebel Aswad-1 in 2007**

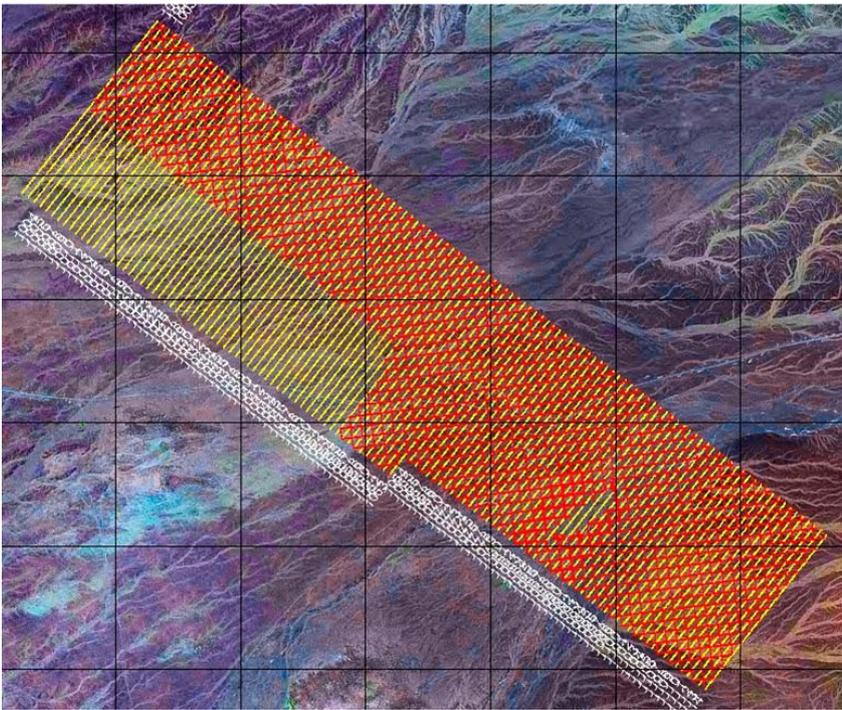
The history of Block 15 includes two wells drilled by a previous operator in 1994 and 1997. Both wells indicated hydrocarbons, and Jebel Aswad-1 tested 204 barrels of oil from the Natih limestone reservoir. Tethys’ idea was that modern oil recovery techniques like underbalanced and horizontal drilling could significantly increase the flow from Jebel Aswad. The re-entry of Jebel Aswad-1 commenced in April, 2007. The drilling was designed to appraise both the Shuaiba and Natih reservoir intervals in order to determine well deliverability and a likely recovery factor. Both reservoirs did also produce hydrocarbons to surface.

The well penetrated a total of 848 metres of hydrocarbon bearing Natih 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, but wet gas was produced and flared during the underbalanced drilling phase.

**Reserve estimates**

Based on information from JAS-1 combined with information from the original well test from 1995, a preliminary in-house reserve estimate of the Natih ‘A’ reservoir was calculated at some 138 BCF of gas and some 7.0 MM barrels of condensate,





**2009 and onwards**

Next step on Block 15 is to continue the aborted testing of JAS-2 and to drill a new well – JAS-3. Due to the cost synergies – the testing of JAS-2 will require the return of a drilling rig – these two activities will most likely be combined. The information from the testing of JAS-2, like reservoir and hydrocarbon characteristics, will be an essential base in the preliminary field development plan. The work with this plan was initiated last year, but has been postponed until the testing of JAS-2 can be completed.

According to the present plans, early production could commence in 2010 with full field production in 2011.

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 Natih 'C' reservoir and the deeper Shuaiba reservoir, despite firm indications of hydrocarbons in these two separate reservoirs.

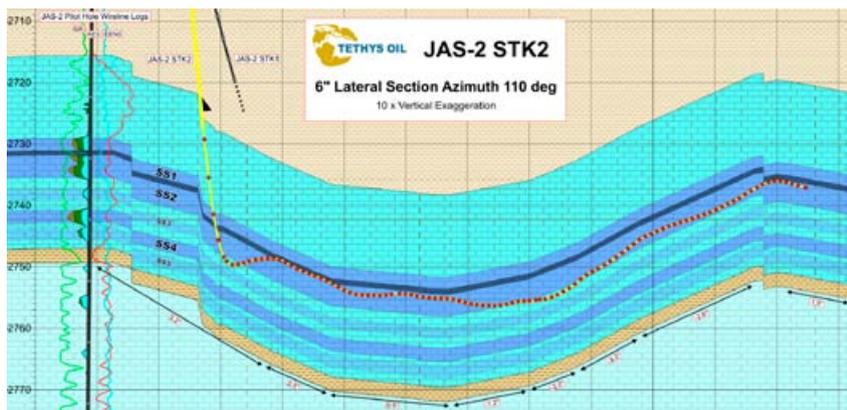
**The drilling of JAS-2 in 2008**

In the summer 2008, Tethys drilled a step out well 1.2 kilometres from JAS-1 and in August, JAS-2 was completed after the well had reached a total measured depth of 4,018 metres. The vertical pilot hole encountered good hydrocarbon shows in the Natih A and C reservoirs during drilling and logging. A horizontal section of 927 metres was drilled in the Natih A reservoir section at a vertical depth of just over 3,000 metres. The horizontal section was drilled in a south easterly direction and has confirmed the reservoir extension in this direction. The testing of JAS-2 was however suspended due to an unintentional penetration of a water pro-

ducing fault. The return of a drilling rig will be required to work over the well and to seal off the water producing fault.

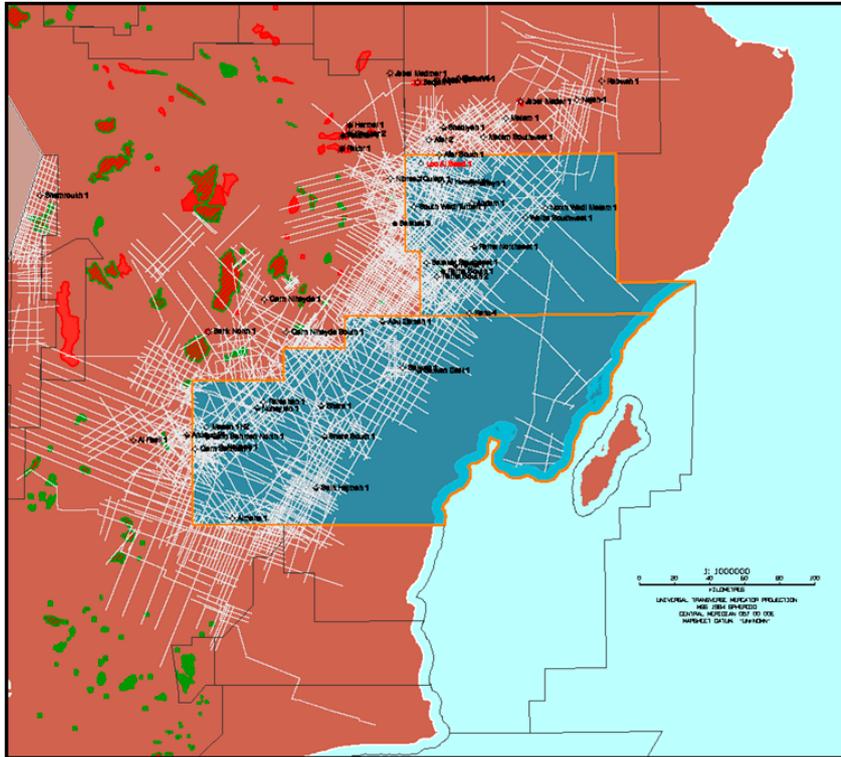
**New seismic maps will guide Tethys**

In early January 2009, the processing of new 3D seismic data was completed. The processing was done by specialist firm Hardin International of Dallas, Texas. A total of 285 square kilometres of 3D seismic data was acquired in August and September 2008, covering the entire hydrocarbon bearing Jebel Aswad structure. Previous seismic over the Jebel Aswad structure was 2D seismic with relatively low resolution and with sparse coverage over parts of the structure. The new seismic lines cover the whole structure, and are acquired with a geophone spacing of 15 x 15 metres. The new seismic maps offer very valuable information for the future development of Jebel Aswad field.



# The quest for the Farha South oil

First potential reservoir to be penetrated by the drill bit in 2009 is the Lower Bashair sandstone formation in the Farha South structure on Block 3 onshore Oman. The idea is to use horizontal drilling to enhance flow from the already proven oil bearing structure. Since the oil is of excellent quality, successful drilling could be fast tracked into cashflow generating production.



Block 3 is situated in the eastern part of Oman and covers an area of 9,960 square kilometres. Tethys has a 50 per cent interest in the licence with CC Energy Development (Oman) SAL as operator. Next to Farha South, and like adjacent Block 4, the licence contains many exploration plays for both oil and natural gas. Large parts of the licence have been thoroughly covered with seismic – more than 30,000 kilometres of 2D seismic cover Blocks 3 and 4 together. 27 wells have also been drilled on the two licences, of which 18 encountered oil shows.

## The Farha South-3 well

The Farha South-1 discovery well flowed 260 barrels and was drilled in 1986 by Japan Petroleum Development Corp. Further drilling operations have partially delineated the structure. The vintage seismic covering the South Farha trend, has been reprocessed and re-interpreted and has revealed what is believed to be a multiple fault bounded structure trend, of which the currently drilled fault bounded structure has been

estimated by a previous operator to contain about 8–10 million barrels of recoverable oil from thin sandstone layers.

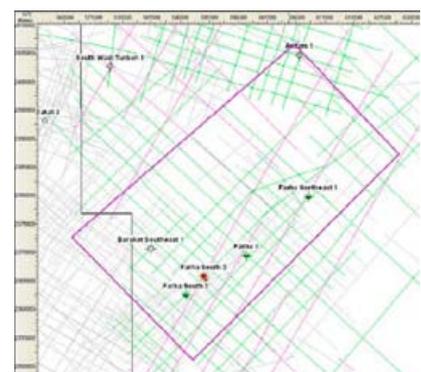
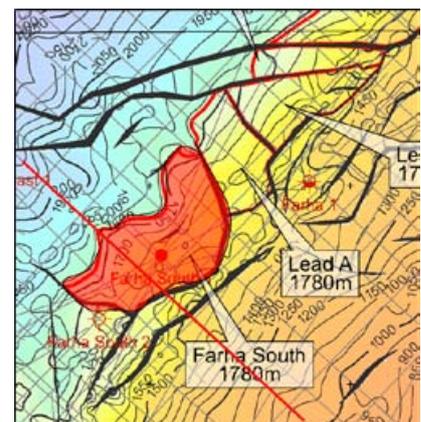
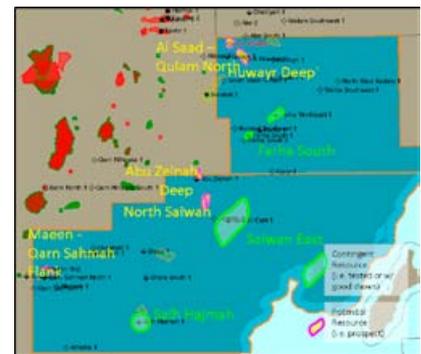
Together with the operator, Tethys realized that the South Farha well was an excellent candidate for using similar drilling techniques successfully employed by Tethys on the Jebel Aswad structure on Block 15. Since the oil is of excellent quality and contains manageable amounts of gas, successful drilling could quickly be put in cashflow generating early production.

Farha South-3, a delineation well to Farha South-1 discovery, was spudded in early February 2009. Drilling target was the Lower Bashair sandstone formation at a depth of around 1,900 metres. Farha South-3 was drilled from a drill site 1.2 kilometres south east of the Farha South-1 oil discovery.

