TETHYS OIL

Annual Report 2009

Contents

ANNUAL GENERAL MEETING	2
FINANCIAL INFORMATION	2
TETHYS OIL IN BRIEF	3
2009 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	13
OPERATIONS	14
CORPORATE RESPONSIBILITY	23
THE BOARD OF DIRECTORS, MANAGEMENT AND AUDITORS	26
THE TETHYS OIL SHARE	28
KEY FINANCIAL DATA	31
ADMINISTRATION REPORT	33
NOTES	48
AUDITOR'S REPORT	58
DEFINITIONS AND ABBREVIATIONS	59
ADDRESSES	60

Information regarding Annual General Meeting

The Annual General Meeting of shareholders of Tethys Oil will be held on Wednesday 19 May 2010, 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. 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 Wednesday 12 May 2010 and must notify Tethys Oil no later than 14 May, 2010, 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 2010) on 12 May 2010
Annual General Meeting, 19 May 2010
Six months report (January–June 2010) on 20 August 2010
Nine months report (January–September 2010) on 12 November 2010
Year end report 2010 (January–December 2010) on 17 February 2011

Landsten Reklam 2010. Design Henrik Strömberg. Printed in Sweden.

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 Oil's 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, France and Sweden. The shares are listed on First North (TETY) in Stockholm. Remium AB is the company's Certified Adviser.

2009 in Brief

Highlights

- Farha South-3 well drilled with excellent results:
  - flowed 754 bopd from the horizontal reservoir section in the Lower Al Bashir layer
  - flowed 1,010 bopd on pump test in the Barik layer
- Saiwan East-2 well drilled with excellent results:
  - made a new conventional oil discovery in the Khufai reservoir with substantial reserve potential
  - measured more than 400 metres of gross heavy oil column
- 3D Seismic surveys:
  - conducted 400 square kilometres 3D-seismic survey covering the entire Saiwan East structure on Block 4
  - initiated 740 square kilometres 3D-seismic survey covering the Farha trend on Block 3
- Gaffney, Cline & Associates contracted for a third party resources and reserves audit of the Farha South and Saiwan East oil discoveries

Letter to the Shareholders

Dear friends and investors,

When closing the books for 2009, we look back upon a breakthrough year for Tethys Oil. The successful implementation of an aggressive work programme has brought the company from a promising appraisal play to positioning Tethys on the brink of development and production. Two successful wells were drilled on our Omani licenses, that confirmed the presence of oil in two reservoirs and made oil discoveries in two new reservoirs. As a result, Tethys holds at the beginning of 2010 interests in four separate projects, on three blocks onshore Oman. These projects contain resources along the full spectrum of hydrocarbons including gas condensate, conventional light oil and a giant contingent heavy oil discovery. The nearly ten million dollars we invested in Blocks 3 and 4 in 2009 have given tremendous value for money.

The Farha South oil discovery on Block 3

Our first well in 2009, the Farha South-3 well on Block 3, was drilled in early spring last year. After completion in April, the well tested several hundred barrels of oil per day from the horizontal reservoir section in the Lower Al Bashir layer. In addition, the Barik layer, a previously unmapped and untested oil bearing layer was discovered. This layer was tested later in 2009, and flowed 379 barrels of oil per day from the vertical section of the well. When returning to the well in January this year, the Barik layer produced on a test using a down hole pump 1,010 barrels of oil per day, almost three times the original rate. The oil in both producing layers is of high quality, with a density of 40–42 degree API and a low gas-oil-ratio.

With the successful work during the year, the Farha South oil discovery has been proved, and is now likely to have a resource base of 10 to 20 million barrels of light sweet crude. The production testing suggested productivities per well of more than 1,000 bopd. Not surprisingly, Farha South is the prime candidate for an Early Production Programme in 2010.

The Saiwan East oil discovery on Block 4

Our second Omani well in 2009, the Saiwan East-2 well, was drilled in late spring with the objective to evaluate three previously discovered heavy oil zones found in the Saiwan East-1 well. However, the major discovery of the well came after it was drilled deeper, under the heavy oil layers, and encountered oil in the Khufai limestone section. This Khufai layer flowed from a technically limited vertical section 280 barrels of light oil per day on test. With a horizontal well in the Khufai layer on pump, the well productivity would most probably be in excess of 1,000 barrels per day. The reserve potential exceeds that of Farha South substantially, but we have to wait for the results from the ongoing 3D seismic study before assigning any numbers. The Khufai has the makings to turn into a major development.