On April 6, drilling of the Farha South-3 well was completed. The well was drilled to a total depth of 2,723 metres, corresponding

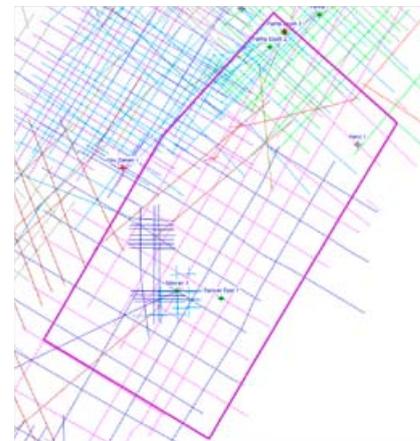
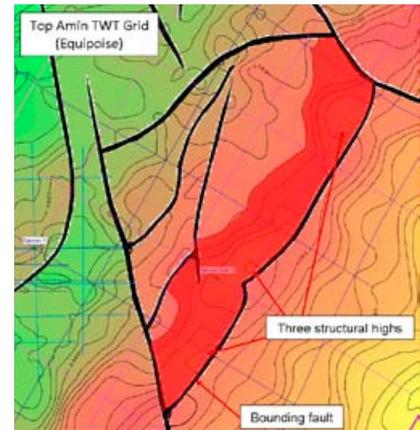
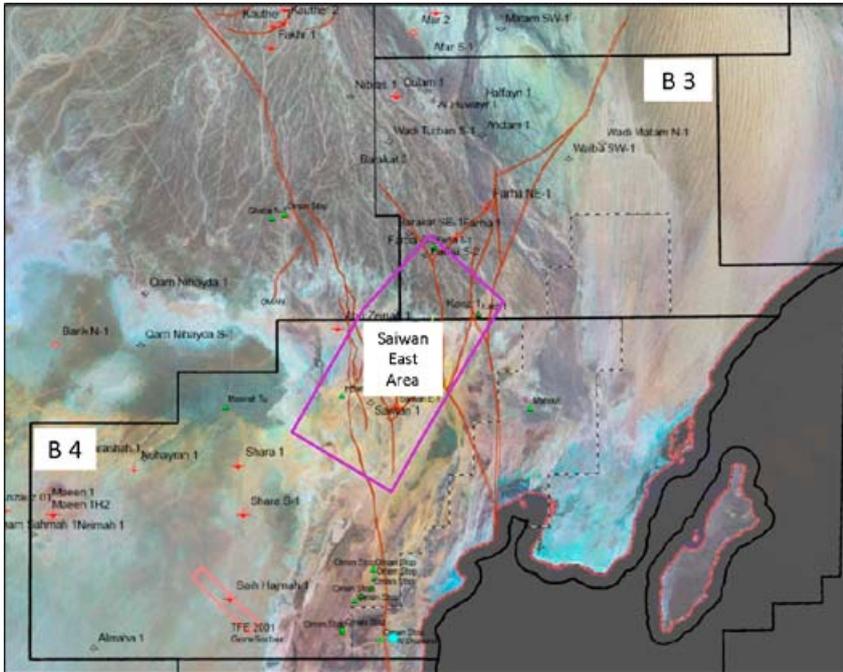
to a true vertical depth of 1,857 metres. The two main sandstone stringers, that produced oil in the 1986 Farha South-1 discovery, were penetrated both in the vertical pilot hole and in the subsequent horizontal sidetrack. Preliminary production flow of 754 bopd was recorded from the horizontal reservoir section. The oil is of very good quality (40 Deg API) with a low gas oil ratio.

Data recorded so far confirm the extension and continuity of the Farha structure's oil bearing sandstones and proves their productivity. In addition, several previously unidentified sandstone stringers were penetrated, some of which have good oil shows.



# The heavy oil of Saiwan East

The second well planned to be drilled in Oman during 2009 is the heavy oil structure of Saiwan East. This play was originally first drilled in 2005 and is estimated to hold some 1 billion of oil in place. Tethys and its partner plans to appraise the structure later this spring.



Block 4 is situated immediately south of Block 3 in the eastern part of Oman and covers an area of 18,985 square kilometres. Tethys has a 50 per cent interest in the licence with CC Energy Development (Oman) SAL as operator. As with Block 3, the licence contains both known oil discoveries as well as many exploration plays for both oil and natural gas.

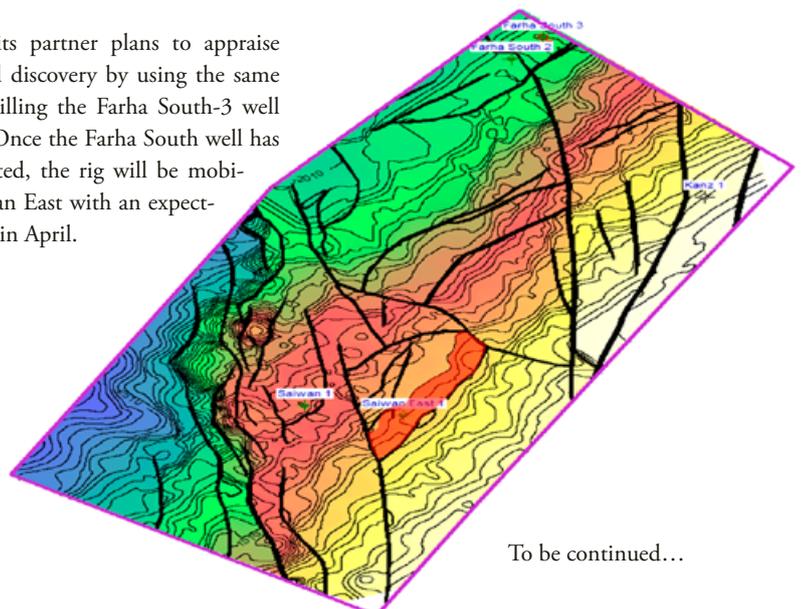
## The upcoming appraisal of Saiwan East

One of the hydrocarbon plays on Block 4 is the heavy oil structure of Saiwan East. When drilled in 2005, the well Saiwan East-1 logged about 42 metres of oil saturated limestones and sandstones. Based on current data, calculations show that the Saiwan East area could contain more than 1 billion barrels of oil in place. Although the section was evaluated by electric logs it was never drill stem tested, because the oil was considered immobile. However, post drilling studies performed on samples obtained whilst drilling suggest that the oil is potentially mobile.

Heavy oil is called “heavy” because it is usually viscous and has a higher density than light crude. Crude oil heavier than 20 degrees API is called heavy oil. Commercial production of heavy oil is often more complicated compared to light crude. Steam flooding is often used in production of heavy crude, and production wells are drilled in close proximity to each other.

Tethys and its partner plans to appraise this heavy oil discovery by using the same rig that is drilling the Farha South-3 well on Block 3. Once the Farha South well has been completed, the rig will be mobilized to Saiwan East with an expected spud later in April.

The primary objectives of appraising the Saiwan East discovery are to demonstrate the mobility of the oil and to prove up the reservoir size. Saiwan East-2 will be drilled 12 km from the Saiwan East-1 discovery.



To be continued...



# Oil exploration on home turf

Sweden is not home to large quantities of oil and natural gas. Actually it is not home even to small quantities. But there is one exception. From the island of Gotland in the Baltic Sea, some 700,000 barrels of oil were produced between the mid seventies and early nineties. Based on existing data. Tethys estimates that another 1 million barrels of oil or so are still to be discovered. And given Sweden's favorable mineral law – only corporate tax is charged, and the fact that the oil is to be found in very shallow reefal reservoirs – about 250 meter below surface, even 1 million barrels could prove to be very profitable.



Gotland is the only oil region of Sweden and has 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, State owned Oljeprospktering 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 assumed operations in

1987. Before they left in 1992, they drilled another 82 wells.

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

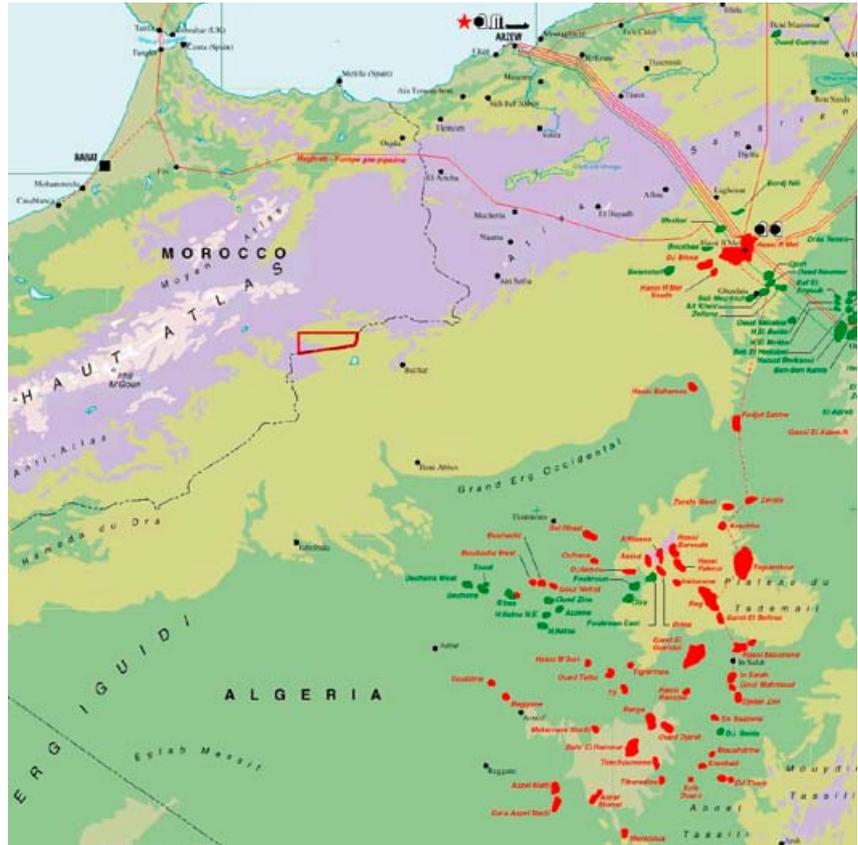
A review of historic data suggest that only a limited number of the reefs present on Gotland have actually been mapped and drilled. Statistic data indicates that there could be as many as 600 of these reefs. About 150 of these have been drilled and mapped. Of the 150 drilled, about 10 per cent encountered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

Tethys has in 2008 conducted a comprehensive study of existing data and a database has been created. The interpretation of new satellite radar data has resulted in new maps, which have supplied better understanding of the land cover and the relief within the licence area. The work to identify reefal trends within the licence area continues.



# Finally drilling in Morocco

Drilling commenced on the Tafejjart-1 exploration well on the Bouanane licence in the north eastern part of Morocco in late March 2009. The target is a potential natural gas play on the very large Taffejjart structure. This classic wildcat is a project with huge upside but with small economic risk for Tethys given that Tethys is carried through the first MUSD 12 of expenditure. Participation in this rank wildcat is an example of Tethys' second strategic aim: to participate in select high risk high reward exploration projects while controlling the financial risks.



In July 2005, Tethys as operator was awarded 50 per cent in the Bouanane licence. In the summer of 2006, a work programme confirmed the prospectivity of the area. 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. In 2007, Tethys Oil signed a farm out agreement with UK minion Dana Petroleum. According to this agreement, Dana will be the Operator holding a 50 per cent interest in the licence, with Tethys holding 12.5 per cent.

In August 2008, a drilling rig contract for the drilling of the Tafejjart-1 exploration well on the Bouanane licence onshore Morocco was entered into by the operator on behalf of the partner group. In late 2008 and early 2009, the well site and an access

road were constructed. The drilling rig, owned by Aladdin Middle East Ltd is an American built 2,000 horsepower rig with a depth capacity of 5,000 meters. In late March 2009, Tethys announced the spud of Tafejjart-1. Drilling operations are expected to last for two to three months.

A successful exploration well in Morocco could unlock very large quantities of hydrocarbons, which could be tied back to the trans-Morocco gas pipeline that supplies the domestic markets and Spain.



# All good things come in threes – wine, culture and hydrocarbons

Paris and the area surrounding the city is not only home to ancient cultures, world class food and great wines. The Paris basin also produce about 25 000 barrels of crude oil every day (2004) plus natural gas. With the hopes of adding to those numbers, Tethys and partner Galli Coz S.A. spudded the Pierre Maubeuge 2 (PLM-2) exploration well in autumn 2007. The PLM-2 well turned out to be non commercial, but it supported the overall prospectivity of the Attila licence.

It started in 2006, when 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

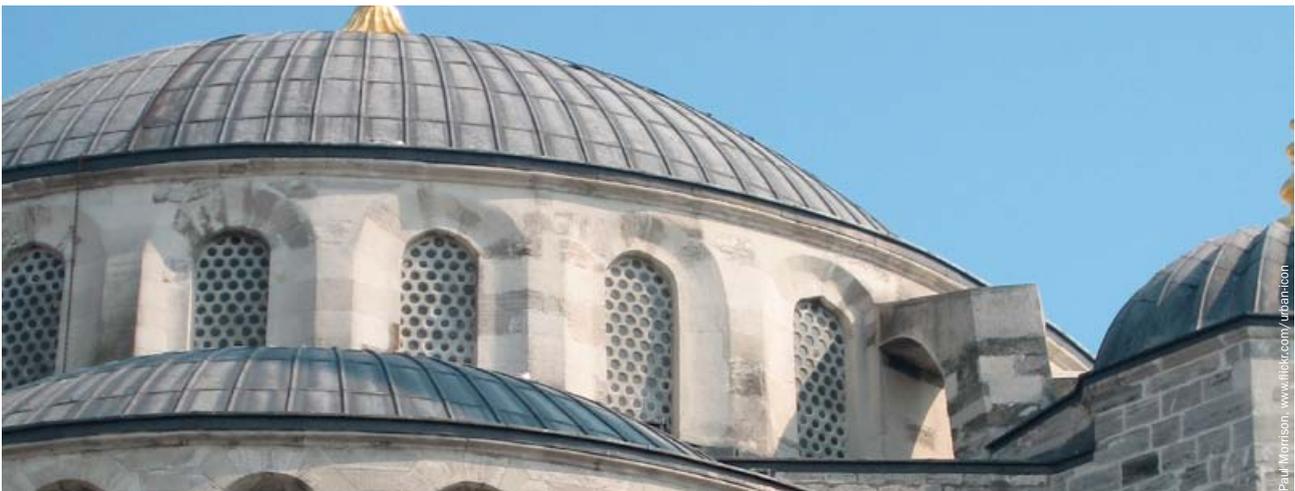
east of Paris in the oil and gas producing Paris basin. The objective was to find natural gas accumulations similar to the adjacent gas field Trois-Fontaines.

After one and a half year of exploration work, including satellite and radar data, reprocessing of existing seismic data and geochemical surface samples, Tethys and Galli Coz had proved the prospectivity of the area and were ready to test the project with the drill bit.

In the end of September 2007, 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 Trias-

sic formation below a salt layer. Wireline logging confirmed the indications of gas while drilling. In 2008, well completion and production tests were conducted on the well but only a minor gas flow occurred. An evaluation of the well results was conducted and it was decided to re-test the well during the autumn of 2008. Higher gas flows were recorded during this test; however the results proved the PLM-2 well to be non commercial in its current state. Although disappointing, this result supports the overall prospectivity of the Attila licence.

A thorough post-drilling analysis will be done of all the data from the well in cooperation with the operator.



## Adios España – Güle güle Türkiye

Tethys has gradually evolved to become a Swedish company with operations in Oman. This has mostly been driven by the successful drilling of Jebel Aswad on Block 15, and the subsequent acquisition of Blocks 3 and 4, all projects located onshore Oman. With so much opportunity and success vested in Oman a decision has been taken to focus even more on Oman and, at least for now, limit exposure to other areas. Consequently, Tethys has decided to withdraw from its licenses in Spain and Turkey.

Tethys has held interests in two onshore projects in Spain: the Sedano Project south of the Cantabrian Mountains and the Cameros project in the Ebro basin of northern Spain. The Sedano project was tested in 2007 with the drilling of the Hontomin-4 well. The well was unsuccessful, and resulted in Tethys lowering its interests in the licences to 15 per cent. The Cameros project has never been tested by drilling.

In Turkey, Tethys' first exploration well was the Kocetepe-1 on the Hoto prospect which was drilled in July 2004. The well was not successful and Tethys later abandoned the

licence. In the beginning of September 2008, the drilling of Tethys second exploration well in Turkey commenced, the Copkoy-1 well in the Thrace Basin. This well also turned out to be non commercial, and Tethys has decided to withdraw from the licence. Tethys has also interests in Ispandika licences in the south east part of Turkey close to the Iraq border. No ground work has been possible for two years due to the security situation in the region, and Tethys has decided not to renew the licence. Tethys will however maintain its Turkish branch and will continue to evaluate opportunities in Turkey.

# *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 drilling of Karlebo-1, Autumn 2006*





*Spectator at the drilling  
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 Massarrat 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

## Board of directors



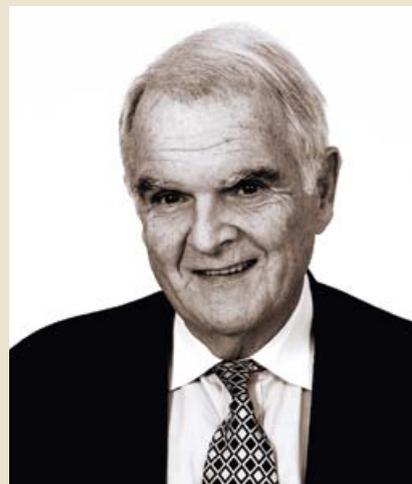
**Vincent Hamilton,**

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: 2,021,213 and 401,742 warrants.



**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: 1,288,856 and 255,271 warrants.



**John Hoey,**

born in 1939. Member of the Board since 2001 and member of the audit committee and the remuneration committee. Education: Bachelor of Science in Mechanical Engineering, 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 of VietNam Holding Ltd. traded on AIM in London and Director of Mundoro Capital Inc. traded on the Toronto Stock Exchange. Number of shares in Tethys Oil: 1,317,828 and 263,565 warrants.

## 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 and 13,600 warrants

# and Auditors



**Håkan Ehrenblad,**

born in 1939. Member of the Board since 2003 and member of the audit committee and the remuneration committee. 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. Mr. Ehrenblad was a Director of Tanganyika Oil Company Ltd. until the company in December 2008 was acquired by Sinopec International Petroleum Exploration.

Number of shares in Tethys Oil: 190,697 and 35,639 warrants.



**Jan Risberg,**

born in 1964. Member of the Board since 2004 and Chairman of the audit committee and the remuneration committee. 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 Ledstierman 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: 655,766 and 128,653 warrants.



**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. 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 off shore.

Number of shares in Tethys Oil: 1,168,000 and 243,600 warrants.

*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.*

## 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

Tethys Oil's shares and outstanding warrants are listed on First North, which is operated by NASDAQ OMX. First North is a sponsor based marketplace, which means that each company that is admitted to trading must have an agreement with a Certified Adviser. The Certified Adviser ensures that the company meets the admission requirements and the continuous obligations associated with having shares admitted to trading on First North. Furthermore, the Certified Adviser constantly monitors the company's compliance with the rules and immediately reports to the exchange if there should be a breach of the rules. Tethys Oil has been listed on First North and its predecessor Nya Marknaden since April 2004. Remium AB is the company's Certified Adviser. With the purpose of improving liquidity and reducing the spread between buyers and sellers of Tethys Oil shares, the company has assigned HQ Bank to act as a liquidity provider for the shares of the company.

## Shares and warrants outstanding

Tethys Oil's registered share capital at 31 December 2008 amounts to SEK 3,996,681 represented by 23,980,086 shares with a quota value of SEK 0.17. During 2008, Tethys Oil carried out a share split, whereby each share was divided into three shares (a share split 3:1). Furthermore during 2008, Tethys Oil conducted a private placement of 4,800,000 shares to investors mainly in Middle East, Asia and France.

All shares in Tethys Oil 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 2008 the Board of Directors has remaining outstanding authorization from the AGM to issue 1,300,000 shares up until the next AGM.

During 2008, Tethys Oil issued 4,795,649 warrants, which can be exercised continuously during the period 1 June 2008 to 30 June 2010. The subscription price is SEK 23 and one warrant gives the right to purchase one share. The warrants have been trading on First North since 17 April 2008. The warrants were issued with preferential right to existing shareholders as per record date 15 April 2008. All shareholders received, free of charge, one warrant for every fifth share held.

## Share capital development

Since the company's inception in September 2001 and up to 31 December 2008 the parent company's share capital has developed as shown below. Furthermore, the share issue in February 2009 has been included (see note 19).

Year	Share capital development	Quota 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	0.50	300,000	6,041,760	150,000	3,020,880
2007	Warrant exercise	0.50	2	6,041,762	1	3,020,881
2007	Directed issue	0.50	125,000	6,166,762	62,500	3,083,381
2007	Set off issue	0.50	226,000	6,392,762	113,000	3,196,381
2008	Share split 3:1 March	0.17	12,785,524	19,178,286	–	3,196,381
2008	Share issue April	0.17	4,800,000	23,978,286	800,000	3,996,381
2008	Warrant exercise October	0.17	1,800	23,980,086	300	3,996,681
2009	Share issue Februari	0.17	1,300,000	25,280,086	216,667	4,213,348

## 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.

## Share ownership structure

The 20 largest shareholders in Tethys Oil as per 31 March 2009.

Share holders as of 31 March 2009	Number of shares	Capital and votes, %
Clients Account-DCS	2,729,460	10.80%
SIX SIS AG	2,201,074	8.71%
BNP Paribas (SUISSE) S.A.	2,183,592	8.64%
Vincent Hamilton *	2,021,213	8.00%
Bk Julius Baer und Co	1,368,935	5.42%
John Hoey *	1,317,828	5.21%
Magnus Nordin **	1,288,856	5.10%
Jonas Lindvall*	1,168,000	4.62%
Lorito Holdings Ltd	879,408	3.48%
Bank of New York, W9	687,742	2.72%
Ancoria Insurance Ltd	683,200	2.70%
Jan Risberg	655,766	2.59%
Handelsbanken Life & Pension LTD	515,000	2.04%
Jean-Marie Lattès	500,000	1.98%
SEB Private Bank S.A., NQI	436,000	1.72%
Cogeval S.A	400,000	1.58%
Grebbeshult Holding AB	339,000	1.34%
Göran Källebo	306,000	1.21%
Neptunus AB	269,937	1.07%
Svenska Handelsbanken S.A.	232,000	0.92%
<b>Total, 20 largest shareholders</b>	<b>20,183,011</b>	<b>79.84%</b>
Other, about 1,200 shareholders		0.00%
<b>TOTAL</b>	<b>25,280,086</b>	<b>100.00%</b>

\* Through company

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

Source: Euroclear and Tethys Oil

## Distribution of shareholdings

Distribution of shareholdings in Tethys Oil as per 31 March 2009.