The well also succeeded in its original aim, in proving up a vast contingent resource of heavy oil. Over 400 metres of gross heavy hydrocarbon saturation was measured. As yet, no flows have been established although the oil seems to be movable in some sections. Samples have been taken and analysis is being carried out. The Saiwan East heavy oil is a great resource to nurture but cash flow and the more immediate monetization of value will come from the conventional oil discoveries of Farha South and the Khufai.

Outlook 2010

Our major plan for 2010 is to launch an early production program and become an oil producing company. Plans for an Early Production System are at the time of writing being finalized. These plans center on putting the Barik section from Farha South-3 in production first. The system will most likely entail 'off the shelf' facilities and the oil will be trucked to the nearest collection point. In this way capital costs can be kept low and construction time can be kept to a minimum. A few months after initial production on pump, an additional well Farha South-4 is planned to be drilled and increase production. The exact location of FS-4 will depend on information gathered from the 3D seismic study which is currently being conducted over the entire Farha trend.

In parallel we will continue to appraise the Khufai layer in the Saiwan East structure. The data from the 3D seismic study commissioned over the entire Saiwan East area has been processed and the data is currently being interpreted. New maps around the Saiwan

East-2 well have been completed and based on these an appraisal well Saiwan East-3 is being planned. The purpose of this well is to get more information about the distribution of the Khufai within the Saiwan East structure but also and more importantly to assess the production potential of the Khufai reservoir. SE-3 will therefore be drilled first as a vertical pilot hole before a substantial horizontal section will be added which will then be tested with a down hole pump.

We have also contracted Gaffney, Cline & Associates, one of the leading independent international petroleum consultancy, for the third party audit of the Farha South and Saiwan East oil discoveries. Gaffney Cline will also act as our engineering advisor on these future development projects.

In 2009, Tethys successfully funded ongoing work programmes through private placements of equity from the mandate given to the board of directors by the AGM. We raised MSEK 53 in 2009 and received additional funding through early exercise of warrants. This way of funding the ongoing work programme has been successful also in 2010. An additional 500,000 shares has been placed for proceeds of close to MSEK 16. It is our intention to have readiness for additional private placements and we therefore ask the AGM to prove another mandate for the Directors to issue shares. In addition so far in 2010 more than a million warrants have been exercised bringing in more than MSEK 23. Additional funds should be received from the remaining 3,000,000 outstanding warrants at the latest by the time the subscription period ends on June 30, provided that the share price stays above the strike price of SEK 23.

Our future plans include the development of one or more of our projects into full scale oil producing fields. Such development related expenditures can, in addition to equity also be financed through bank or bond debt, or through an industry farm out deal. Which road we will follow will partly depend on the technical results from the ongoing work programme, as well as the information provided by the third party report being compiled by Gaffney Cline. And also of course on what kind of terms and conditions can be achieved and what kind of third party deal can be struck. After all Tethys is in the business of creating shareholder value and we will remain acutely aware of this as operations move on.

We are fortunate to have interests in several great projects in the classic oil country Oman, and we will do our utmost to deliver to our shareholders, our host government and our other stake holders a solid performance in bringing these projects to fruition.

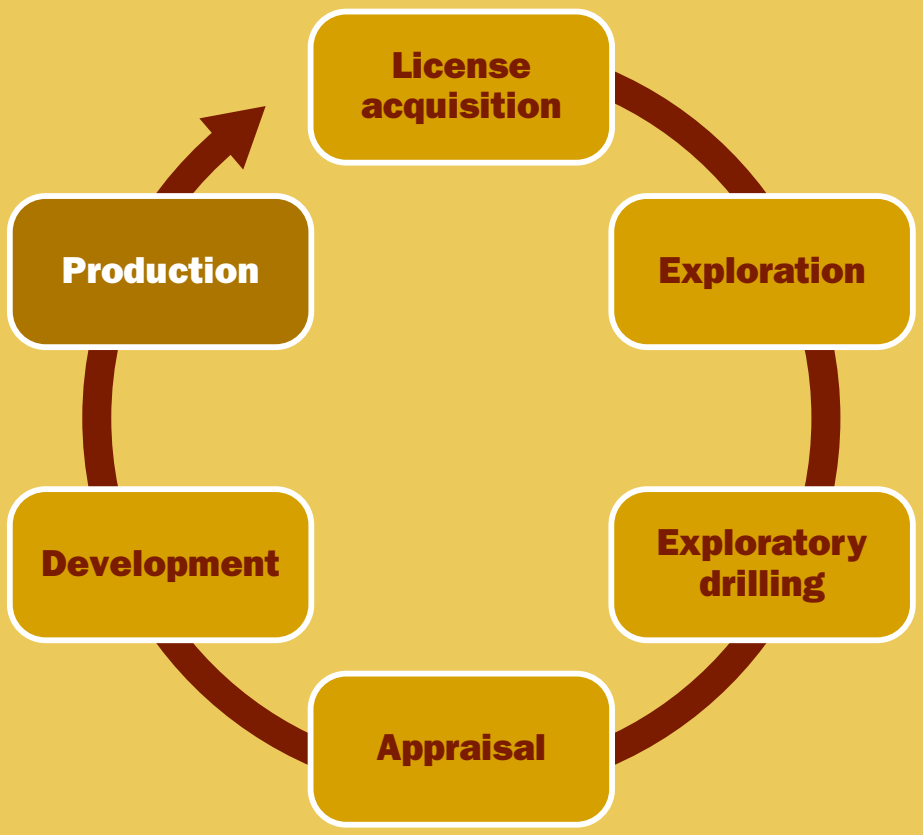
So stay with us…

Stockholm in April 2010

Magnus Nordin
Managing director

Vincent Hamilton
Chairman of the Board

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 commitments – 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 an Exploration and Production Sharing Agreement, where a certain share of the recovered oil or natural gas goes directly to the country. The division of oil and natural gas between the licencee and the country in a production licence varies widely throughout the world. The duration of a production licence is usually 20–30 years.

Exploration

Oil and natural gas are found in sedimentary rocks at depths of less than ten 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 minimize the risks and eliminate less prospective areas. This exploration work is normally geological, geochemical and geophysical studies (seismic studies and potential fields).

Potential field data consists of gravimetric and magnetic data. 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 that 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 speed in different materials and that the sound waves, at the transition between different materials, partly bend and reflect back to the surface. Since rocks have different compositions, it is possible based on variations in the speed of the sound wave and angle, to estimate the location of structures that could hold oil and/or natural gas reserves in an exploration area.

Single linear lines of seismic provide information about the subsurface rocks directly beneath the seismic equipment. This type of seismic data is referred to as two-dimensional or 2D seismic, because it provides data along two axes, length and depth. If seismic acquisition is done across multiple lines simultaneously, the third dimension of width is gained, hence referred to as three-dimensional seismic, or 3D seismic. 3D seismic offers much greater density of information about the subsurface but is much more costly and covers a smaller area. During the autumn and winter of 2009, Tethys acquired new 3D seismic over the Saiwan East structure in Oman. Previous seismic over the structure was 2D seismic. The new seismic lines covers 400 square kilometers of the structure, and were acquired with geophones in lines of 100 x 100 metres, with 10 meters spacing.

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 would 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 or installing a pump.

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 available can also be used for delineation. 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 accomodation. 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 dependent on pipelines. Drilling-, production-, transportation and storage plants are constructed. Production wells are being drilled at the same time.

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

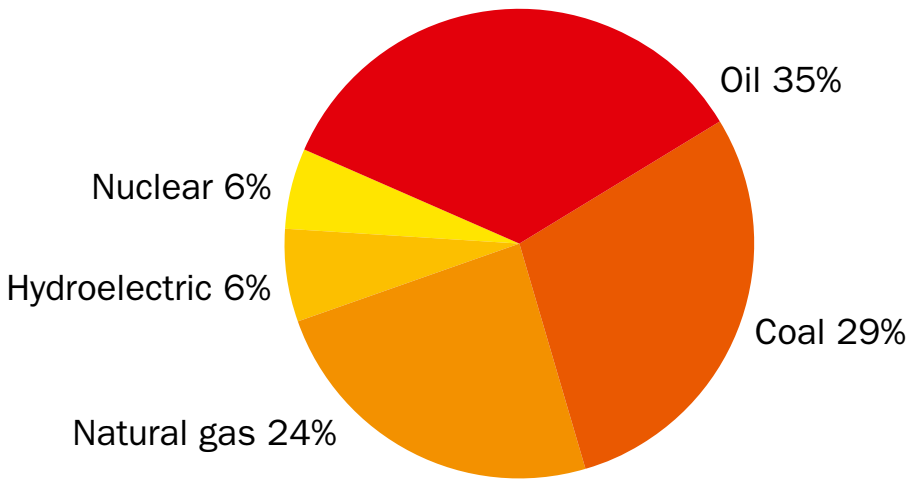
Oil price – trends and variables

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 and 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 Annual 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 1970'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



Source: BP Statistical Review of World Energy 2009

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 two per cent decrease in supply restored the price within a year.