Size categories as per 31 March 2009	Number of shares	Percentage of shares, %	Number of shareholders	Percentage of shareholders, %
1 – 1,500	489,264	1.94%	824	67.82%
1,501 – 30,000	2,253,883	8.92%	349	28.72%
30,001 – 150,000	1,186,619	4.69%	20	1.65%
150,001 – 300,000	1,721,446	6.81%	8	0.66%
300,001 –	19,628,874	77.65%	14	1.15%
<b>Total</b>	<b>25,280,086</b>	<b>100.00%</b>	<b>1 215</b>	<b>100.00%</b>

Source: Euroclear and Tethys Oil

### Share price development and turnover 2008



### Share price development and turnover since inception



### Share statistics 2008

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

Ticker name	TETY
Year high	28.30 (29 May 2008)
Year low	7.20 (10 December 2008)
Average turnover per day, shares	34,300
Period turnover, shares	8,643,499
Period turnover/outstanding shares	38%

# Key Financial Data

Group	2008	2007	2006	2005	2004
<b>Items regarding the income statement and balance sheet</b>					
Gross margin, TSEK	n.a.	n.a.	n.a.	n.a.	n.a.
Operating result, TSEK	-31,748	-23,533	-30,976	-14,998	-5,810
Operating margin, %	n.a.	n.a.	n.a.	n.a.	n.a.
Result before tax, TSEK	-16,395	-24,704	-29,802	-14,368	-5,062
Net result, TSEK	-16,426	-24,721	-29,802	-14,368	-5,062
Net margin, %	n.a.	n.a.	n.a.	n.a.	n.a.
Shareholders' equity, TSEK	177,077	103,196	95,230	52,375	66,743
Balance sheet total, TSEK	179,909	105,586	118,983	54,833	69,102
<b>Capital structure</b>					
Equity ratio, %	98.43%	97.74%	80.04%	95.52%	96.59%
Leverage ratio, %	n.a.	n.a.	n.a.	n.a.	n.a.
Adjusted equity ratio, %	98.43%	97.74%	80.04%	95.52%	96.59%
Interest coverage ratio, %	n.a.	n.a.	n.a.	n.a.	n.a.
Investments, TSEK	72,512	51,765	35,207	6,491	12,696
<b>Profitability</b>					
Return on shareholders' equity, %	neg.	neg.	neg.	neg.	neg.
Return on capital employed, %	neg.	neg.	neg.	neg.	neg.
<b>Employees</b>					
Average number of employees	10	9	5	4	3
<b>Number of shares</b>					
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 at year end, thousands	23,980	19,179	17,226	13,155	13,155
Shareholders' equity per share, SEK	7.38	5.38	5.53	3.98	5.07
Weighted number of shares for the year, thousands	22,669	17,592	15,330	13,155	11,115
Earnings per share, SEK	-0.72	-1.41	-1.94	-1.09	-0.46

## 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

#### Equity ratio

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.

<b>Parent</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Items regarding the income statement and balance sheet</b>					
Gross margin, TSEK	n.a.	n.a.	n.a.	n.a.	n.a.
Operating result, TSEK	-6,853	-3,996	-4,488	-3,786	-3,903
Operating margin, %	n.a.	n.a.	n.a.	n.a.	n.a.
Result before tax, TSEK	-12,389	-22,558	-28,178	-12,391	-2,970
Net result, TSEK	-12,389	-22,558	-28,178	-12,391	-2,970
Net margin, %	n.a.	n.a.	n.a.	n.a.	n.a.
Shareholders' equity, TSEK	187,035	113,197	100,945	56,444	68,835
Balance sheet total, TSEK	188,409	115,179	121,232	58,982	70,346
<b>Capital structure</b>					
Equity ratio, %	99.27%	98.28%	83.27%	95.70%	97.85%
Leverage ratio, %	n.a.	n.a.	n.a.	n.a.	n.a.
Adjusted equity ratio, %	99.27%	98.28%	83.27%	95.70%	97.85%
Interest coverage ratio, %	n.a.	n.a.	n.a.	n.a.	n.a.
Investments, TSEK	82,755	21,887	59,096	5,874	11,651
<b>Profitability</b>					
Return on shareholders' equity, %	neg.	neg.	neg.	neg.	neg.
Return on capital employed, %	neg.	neg.	neg.	neg.	neg.
<b>Employees</b>					
Average number of employees	5	5	4	4	3
<b>Number of shares</b>					
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 at year end, thousands	23,980	19,179	17,226	13,155	13,155
Shareholders' equity per share, SEK	7.80	5.90	5.53	4.29	5.23
Weighted number of shares for the year, thousands	22,669	17,592	15,330	13,155	11,115
Earnings per share, SEK	-0.55	-1.28	-1.84	-0.94	-0.27

#### **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**

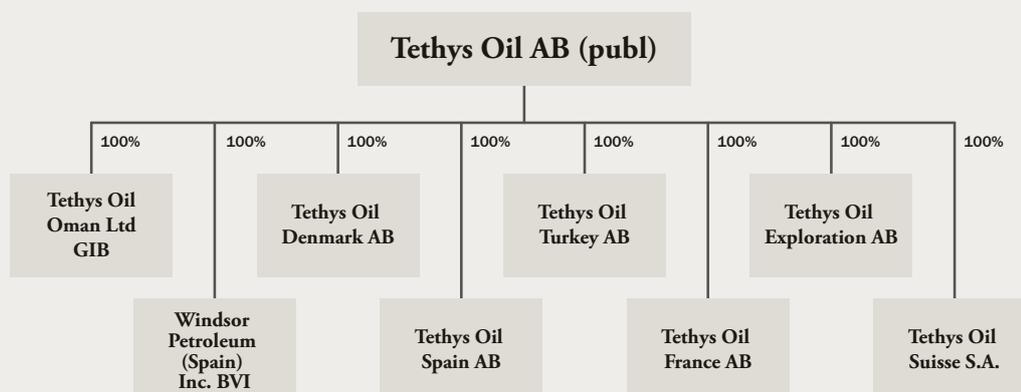
Net result divided by the number of outstanding shares.

**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. As at year end 2008 the company had interests in licences in Oman, France, Swe-

den, Morocco, Spain and Turkey. Tethys Oil plans to withdraw from or divest from all licences in Turkey and Spain during 2009.

### 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 in Block 15 and is the operator of the licence and partner Odin Energi, a private Danish company, holds the remaining 60 per cent. Tethys Oil holds 50 per cent interest in Blocks 3 and 4 and the operator of the licence is Consolidated Contractors Energy Development holding the remaining 50 per cent.

Country	Licence name	Tethys Oil	Total area, km <sup>2</sup>	Partners (operator in bold)	Book value 31 Dec 2008	Book value 31 Dec 2007
Oman	Block 15	40%	1,389	<b>Tethys Oil</b> , Odin Energi	98,729	47,964
Oman	Block 3,4	50%	33,125	<b>CCED</b> , Tethys Oil	34,867	12,782
France	Attila	40%	1,986	<b>Galli Coz</b> , Tethys Oil	3,589	8,844
Morocco	Bouanane	12.5%	2,100	<b>Dana Petroleum</b> , Tethys Oil, Eastern Petroleum	1,858	971
Spain	Sedano project (Valderredible, Huermeces and Basconillos licences)	15%	556	<b>Leni Gas&amp;Oil</b> , Tethys Oil	–	1,197
Spain	Cameros project (Cameros-2 and Ebro-A licences)	26%	252	<b>SHESA</b> , Union Fenosa, Nuelgas, Tethys Oil	–	258
Turkey	Ispandika project (AR/TMO-EPS-GYP/3795 and AR/TMO-EPS-GYP/3794 licences)	10%	965	<b>Aladdin Middle East</b> , Tethys Oil	1,289	1,289
Turkey	Thrace project (AR-AME-3999, AR-AME-3998 and AR-AME-4187 licences)	25%	944	<b>Aladdin Middle East</b> , Tethys Oil	–	3,325
Sweden	Gotland Större	100%	540	<b>Tethys Oil</b>	429	259
	New ventures				52	23
<b>Total</b>			<b>41,907</b>		<b>140,811</b>	<b>76,932</b>

### *Block 15*

On Block 15, Tethys Oil has mainly been concentrating on the Jebel Aswad structure, which is a geological feature in the north western part of the block. The structure is mapped from 2D seismic and covers an area of approximately 225 square kilometres. Two exploration wells were drilled in 1994 and 1997. One of the wells, Jebel Aswad – 1 (JAS-1), was re-entered in 1995 and tested 204 bbls of 40 degree API oil. As operator Tethys Oil re-entered JAS-1 in 2007, and the well was designed to appraise two reservoirs, the Shuaiba and the Natih reservoirs. Both reservoirs produced hydrocarbons to surface. In the Natih reservoir, a horizontal section of 848 metres was drilled and on testing the reservoir produced natural gas at a rate of 11.03 mmscfd and 57 degree API condensate at a rate of 793 bpd condensate of 57 degree API (corresponding to 2,626 boepd).

In the summer 2008, Tethys Oil spudded JAS-2, a step out well 1.2 kilometres from JAS-1. By 20 August 2008, JAS-2 was finished after the well had reached a total measured depth of 4,018 metres. A horizontal section of 927 metres was drilled in the reservoir section at a vertical depth of just over 3,000 metres. The horizontal section was drilled in a south easterly direction. Well logs from JAS-2 are identical to those from JAS-1 and are thus indicative to the presence of hydrocarbons which has confirmed the reservoir extension in this direction. The testing of JAS-2 was however suspended due to an unintentional crossing of a water producing fault close to the end of the well. The return of a drilling rig will be required to work over the well and to seal off the water producing fault.

During August and September 2008, a total of 285 square kilometres of 3D seismic data was collected, covering the entire hydrocarbon bearing Jebel Aswad structure. Previous seismic over the Jebel Aswad structure was 2D seismic with relatively low resolution and with sparse coverage over parts of the structure. The new seismic lines cover the whole structure, and are acquired with a geophone spacing of 15 x 15 metres. In early January 2009, the processing of new 3D seismic data was completed. The processing has been done by specialist firm Hardin International of Dallas, Texas. The processed data is of exceptionally good quality. The new seismic maps have offered valuable information for the future development of the Jebel Aswad field.

### *Blocks 3 and 4*

The two blocks covers an area of more than 30,000 square kilometres in the eastern part of Oman. Tethys Oil acquired its interest in the blocks in December 2007 and has during 2008 reviewed and upgraded

the database over the area. On the blocks, the Farha South and Saiwan East discovery have been of particular interest. The work carried out during 2008 increased expectations both regarding the South Farha structure and the Farha trend of structures on Block 3 and for the Saiwan East discovery on Block 4. Drilling preparations commenced towards the end of 2008 and Farha South-3 spudded on 9 February 2009. The drilling target is the Lower Bashair sandstone formation at a depth of around 1,900 metres. The well Farha South-3 (FS-3) will test the lateral continuity of the Lower Bashair sandstone and horizontal sidetrack is planned to increase productivity. FS-3 is located about 1.2 kilometres South East of the FS-1 oil discovery. The discovery well tested a total of 260 barrels of 40 degree API oil from the Lower Bashair formation in 1986.

The drilling of Saiwan East-2 (ES-2) is scheduled to follow as soon as FS-3 on Block 3 has been finalized. The heavy oil discovery Saiwan East was drilled in 2005, the well ES-1 logged about 42 metres of oil saturated limestones and sandstones. Although the section was evaluated by electric logs it was never drill stem tested. Previously, this oil was considered immobile; however, recent technical studies indicate that it potentially could be produced.

### **France**

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

During autumn 2007, Tethys Oil and the operator Galli Coz drilled the exploration well Pierre Maubeuge 2 (PLM-2) on the Attila licence in France, which proved the presence of natural gas. Wireline logging confirmed the indications of natural gas while drilling. In July 2008, well completion and production tests were conducted on the well but only a minor natural gas flow occurred. An evaluation of the well results was conducted and it was decided to re-test the well during the autumn of 2008. Higher natural gas flows were recorded during this test; however the results proved the PLM-2 well to be non commercial in its current state. Although disappointing, this result supports the overall prospectivity of the Attila licence.

### **Spain**

Tethys Oil holds interest in two onshore projects in Spain: the Sedano Project south of the Cantabrian

Mountains and the Cameros project in the Ebro basin of northern Spain. The Sedano project was tested in 2007 with the drilling of the Hontomin-4 well. The well was unsuccessful, and resulted in Tethys Oil lowering its interests in the licences to 15 per cent. Subsequently, Tethys Oil has decided to withdraw from the Spanish projects.

### **Turkey**

Tethys Oil has interests in five exploration licenses in Turkey. Tethys Oil holds interest in two exploration licenses in the Ispandika area located in south-eastern Turkey close to Syria and Iraq. Partner in the licences in Ispandika is Aladdin Middle East (operator). The other three licenses 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 licenses and 25 per cent interest in the three licenses in Thrace. Tethys Oil has established a branch in Turkey that holds the licence interests directly.

### *Thrace*

In September and October 2008, the Copkoy-1 exploration well in the Thrace Basin was drilled. It was tested at three intervals that showed natural gas while drilling. The tests were however not successful and the well was plugged and abandoned. A thorough post-drilling analysis was carried out of all the data from the well in cooperation with the operator Aladdin. Based on this analysis, Tethys Oil decided to withdraw from the licences.

### *Ispandika*

No ground work has been carried out during 2008 due to the security situation in the region. In light of the group's increased focus on Oman, no further investments will be made on the Ispandika licences and accordingly the licences will expire in 2009.

### **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 natural gas company Dana Petroleum Plc. Also partner of the licence is Eastern Petroleum. Tethys Oil has a carried interest for the first MUS\$ 12 of drilling costs.

A drilling rig contract for the drilling of the Tafejart-1 exploration well on the Bouanane licence onshore Morocco was entered into by the operator Dana Petroleum on behalf of the partner group. Drilling preparations commenced in late 2008. Spudding of the Tafejart-1 well was made by the end of March 2009.

### **Sweden**

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

Tethys Oil has in 2008 conducted a comprehensive study of existing data and a database has been created. The interpretation of new satellite radar data has resulted in new maps, which have supplied better understanding of the land cover and the relief within the licence area. The work to identify reefal trends within the licence area continues.

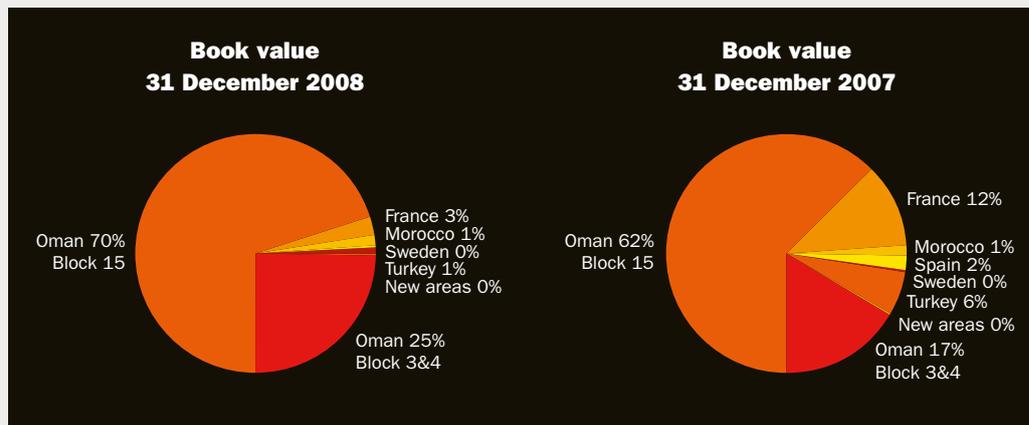
### **Significant agreements and commitments**

In Tethys Oil's oil and natural gas operations there are two main 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 fulfilled its commitments on Block 15 in Oman for the current period but has an active commitment regarding Blocks 3 and 4. The commitment amount to MUS\$ 5.5 and is an estimate of expenditures in order to fulfil the work commitment. 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 Oil 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 twelve month period ended 31 December 2008. The amounts relating to the comparative period (equivalent period of last year) are shown in parenthesis after the amount for the current period. The share related data have been restated for comparative periods based on the share split 3:1 conducted in March 2008. The primary segment of the group is geographical markets. Within the group there are only assets and write downs for these geographical markets which are presented below.

### Loss for the period and sales

Tethys Oil reports a loss for the year 2008 of TSEK -16,426 (TSEK -24,721 for comparative period last year), representing earnings per share of SEK -0.72 (SEK -1.41) for the year 2008.

The loss for the year 2008 has been significantly impacted by write downs of oil and natural gas properties and net foreign exchange gains. The write downs amounting to TSEK 21,088 regard all previously incurred investments in Thrace, Turkey and Spain and all well related investments in France. The write downs are described in more detail under *Movement in oil and gas properties*. The currency exchange effect of the group amounts to TSEK 13,704 for 2008 and the majority of the effect relates to the strengthened US dollar in relation to the Swedish krona. The background is that the majority of Tethys Oil's assets relates to Oman and Block 15 which are held through the subsidiary Tethys Oil Oman Ltd, which is financed through an intercompany loan from the parent company denominated in US dollar. These currency translation differences between the parent company and subsidiaries are non-cash related items. The currency exchange gain effect is part of net financial income amounting to TSEK 15,565 for the year 2008. Apart from net currency exchange gains, net financial income consist of net interest received

and return on short term investments of TSEK 1,649 for the full year 2008.

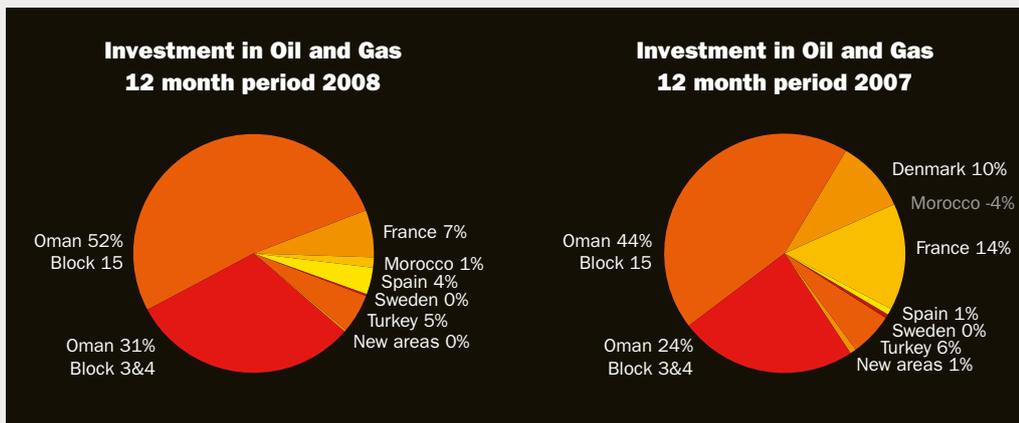
Tethys Oil has not recorded any sales or production of oil and natural gas for the twelve month period that ended 31 December 2008. Accordingly, there has been no depletion of oil and gas properties.

### Other income, administrative expenses

Administrative expenses amounted to TSEK -13,818 (TSEK -10,563) for the year 2008. Depreciation amounted to TSEK 186 (TSEK 122) during 2008. Administrative expenses are mainly salaries, rents, listing costs and outside services. Depreciation is referable to office equipment. The increase in administrative expenses compared to 2007 is related to increased corporate activity especially in the subsidiary Tethys Oil Oman Ltd and a strengthened US dollar. Part of the administrative expenses in Tethys Oman Ltd is charged to the joint venture in Block 15 in Oman where the expenses are capitalised and, in line with the Production Sharing Agreement, recoverable. These administrative expenses are, through the above, also funded by the partner in Block 15 in Oman by 60 per cent. The chargeout to the joint venture is presented in the income statement as Other income. Part of the remaining administrative expenses are capitalised in the subsidiaries and in the consolidated income statement these internal transactions are eliminated.

### Movement in oil and gas properties

Tethys Oil's oil and gas properties consist of interests in licences in Oman, Morocco, Spain, Turkey, France and Sweden. Oman account for the largest part of the book values of oil and gas properties, around 95 per cent as per 31 December 2008 compared to 79 per cent as per 31 December 2007. The focus on Oman has increased due to the write downs of oil and gas properties which were made during the fourth quarter 2008 in Spain, France and the Thrace licences in Turkey. Tethys Oil has furthermore, in the light of the focus on Oman, not renewed the option to acquire 11 per cents interest of the Dunalka licence onshore Latvia. Oil and gas properties as at 31 December 2008 amounted to TSEK 140,811 (TSEK 76,912). Investments in oil and gas properties of TSEK 71,506



(TSEK 29,480) were incurred for the twelve month period ended 31 December 2008.

Investments in oil and gas properties in Oman of TSEK 59,366 have mainly been related to Block 15 for the planning, preparation and drilling of the Jebel Aswad-2 well. After completing the Jebel Aswad-2 well the testing was suspended due to a water producing fault close to the end of the well. Tethys Oil will have to source a rig to be able to complete the testing. Furthermore on Block 15, investments have been incurred relating to 3D seismic acquisition. Investments related to Blocks 3 and 4 regard the planning and preparation of the Farha South well which commenced during February 2009.

In France, Tethys Oil has invested TSEK 4,558 mainly for the completion and testing of the PLM-2 on the Attila licence. Results from the testing were presented in July 2008 and initially no flows were recorded. The operator has continued evaluating data and is confident that sufficient proof of an active natural gas system with the licence area has been determined to justify the investments that regard the Attila licence. However, all incurred investments relating to the PLM-2 exploration well has been written off as the well is considered sub-commercial. The write downs relating to PLM-2 amount to TSEK 9,812.

In Turkey, Tethys Oil participated in an exploration well in Thrace. Investments have amounted to TSEK 3,783 relating to this well. The Copcoy well spudded in September 2008 and reached total depth in mid October 2008. The well was plugged and abandoned and a post drilling analysis was carried out. Based on the analysis, Tethys Oil has decided to withdraw from the Thrace licences and consequently all incurred investments are written off. The write downs relating to Thrace amount to TSEK 7,108.

In Spain Tethys Oil has invested TSEK 2,713 relating to the Sedano project and the majority of these investments were made in the beginning of the year. Tethys Oil has decided to withdraw from all its projects in Spain and has, following from this deci-

sion, written off all incurred investments amounting to TSEK 4,168.

In Morocco TSEK 887 have been invested relating to the Bouanane licence and mainly regard previously incurred expenditures.

The book value of oil and gas properties include currency exchange gains of TSEK 13,484 during the year 2008, which are not cash related items and therefore not included in investments. For more information please see above *Loss for the period and sales*.

#### Liquidity and financing

Cash and cash equivalents as at 31 December 2008 amounted to TSEK 29,886 (TSEK 12,252) of which cash and bank amounted to TSEK 20,603 (TSEK 12,252) and short term investments amounted to TSEK 9,283 (TSEK -). Short term investments are investments in money market funds.

At the beginning of 2008 Tethys Oil received proceeds from the set off issue which was registered in December 2007. The set off issue regarded 226,000 shares and the amount received in January 2008 was TSEK 12,656. Based on an authorization from the EGM held 20 February 2008, the Board of Directors resolved to issue 4,800,000 shares through a private placement directed to primarily international investors in the Middle East, Asia and France. The private placement was made at SEK 19 per share, which was in line with the prevailing market price at the time. Total proceeds from this issue amounting to TSEK 91,200, before issue costs, were received between the first and second quarter 2008. Issue costs amounted to approximately TSEK 4,979. The shares were registered on 9 April 2008. The Dubai based brokerage house MAC Capital Limited acted as advisor for the private placement.

Furthermore, the Board of Directors decided to issue up to 4,800,000 warrants based on authorization from the EGM held 20 February 2008. The decision was made 31 March 2008 and the warrants were issued with preferential right to existing shareholders as per record date 15 April 2008. The total number

of warrants issued was 4,795,649. All shareholders received, free of charge, one warrant for every fifth share held. The warrants can be exercised during the period 1 June 2008 to 30 June 2010 and the subscription price is SEK 23. The warrant started to trade on First North 17 April 2008. On full exercise of the warrants Tethys Oil will issue 4,795,649 shares and receive about MSEK 110 before issue costs.

#### **Current receivables**

Current receivables amounted to TSEK 7,239 (TSEK 15,777) as at 31 December 2008. The reduction of short term receivables is explained by the set off issue described above, where proceeds from the issue were recorded as current receivables as per 31 December 2007 and received in January 2008. The majority of the receivables as per 31 December 2008 relate to partner receivables on Block 15 in Oman.

#### **Current liabilities**

Current liabilities as at 31 December 2008 amounted to TSEK 2,832 (TSEK 2,390), of which TSEK 1,358 (TSEK 1,251) relates to accounts payable, TSEK 385 (TSEK 733) relates to other current liabilities and TSEK 1,088 (TSEK 406) relates to accrued expenses.