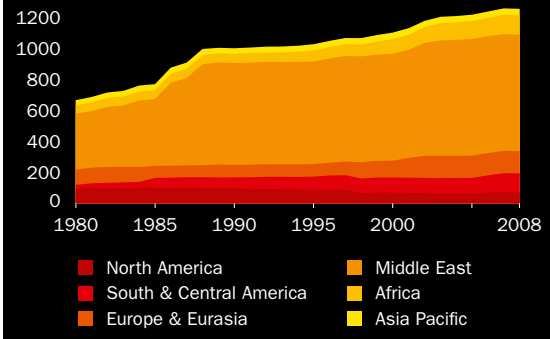
OPEC's share of world production, and more importantly share of available excess supply, determines OPEC's influence over price. As is evident from the 1980's where non-OPEC supply increased dramatically and in spite of large cuts within OPEC to mitigate the supply increases, the price dropped sharply. As long as OPEC controls the marginal barrel produced, it is likely that OPEC will be able to exercise significant influence over the oil price. And as long as no other regions significantly increase reserves and production capacity this state of affairs is likely to prevail.

Oil price future outlook

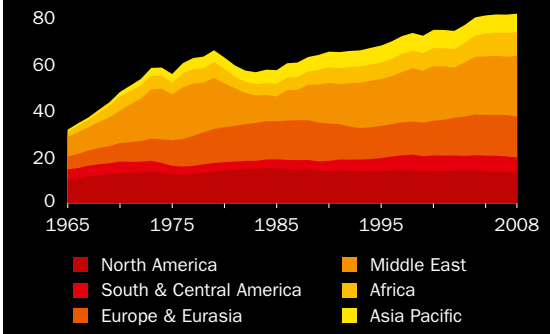
Oil prices have come back sharply after bottoming out in February 2009 at just below USD 30 per barrel of Brent. Prices reached their low slightly before the world economic downturn reached is bottom in the second and third quarters last year. At this time the strengthening of the oil price actually came to lead the recovery – a trend that has continued and actually grown stronger over the end of 2009 until now. At the time of writing, April 2010, Brent seems to be trading in a rather narrow range around USD 80.

As the economic recovery gains momentum around the world it is not likely that energy demand will diminish. The seemingly low growth in more developed economies seems to be more than offset in emerging markets and for that matter also the US. Whereas it is an unlikely outcome to assume that emerging economies are going to end up using as much energy per capita as certain developed economies are today, worldwide growth driven energy demand will probably be more than sufficient to assure healthy demand for oil for the foreseeable future. Any significant downward pressure on the oil price from slack demand must be considered unlikely.

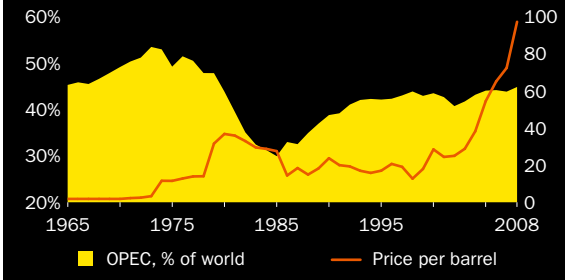
1. Known global oil reserves, thousand million barrels



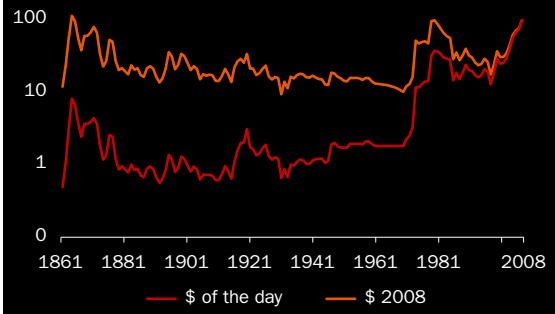
2. Global oil production, million barrels per day