#### **Parent company**

The parent company reports a loss for the year 2008 amounting to TSEK -12,389 (TSEK -22,558). Administrative expenses amounted to TSEK -8,503 (TSEK -7,225) for the year 2008. Net financial income amounted to TSEK -5,536 (TSEK -18,561) during the year 2008. Write downs of shares in group companies have significantly impacted the loss for 2008 and are made as a consequence of the write downs of oil and gas properties in the group. Write downs of shares in group companies amounted to TSEK -24,859 and are included in net financial income. The strengthened US dollar has had a significantly positive impact on net financial income. The majority of the exchange rate gains regard translation differences and are non cash related. Investments and loans to subsidiaries during the year 2008 amounted to TSEK 82,755 (TSEK 42,005). Loans are financial loans to subsidiaries for their oil and gas operations, investments are mainly in oil and gas operations related to Blocks 3 and 4 in Oman. The turnover in the parent company relates to chargeouts of services to subsidiaries.

#### **Subsequent events**

The Board of Directors resolved 17 February 2009 to issue 1,300,000 new shares, corresponding to approximately 5.4 per cent of the number of shares outstanding, at a price of SEK 10 through a private placement directed to approximately 10 Swedish and international investors. The private placement was done with authorizations from the AGM held on 8 May 2008. The private placement was fully subscribed and the proceeds amounted to MSEK 13 before issue costs.

#### **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 8 May 2008 Håkan Ehrenblad, Vincent Hamilton, John Hoey, Jonas Lindvall, Magnus Nordin and Jan Risberg were re-elected members of the board. Carl-Gustaf Ingelman declined re-election. 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 9 meetings during 2008. Most importantly the Board has adopted the interim reports of the year as well as the budget of 2009.

The six member board consists of three executive and three non-executive directors. Vince Hamilton has acted both as Chairman of the Board and as Chief Operating Officer. The three non-executive directors are also members of the Audit committee which had 4 meetings during 2008. Chairman of the Audit committee is Jan Risberg. Furthermore, the three non-executive directors are also members of the Remuneration committee, where Jan Risberg also is Chairman.

#### **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**

As per 31 December 2008, the number of outstanding shares in Tethys Oil amount to 23,980,086 (19,178,286), with a quota value of SEK 0.17 (SEK 0.17). All shares represent one vote each. Tethys Oil does not have any incentive program.

As per 1 January 2008, Tethys Oil had 6,392,762 shares. The EGM held 20 February 2008 resolved to carry out a share split whereby each share was divided into three shares (a share split 3:1). The share split was conducted 3 March 2008 and increased the number of shares to 19,178,286. The share issue conducted between the first and second quarter 2008 increased the number of shares with 4,800,000 to 23,978,286. The shares from the share issue are included as per registration dated 9 and 16 April 2008. The warrants from the rights issue described above amount

to 4,795,649 with an exercise price of SEK 23 and where one warrant gives the right to purchase one new share. The warrants can be exercised continuously up until 30 June 2010. The average share price during 2008 was below the exercise price which is why the related numbers of shares are not included in the fully diluted number of shares.

### **Risk and uncertainties**

A statement of risks and uncertainties are presented in note 1, page 51.

### **Dividend**

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

### **Proposed disposition of unappropriated earnings**

The Board of Directors propose that the unappropriated earnings of SEK 111,967, of which the loss for the year, SEK -12,389, 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, 20 May 2009.

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, 8 April 2009

Vincent Hamilton, Chairman of the Board

Håkan Ehrenblad, Director

John Hoey, Director

Jonas Lindvall, Director

Jan Risberg, Director

Magnus Nordin, Managing Director

# Consolidated Income Statement

TSEK	Note	2008	2007
<b>Net sales of oil and gas</b>		–	–
Write off of oil and gas properties	4	-21,088	-16,220
Other income		3,450	3,195
Other losses/gains, net	5	-293	55
Administrative expenses	6-8	-13,818	-10,563
<b>Operating result</b>		<b>-31,748</b>	<b>-23,533</b>
Financial income and similar items	9	15,565	417
Financial expenses and similar items	10	-212	-1,587
<b>Net financial income</b>		<b>15,353</b>	<b>-1,170</b>
<b>Result before tax</b>		<b>-16,395</b>	<b>-24,704</b>
Income tax	11	-30	-17
<b>Loss for the year</b>		<b>-16,426</b>	<b>-24,721</b>
Number of shares outstanding *	14	23,980,086	19,178,286
Number of shares outstanding (after dilution) *	14	23,980,086	19,178,286
Weighted number of shares *	14	22,668,770	17,591,889
Earnings per share, SEK *	14	-0.72	-1.41
Earnings per share (after dilution), SEK *	14	-0.72	-1.41

\* The share related data have been restated for comparative periods based on the share split 3:1 conducted in March 2008.

# Consolidated Balance Sheet

TSEK	Note	31 Dec 2008	31 Dec 2007
<b>ASSETS</b>			
<b>Fixed assets</b>			
Oil and gas properties	4	140,811	76,932
Office equipment	12	1,128	308
<b>Total fixed assets</b>		<b>141,940</b>	<b>77,240</b>
<b>Current assets</b>			
Other receivables	13	7,239	15,777
Prepaid expenses		843	316
Short term investments		9,283	–
Cash and bank		20,603	12,252
<b>Total current assets</b>		<b>37,969</b>	<b>28,346</b>
<b>TOTAL ASSETS</b>		<b>179,909</b>	<b>105,586</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
Share capital	14	3,997	3,196
Additional paid in capital		262,982	177,555
Other reserves		1,897	-2,182
Retained earnings		-91,799	-75,374
<b>Total shareholders' equity</b>		<b>177,077</b>	<b>103,196</b>
<b>Non interest bearing current liabilities</b>			
Accounts payable		1,358	1,251
Other current liabilities		385	733
Accrued expenses		1,088	406
<b>Total non interest bearing current liabilities</b>		<b>2,832</b>	<b>2,390</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>179,909</b>	<b>105,586</b>
Pledged assets	16	500	500
Contingent liabilities	17	43,230	36,509

# Consolidated Statement of Changes in Equity

TSEK	Share capital	Additional paid in capital	Other reserves	Retained earnings	Total equity
<b>Opening balance 1 January 2007</b>	<b>2,871</b>	<b>143,050</b>	<b>-21</b>	<b>-50,690</b>	<b>95,230</b>
Currency translation difference	-	-	-2,160	-	-2,160
<b>Total income and expenses recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>-2,160</b>	<b>-</b>	<b>-2,160</b>
Loss for the year 2007	-	-	-	-24,721	-24,721
Directed issue	150	16,650	-	-	16,800
Issue costs	-	-1,076	-	-	-1,076
Directed issue	63	6,937	-	-	7,000
Issue costs	-	-88	-	-	-88
Set off issue	113	12,543	-	-	12,656
Issue costs	-	-88	-	-	-88
Issue costs private placement	-	-394	-	-	-394
<b>Closing balance at 31 December 2007</b>	<b>3,196</b>	<b>177,555</b>	<b>-2,182</b>	<b>-75,374</b>	<b>103,196</b>
<b>Opening balance 1 January 2008</b>	<b>3,196</b>	<b>177,555</b>	<b>-2,182</b>	<b>-75,374</b>	<b>103,196</b>
Currency translation difference	-	-	4,079	-	4,079
<b>Total income and expenses recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>4,079</b>	<b>-</b>	<b>4,079</b>
Loss for the year 2008	-	-	-	-16,426	-16,426
Issue costs set off issue	-	-107	-	-	-107
Private placement	801	90,441	-	-	91,242
Issue costs private placement	-	-4,585	-	-	-4,585
Issue costs warrant issue	-	-322	-	-	-322
<b>Closing balance at 31 December 2008</b>	<b>3,997</b>	<b>262,982</b>	<b>1,897</b>	<b>-91,799</b>	<b>177,077</b>

# Consolidated Cash Flow Statement

TSEK	Note	2008	2007
<b>Cash flow from operations</b>			
Operating result		-31,748	-23,532
Interest received		1,233	374
Interest paid		-1	-
Income tax		-30	-17
Adjustment for write down of oil and gas properties	4	21,088	16,220
Adjustment for depreciation and other non cash related items		263	-1,461
<b>Total cash flow used in operations before change in working capital</b>		<b>-9,195</b>	<b>-8,416</b>
Decrease/increase in receivables		-4,646	13,408
Decrease/increase in liabilities		442	-21,363
<b>Cash flow used in operations</b>		<b>-13,399</b>	<b>-16,371</b>
<b>Investment activity</b>			
Investment in oil and gas properties	4	-71,506	-51,481
Investment in other fixed assets	12	-1,007	-284
<b>Cash flow used for investment activity</b>		<b>-72,512</b>	<b>-51,765</b>
<b>Financing activity</b>			
Share issue, net after issue costs		98,884	22,267
Return on short term investments		417	43
<b>Cash flow from financing activity</b>		<b>99,301</b>	<b>22,310</b>
<b>Cash flow for the year</b>		<b>13,390</b>	<b>-45,827</b>
Cash and cash equivalents at the beginning of the period *		12,252	58,085
Exchange gains/losses on cash and cash equivalents		4,245	-5
Cash and cash equivalents at the end of the period *		29,886	12,252

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

# Parent Company Income Statement

TSEK	Note	2008	2007
Net sales of oil and gas		–	–
Other income		1,881	2,923
Other losses/gains, net	5	-231	306
Administrative expenses	6-8	-8,503	-7,225
<b>Operating result</b>		<b>-6,853</b>	<b>-3,996</b>
Financial income and similar items	9	19,457	3,145
Financial expenses and similar items	10	-134	-1,587
Write down of shares in group companies	15	-24,859	-20,119
<b>Net financial income</b>		<b>-5,536</b>	<b>-18,561</b>
<b>Result before tax</b>		<b>-12,389</b>	<b>-22,558</b>
Income tax	11	–	–
<b>Loss for the year</b>		<b>-12,389</b>	<b>-22,558</b>
Number of shares outstanding	14	23,980,086	19,178,286
Number of shares outstanding (after dilution)	14	23,980,086	19,178,286
Weighted number of shares	14	22,668,770	17,591,889

# Parent Company Balance Sheet

TSEK	Note	31 Dec 2008	31 Dec 2007
<b>ASSETS</b>			
<b>Fixed assets</b>			
Oil and gas properties	4	35,569	12,782
Other fixed assets	12	198	308
<b>Total fixed assets</b>		<b>35,767</b>	<b>13,090</b>
<b>Financial assets</b>			
Shares in subsidiaries	15	26,347	26,347
Long term receivables from group companies		97,198	52,746
<b>Total financial fixed assets</b>		<b>123,545</b>	<b>79,093</b>
<b>Current assets</b>			
Other receivables	13	205	13,026
Pre paid expenses		550	315
Short term investments		9,283	–
Cash and bank		19,059	9,656
<b>Total current assets</b>		<b>29,097</b>	<b>22,997</b>
<b>TOTAL ASSETS</b>		<b>188,409</b>	<b>115,179</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>	14		
<i>Restricted equity:</i>			
Share capital		3,997	3,196
Statutory reserve		71,071	71,071
<i>Unrestricted equity:</i>			
Share premium reserve		191,911	106,484
Retained earnings		-67,555	-44,997
Net result		-12,389	-22,558
<b>Total shareholders' equity</b>		<b>187,035</b>	<b>113,197</b>
<b>Non interest bearing current liabilities</b>			
Accounts payable		634	1,181
Other current liabilities		347	694
Accrued expenses		393	107
<b>Total non interest bearing current liabilities</b>		<b>1,374</b>	<b>1,982</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>188,409</b>	<b>115,179</b>
Pledged assets	16	500	500
Contingent liabilities	17	43,230	36,245