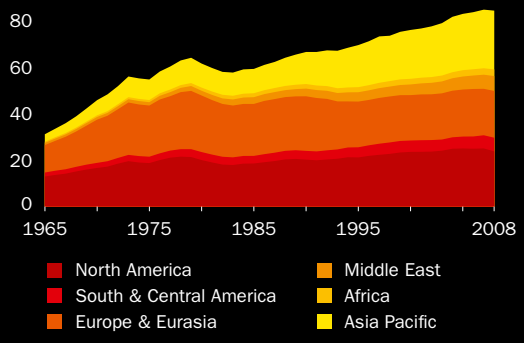
3. OPEC share of global oil production and price per barrel (USD)



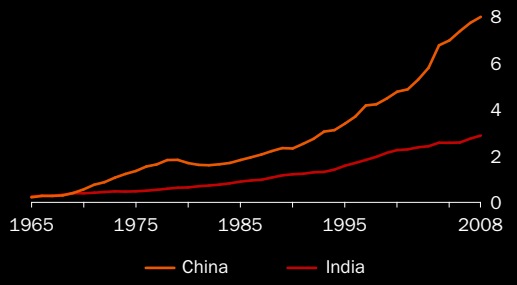
4. Oil price development since 1861



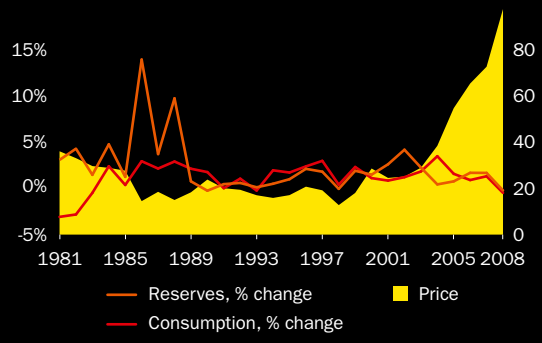
5. Global oil consumption, million barrels per day



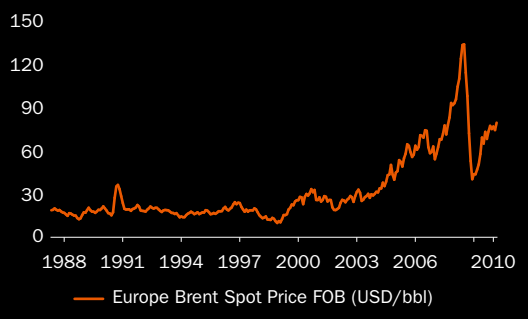
6. Oil consumption – China & India, million barrels per day



7. Production change and price change



8. Oil price development since 1997



However given the large increases in supply capacity recorded over the last couple of years any major price increase also seems unlikely. Indications are that OPEC will continue to control' the marginal barrel produced' for some time to come and in effect be able to increase production should demand force up prices to unacceptable levels and conversely be able to lower production to counter any price fall. OPEC will therefore likely be in a position to stabilize prices more or less at a level of its choice. Judging from certain statements made by Saudi Arabia 60 USD per barrel seems to be at the low of this putative OPEC range whereas a price above 90 seems to be viewed as too high – being in danger of both stifling economic growth and, even worse, offer too much of an incentive to develop alternative sources of energy.

So for the short to medium term 60 to 90 USD per barrel seems a good guess for the longer term a gentle price increase as energy demand increases would be expected. Unless of course conflict or another sharp decrease in investments in exploration and development occurs. In those cases a price increase can be dramatic.

Source graph 1–7: BP Statistical Review of World Energy 2009.
Source graph 8: Energy Information Administration

History

Tethys Oil AB 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 Nya Marknaden (the predecessor of 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 have 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 (JAS) 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.

Turkey, 2004

First operated well

Tethys first well as operator was the Karlebo-1 well in autumn 2006. 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 27 September 2006. The well was drilled to a total depth of 2,489 metres and on 17 November, it was clear that no hydrocarbons had been found. Tethys subsequently abandoned the Danish licences.

Despite the result of the well, the accomplishment in itself has been a major asset and has 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.