# Parent Company Statement of Changes in Equity

TSEK	Restricted equity		Unrestricted equity			Total equity
	Share capital	Statutory reserve	Share premium reserve	Retained earnings	Net result	
<b>Opening balance at 1 January 2007</b>	<b>2,871</b>	<b>71,071</b>	<b>72,000</b>	<b>-16,820</b>	<b>-28,178</b>	<b>100,945</b>
Transfer of prior year net result	-	-	-	-28,178	28,178	-
Loss for the year 2007	-	-	-	-	-22,558	-22,558
	<b>2,871</b>	<b>71,071</b>	<b>72,000</b>	<b>-44,997</b>	<b>-22,558</b>	<b>78,387</b>
Directed issue	150	-	16,650	-	-	16,800
Issue costs	-	-	-1,076	-	-	-1,076
Directed issue	63	-	6,937	-	-	7,000
Issue costs	-	-	-88	-	-	-88
Set off issue	113	-	12,543	-	-	12,656
Issue costs	-	-	-88	-	-	-88
Issue costs private placement	-	-	-394	-	-	-394
<b>Closing balance at 31 December 2007</b>	<b>3,196</b>	<b>71,071</b>	<b>106,484</b>	<b>-44,997</b>	<b>-22,558</b>	<b>113,197</b>
<b>Opening balance at 1 January 2008</b>	<b>3,196</b>	<b>71,071</b>	<b>106,484</b>	<b>-44,997</b>	<b>-22,558</b>	<b>113,197</b>
Transfer of prior year net result	-	-	-	-22,558	22,558	-
Loss for year 2008	-	-	-	-	-12,389	-12,389
	<b>3,196</b>	<b>71,071</b>	<b>106,484</b>	<b>-67,555</b>	<b>-12,389</b>	<b>100,807</b>
Issue costs set off issue	-	-	-107	-	-	-107
Private placement	801	-	90,441	-	-	91,242
Issue costs private placement	-	-	-4,585	-	-	-4,585
Issue costs warrants issue	-	-	-322	-	-	-322
<b>Closing balance at 31 December 2008</b>	<b>3,997</b>	<b>71,071</b>	<b>191,911</b>	<b>-67,555</b>	<b>-12,389</b>	<b>187,035</b>

# Parent Company Cash Flow Statement

TSEK	Note	2008	2007
<b>Cash flow from operations</b>			
Operating result		-6,853	-3,996
Interest received		5,056	3,101
Interest paid		-13	-
Adjustment for depreciation		118	-1,468
<b>Total cash flow used in operations before change in working capital</b>		<b>-1,692</b>	<b>-2,363</b>
Decrease/increase in receivables		-70	-191
Decrease/increase in liabilities		-608	-18,305
<b>Cash flow used in operations</b>		<b>-2,370</b>	<b>-20,859</b>
<b>Investment activity</b>			
Acquisition of subsidiary, net of cash acquired	15	-	-557
Investment in oil and gas properties	4	-22,787	-12,782
Investment in long term liabilities		-59,961	-28,383
Investment in other fixed assets	12	-7	-283
<b>Cash flow used for investment activity</b>		<b>-82,755</b>	<b>-42,005</b>
<b>Financing activity</b>			
Share issue, net after issue costs		98,884	22,267
Return on short term investments		417	43
<b>Cash flow from financing activity</b>		<b>99,301</b>	<b>22,310</b>
<b>Cash flow for the year</b>		<b>14,176</b>	<b>-40,555</b>
Cash and cash equivalents at the beginning of the period*		9,656	50,207
Exchange gains on cash and cash equivalents		4,512	4
Cash and cash equivalents at the end of the period*		28,344	9,656

\* Presented as cash and bank and short term investments 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 8 April 2009.

## 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 2007 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, the Annual Accounts Act and RFR 1.1 "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 RFR 2.1 "Accounting for legal entities". RFR 2.1 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 or are allowed to 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.

## New accounting principles in 2008

In 2008, two new interpretations from IFRIC were effective as of 1 January 2008: IFRIC 11 'IFRS 2 Group and Treasury Share Transactions' and IFRIC 14 'IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction'. The implementation of them have not had any impact on the Group's financial statements. The amendment to IAS 39 and IFRS 7 effective from 1 July 2008, published and endorsed in October 2008, have not had any significant effect on the Group's financial statements.

## New accounting principles 2009 and 2010

When preparing the consolidated accounts as of December 31, 2008, a number of standards and interpretations have been published, but have not yet become effective. The following is a preliminary assessment of the effect the implementation of these standards and statements could have on the Tethys Oil Group's financial statements.

### IFRS 8 Operating segments

The standard becomes effective on January 1, 2009 and applies for the fiscal years beginning on that date. The standard addresses the distribution of the company's operations in different segments. In accordance with the standard, the company shall adopt an approach based on the internal reporting structure and determine the reportable segments based on this structure. Tethys Oil does not expect the adoption of IFRS 8 to result in any change in the number of segments.

### IAS 23 amendment

Borrowing costs The interpretation becomes effective on January 1, 2009 and applies to fiscal years beginning after that date. The amendment states that borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. The Group will apply the amendment as of January 1, 2009. The Group already apply these principles and the revised standard will therefore not have any impact on the Group's financial statements.

### IAS 1 amendment Presentation of financial statements

The amendment becomes effective on January 1, 2009 and applies to fiscal years beginning after that date. The amendment concerns the form for presentation of financial position, comprehensive income and cash flow. The Group will apply the amendment as of January 1, 2009, which will not have a significant impact on the Group's financial statements, but only to a limited extent affect the form of presentation for the Group financial statements.

### Revised IFRS 3 Business combinations\*

The standard becomes effective on July 1, 2009 and applies to fiscal years beginning after that date. The standard entails changes to the reporting of future acquisitions regarding for example the accounting of transaction costs, any contingent considerations and step acquisitions. The Group will apply the amendment as of January 1, 2010. The application will prospectively affect the accounting for business combinations made from the application date.

### IAS 27 amendment Consolidated and separate financial statements\*

The standard becomes effective on July 1, 2009, as a consequence of the revised IFRS 3, and applies to fiscal years beginning after that date. The amendment brings about changes in IAS 27 regarding for example how to report changes to the ownership in cases where the parent company retains or loses the control of the owned entity. The Group will apply the amendment as of January 1, 2010. The application will prospectively affect the accounting for business combinations made from the application date.

In addition to the above-mentioned, the following standards and interpretations from IFRIC are applicable for the Tethys Oil Group going forward, but is not expected to have a significant impact on the Group's financial statements.

To be applied by Tethys Oil starting from January 1, 2009:

*IFRIC 12 Service Concession Arrangements\**

*IFRIC 13 Customer Loyalty Programmes*

*IFRIC 15 Agreements for the construction of Real Estate\**

*IFRIC 16 Hedges of a net investment in a foreign operation\**

*IFRS 2 amendment Sharebased payments: Vesting conditions and cancellations*

*IAS 32 and IAS 1 amendment Puttable financial instruments and obligations arising on liquidation\**

*IFRS 1 and IAS 27 amendment Cost of an investment in a subsidiary, jointly-controlled entity or associate on a first time adoption\**

To be applied by Tethys Oil starting from January 1, 2010:

*IFRIC 17 Distribution of non-cash assets to owners\**

*IAS 39 amendment Financial instruments: Recognition and Measurement: Eligible Hedged items\**

*\* These standards and interpretations are not yet endorsed by EU at the issuance of this report. The above effective dates may therefore change as a result of the endorsement process of EU*

## Principles of consolidation

Subsidiaries are all entities (including special purpose companies) 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 hyper-inflationary 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.
- income and expenses are translated at average exchange rates
- all resulting exchange differences are recognised as a separate component of equity.

Transactions in foreign currencies are translated at exchange rates prevailing at the transaction date.

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

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 on 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.

## 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 maintenance 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. Straight line 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 statement

The cash flow statement is prepared in accordance with IAS 7, Cash Flow Statement, indirect method.

Cash and cash equivalents includes cash and short term investments which are exposed to a minimum of risk and traded on an open market with listed official prices or invested in instruments 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, licenses or interests in production sharing contracts and for the survey, drilling and development of such interests have been capitalized on a field-by-field basis, where a field (or a group of fields) represents a cash generating unit, in accordance with IFRS 6 Exploration for and Evaluation of Mineral Resources. Each cash-generating unit or group of units to which an exploration and evaluation asset is allocated shall not be larger than an operating segment. 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 2008, 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. There should be at least a 90 per cent probability that the quantities actually recovered will equal

or exceed the sum of estimated proved reserves. Proved reserves can be categorized as developed or undeveloped.

Probable reserves are those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. 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-licenses in joint ventures with other companies. The accounts reflect the relevant proportions of production, capital costs, operating costs and current assets and liabilities applicable to the Group's interests.

### *e) Impairment tests*

Impairment tests are carried out on a field by field basis where a field (or a group of fields) constitutes a cash generating unit. Impairment tests are carried out when there are facts and circumstances that suggests that impairment can exist and at least annually to determine that the net book amount of capitalized costs within each field less royalties and deferred produc-

tion 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. An impairment loss is recognised for an amount by which the net book amount exceeds the recoverable amount. The recoverable amount is the higher of the net realisable value less the cost to sell and the value in use. The value in use represents the estimated future discounted net cash flows using prices and cost levels used by Group management in their internal 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 exist which are funded through payments

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 2008 not presented any sales of oil and gas. At its current stage of development the group is exploring for oil and natural gas and appraising undeveloped known oil and/or natural 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 gas reserves are established during exploration drilling, significant uncertainty remain as to when and how these reserves can be extracted. As per 31 December 2008 the group held interest in 15 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 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 equipment such as rigs, casing, pipes etc. A shortage of these 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 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 kronors was not the main currency with regard to invoices paid during 2008. 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. Given the status of the projects the company is engaged in it is not unlikely that additional capital will be needed to finance Tethys Oil's operations and/or for acquisition of additional licences. The main risk is that this need could occur during difficult market conditions, which may result in the company having to accept unfavourable financing terms.

## 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 com-

mitments 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

Country	Book value	Write downs	Investments	Book value	Book value	Write downs	Investments	Book value
	31 Dec 2008,			1 Jan 2008,	31 Dec 2007,			1 Jan 2007,
	TSEK	2008, TSEK	2008, TSEK	TSEK	TSEK	2007, TSEK	2007, TSEK	TSEK
<b>Oman Block 15</b>	98,729 <sup>1</sup>	–	37,282	47,984	47,984	–	23,431	26,700
<b>Oman Blocks 3,4</b>	34,867	–	22,085	12,782	12,782	–	12,782	–
<b>France Attila</b>	3,589	-9,813	4,558	8,844	8,844	–	7,810	1,033
<b>Morocco Bouanane</b>	1,858	–	887	971	971	–	-1,941 <sup>2</sup>	2,912
<b>Turkey Ispandika</b>	1,289	–	–	1,289	1,289	–	451	541
<b>Turkey Thrace</b>	–	-7,108	3,783	3,325	3,325	–	2,596	729
<b>Spain Sedano</b>	–	-3,702	2,505	1,197	1,197	-9,269	304	1,734
<b>Spain Cameros</b>	–	-466	208	258	258	–	114	144
<b>Sweden Gotland Större</b>	429	–	170	259	259	–	259	–
<b>Denmark lic 1/02</b>	–	–	–	–	–	-4,983	4,983	–
<b>Denmark lic 1/03</b>	–	–	–	–	–	-940	253	687
<b>New ventures</b>	52	–	29	23	23	-1,028	439	612
<b>Total</b>	<b>140,811</b>	<b>-21,088</b>	<b>71,506</b>	<b>76,932</b>	<b>76,932</b>	<b>-16,220</b>	<b>51,481</b>	<b>35,072</b>

<sup>1</sup> The book value of oil and gas properties include currency exchange gains of TSEK 13,461 during the full year 2008, which are not cash related items and therefore not included in investments. For more information please see the Administration report under the heading "Loss for the period and sales"

<sup>2</sup> The negative investments are explained by reimbursement of past costs following the Dana Petroleum farm-in.

Oil and gas properties	Group		Parent	
	2008	2007	2008	2007
TSEK				
<b>Investments in oil and gas properties</b>				
Opening balance	124,518	66,459	12,782	–
Investments in Oman Block 15	37,282	23,431	–	–
Investments in Oman Blocks 3,4	22,085	12,782	22,085	12,782
Investments in France	4,558	7,810	–	–
Investments in Morocco	887	-1,9412	–	–
Investments in Turkey Ispandika	–	451	–	–
Investments in Turkey Thrace	3,783	2,596	–	–
Investments in Spain Sedano	2,505	304	–	–
Investments in Spain Cameros	208	114	–	–
Investments in Sweden Gotland Större	170	259	–	–
Investments in Denmark licence 1/02	–	4,983	–	–
Investments in Denmark licence 1/03	–	253	–	–
Other investments in oil and gas properties	29	439	–	–
Closing balance	196,024	117,940	34,867	12,782
Currency exchange effect	13,4611	6,578	–	–
<b>Depletion</b>				
Depletion	–	–	–	–
<b>Write down</b>				
Opening balance	47,586	31,366	–	–
Write down	21,088	16,220	–	–
Closing balance	68,674	47,586	–	–
<b>Net book value</b>	<b>140,811</b>	<b>76,932</b>	<b>34,867</b>	<b>12,782</b>

## Note 5, Other losses/gains, net

TSEK	Group		Parent	
	2008	2007	2008	2007
<b>Other losses/gains, net</b>				
Foreign exchange gains	85	1,014	85	770
Foreign exchange losses	-378	-959	-316	-464
<b>Total</b>	<b>-293</b>	<b>55</b>	<b>-231</b>	<b>306</b>

## Note 6, Remuneration to company auditor

TSEK	Group		Parent	
	2008	2007	2008	2007
<b>Remuneration to company auditor include:</b>				
PricewaterhouseCoopers:				
Audit fee	711	474	510	401
Other	–	12	–	12
<b>Total</b>	<b>711</b>	<b>486</b>	<b>510</b>	<b>413</b>

## Note 7, Administrative expenses

TSEK	Group		Parent	
	2008	2007	2008	2007
<b>Administrative expenses</b>				
Staff	-6,969	-5,587	-2,895	-3,108
Rent	-926	-458	-659	-219
Other office costs	-612	-805	-344	-594
Listing costs	-970	-681	-970	-680
Audit	-711	-474	-578	-401
Costs of external relations	-1,995	-1,521	-1,755	-1,384
Other costs	-1,448	-915	-1,183	-717
Depreciation	-186	-122	-118	-122
<b>Total</b>	<b>-13,818</b>	<b>-10,563</b>	<b>-8,503</b>	<b>-7,225</b>

## Note 8, Employees

Average number of employees	2008		2007	
	Total	Total men	Total	Total men
Parent company	5	3	5	3
Subsidiaries	4	3	4	3
<b>Total</b>	<b>9</b>	<b>6</b>	<b>9</b>	<b>6</b>

TSEK	2008		2007	
	Salaries, other remuneration and social costs	Salaries, other remuneration	Social costs	Salaries, other remuneration
Parent company	2,270	624	2,562	524
Subsidiaries	3,844	230	2,231	247
<b>Total</b>	<b>6,114</b>	<b>855</b>	<b>4,793</b>	<b>771</b>

Salaries and other remuneration distributed between the board and other employees	2008		2007	
	Board and Managing Director	Other employees	Board and Managing Director	Other employees
Parent company	976	1,294	1,460	1,102
Subsidiaries	3,658	186	2,124	107
<b>Total</b>	<b>4,634</b>	<b>1,480</b>	<b>3,584</b>	<b>1,209</b>

The group currently has 8 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 employed by the parent company up to 30 September 2007 and from 1 October 2007 he has been employed by the subsidiary Tethys Oil Suisse SA.

Salaries and other remuneration to operative board members and executive management	Salaries	Bonus	Benefits	Total 2008	Total 2007
Vincent Hamilton	960	-	-	960	912
Magnus Nordin	960	-	16	976	740
Jonas Lindvall	1,251	-	1,447	2,698	1,931
<b>Total</b>	<b>3,171</b>	<b>-</b>	<b>1,463</b>	<b>4,634</b>	<b>3,583</b>

TSEK					
Salaries and other remuneration to board members (in their capacity as board members)	Remuneration		Attendance		
	Salaries	Remuneration	Total 2008	Total 2007	2008
Vincent Hamilton	-	-	-	-	9/9
Magnus Nordin	-	-	-	-	9/9
Jonas Lindvall	-	-	-	-	9/9
John Hoey	-	30	30	25	8/9
Carl Gustaf Ingelman	-	30	30	25	5/5
Håkan Ehrenblad	-	30	30	25	9/9
Jan Risberg	-	30	30	25	9/9
<b>Total</b>	<b>-</b>	<b>120</b>	<b>120</b>	<b>100</b>	

At the Annual Meeting of shareholders on 8 May 2008 Håkan Ehrenblad, Vincent Hamilton, John Hoey, Jonas Lindvall, Magnus Nordin and Jan Risberg were re-elected members of the board. Carl-Gustaf Ingelman declined re-election. No deputy directors were appointed. At the same meeting Vincent Hamilton was appointed Chairman.

There have not been any agreements on pensions for any of the directors of the board or the Managing director.

## Note 9, Financial income and similar items

TSEK	Group		Parent	
	2008	2007	2008	2007
Interest income	1,233	374	5,056	3,101
Gain on currency exchange rates	13,914	-	13,984	-
Fair value adjustment of short term investments	417	43	417	43
<b>Total</b>	<b>15,565</b>	<b>417</b>	<b>19,457</b>	<b>3,145</b>

## Note 10, Financial expenses and similar items

TSEK	Group		Parent	
	2008	2007	2008	2007
Interest expenses	-1	0	-1	0
Fair value adjustment of short term investments	-	-42	-	-42
Loss on currency exchange rates	-211	-1,545	-122	-1,545
Other	-	-	-11	-
<b>Total</b>	<b>-212</b>	<b>-1,587</b>	<b>-134</b>	<b>-1,587</b>

## Note 11, Tax

The group's income tax charge of TSEK 30 (TSEK 17) relate to a tax negotiated in Switzerland by the Swiss subsidiary Tethys Oil Suisse SA.

The company has not recorded a deferred tax asset in relation to the tax losses carried forward since the company is in an exploration phase and there is uncertainty as to if the tax losses may be utilised. Non-recorded deferred tax claims amount to TSEK 1,076 (TSEK 4,645), regarding tax losses carried forward of TSEK 4,092 (TSEK 16,590). The tax losses carried forward in 2007 have been partially utilized against taxable income in 2008. The taxable income 2008 is explained by the non tax deductible write down of shares in subsidiaries in the parent company.

## Note 12, Office equipment

TSEK	Group		Parent	
	2008	2007	2008	2007
<b>Office equipment</b>				
Assets				
1 January	546	363	546	363
Additions	1,007	283	7	283
Disposals	–	-101	–	-101
31 December	1,553	546	553	546
Depreciations				
1 January	-239	-218	-239	-218
Depreciation charges of the year	-186	-122	-118	-122
Disposals	–	101	–	101
31 December	-425	-239	-357	-239
<b>Net book value</b>	<b>1,128</b>	<b>308</b>	<b>198</b>	<b>308</b>

## Note 13, Other receivables

TSEK	Group		Parent	
	2008	2007	2008	2007
<b>Other receivables</b>				
Share issue receivable	–	12,656	–	–
VAT	509	845	136	222
Receivables operations	6,364	1,882	–	–
Other	366	394	69	148
<b>Total</b>	<b>7,239</b>	<b>15,777</b>	<b>205</b>	<b>370</b>

## Note 14, Shareholders' equity

As per 31 December 2008, the number of outstanding shares in Tethys Oil amount to 23,980,086 (19,178,286), with a quota value of SEK 0.17 (SEK 0.17). All shares represent one vote each. Tethys Oil does not have any incentive program.

As per 1 January 2008, Tethys Oil had 6,392,762 shares. The EGM held 20 February 2008 resolved to carry out a share split whereby each share was divided into three shares (a share split 3:1). The share split was conducted 3 March 2008 and increased the number of shares to 19,178,286. The share issue conducted between the first and second quarter 2008 increased the number of shares with 4,800,000 to 23,978,286. The shares from the share issue are included as per registration dated 9 and 16 April 2008. The warrants from the rights issue described above amount to 4,795,649 with an exercise price of SEK 23 and where one warrant gives the right to purchase one new share. The warrants can be exercised continuously up until 30 June 2010. The average share price during 2008 was below the exercise price which is why the related numbers of shares are not included in the fully diluted number of shares.

## Note 15, Shares in subsidiaries

Company	Reg. Number	Reg. office	Number of shares	Percentage	Nominal value per share	Parent company	Parent company
						Book amount 31 December 2008, TSEK	Book amount 31 December 2007, TSEK
Tethys Oil Denmark AB	556658-1467	Sweden	1,000	100%	SEK 100	100	100
Tethys Oil Spain AB	556658-1442	Sweden	1,000	100%	SEK 100	100	100
Tethys Oil Turkey AB	556658-1913	Sweden	1,000	100%	SEK 100	100	100
Tethys Oil Exploration AB	556658-1483	Sweden	1,000	100%	SEK 100	100	100
Tethys Oil France AB	556658-1491	Sweden	1,000	100%	SEK 100	100	100
Tethys Oil Oman Ltd	95212	Gibraltar	100	100%	GBP 1	25,280	25,280
Tethys Oil Suisse SA	660-1139007-2	Switzerland	100	100%	CHF 1,000	567	567
Windsor Petroleum (Spain) Inc.	549 282	British Virgin Islands	1	100%	USD 1	–	–
<b>Total</b>						<b>26,347</b>	<b>26,347</b>

TSEK	Parent company 31 December 2008	Parent company 31 December 2007
<b>Shares in subsidiaries</b>		
Opening balance	26,347	25,831
Acquisitions	–	567
Shareholder's contribution	24,859	20,068
Write down of shares in group companies	-24,859	-20,119
<b>Closing balance</b>	<b>26,347</b>	<b>26,347</b>

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 2008 amounted to TSEK 500 (TSEK 500). The pledged asset regards a bank guarantee for a rental lease. There have been no other pledged assets in the Group during the period 2007-2008.

## Note 17, Contingent liabilities

The contingent liabilities as per 31 December 2008 amount to TSEK 43,230 (TSEK 36,509). The contingent liabilities regard Blocks 3 and 4 where Tethys Oil has a work commitment, the fulfilment of which is estimated to cost MUSD 5.5. The difference between contingent liabilities 31 December 2008 and 31 December 2007 mainly relate to currency exchange differences and the fulfilment of all work commitments on Block 15 in Oman.

Contingent liabilities in the parent company as per 31 December 2008 amounted to TSEK 43,230 and regard Blocks 3 and 4 in Oman described above. The difference between contingent liabilities 31 December 2008 and 31 December 2007 mainly relate to currency exchange differences.

## Note, 18 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".

## Note, 19 Subsequent events

The Board of Directors resolved 17 February 2009 to issue 1,300,000 new shares, corresponding to approximately 5.4 per cent of the number of shares outstanding, at a price of SEK 10 through a private placement directed to approximately 10 Swedish and international investors. The private placement was conducted following authorization from the AGM held on 8 May 2008. The private placement was fully subscribed and the proceeds amounted to MSEK 13 before issue costs.

# Auditor's report

## 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 2008. (The company's annual accounts and the consolidated accounts are included in the printed version on pages 35–57). 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.

Stockholm 8 April 2009

**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
CHF	Swiss francs
TCHF	Thousands of Swiss francs

## Petroleum related abbreviations and definitions

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

## Gas related abbreviations and definitions

cf	Cubic feet
mcf	Thousand cubic feet
mcfpd	Thousand cubic feet per day
mmcf	Million cubic feet

## Industry specific terms

### Barrel

1 barrel = 159 liters.

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

### Basin

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

### Farm-in

A joint-venture agreement between companies whereby one company holds the 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.