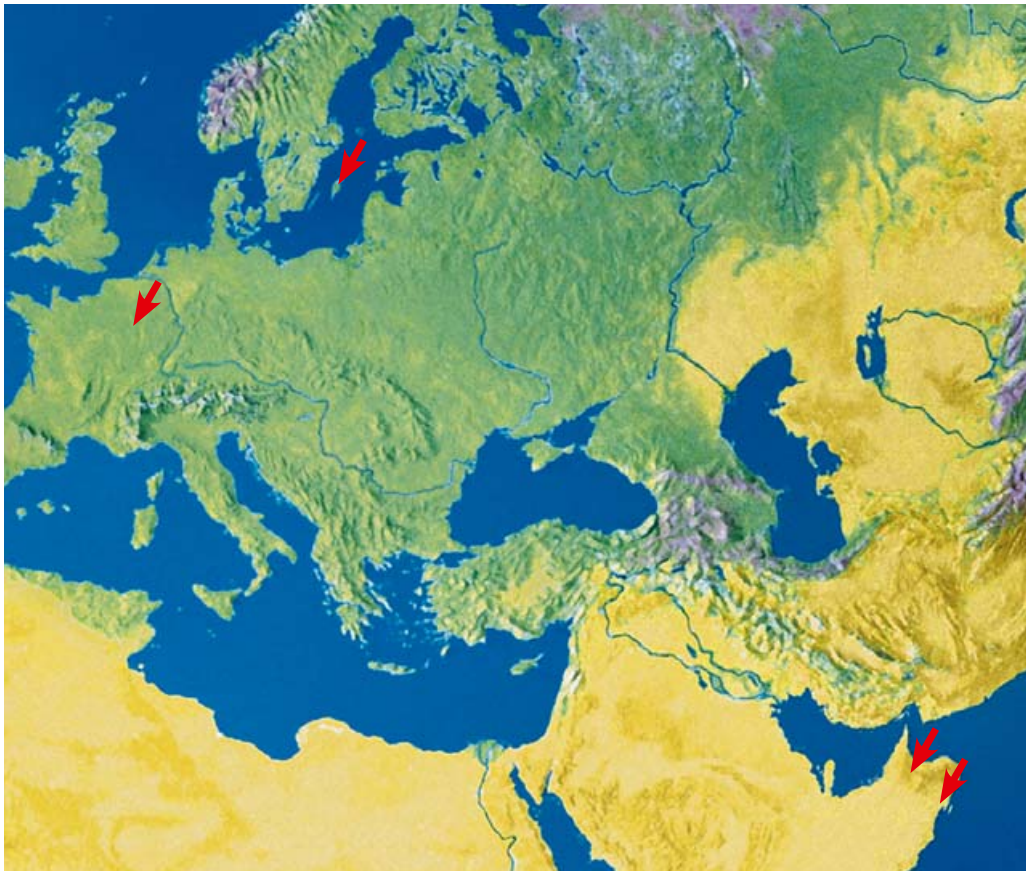
First wet well

Almost on the day, One year after Tethys acquired the 40 per cent interest in Block 15 onshore Oman, the re-entry of Jebel Aswad-1 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 midsummer 2007, drilling and testing operations were completed and it was clear that Tethys had drilled its first live well. The Natih horizontal sidetrack penetrated a total of 848 metres of hydrocarbon bearing limestone and had a total measured depth of 3,830 metres. On testing the Natih flowed 11.03 mmcfpd and 793 bopd of 57 degree API condensate (total of 2,626 boepd) through a 1-inch choke.

Drilling history, Tethys' 10 wells 2004–2009

Country	Well name	Operator	Year
Turkey	Kocetepe-1	Aladdin Middle East	2004
Denmark	Karlebo-1	Tethys Oil	2006
Spain	Hontomin-4	Ascent Resources	2007
Oman	Jebel Aswad-1	Tethys Oil	2007
France	Pierre Maubeuge-2	Galli Coz	2007
Oman	Jebel Aswad-2	Tethys Oil	2008
Turkey	Copkoy-1	Aladdin Middle East	2008
Oman	Farha South-3	CCED	2009
Morocco	Tafejjart-1	Dana Petroleum	2009
Oman	Saiwan East-2	CCED	2009

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, France and Sweden. 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, km²	Operator
Oman	Block 15 Block 3, 4	40% 50%	1,389 33,125	Tethys Oil CCED
France	Attila	40%	1,986	Galli Coz
Sweden	Gotland Större	100%	540	Tethys Oil
Total			**37,040**	

Photo: rurukina. www.flickr.com/1980385 3@N08

Operations

Sultanate of Oman

The Sultanate of Oman is located on the tip of the eastern Arabian Peninsula, neighbouring United Arab Emirates in the northwest, 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 kilometers. The capital is Muscat and the population amounts to 3.4 millions.

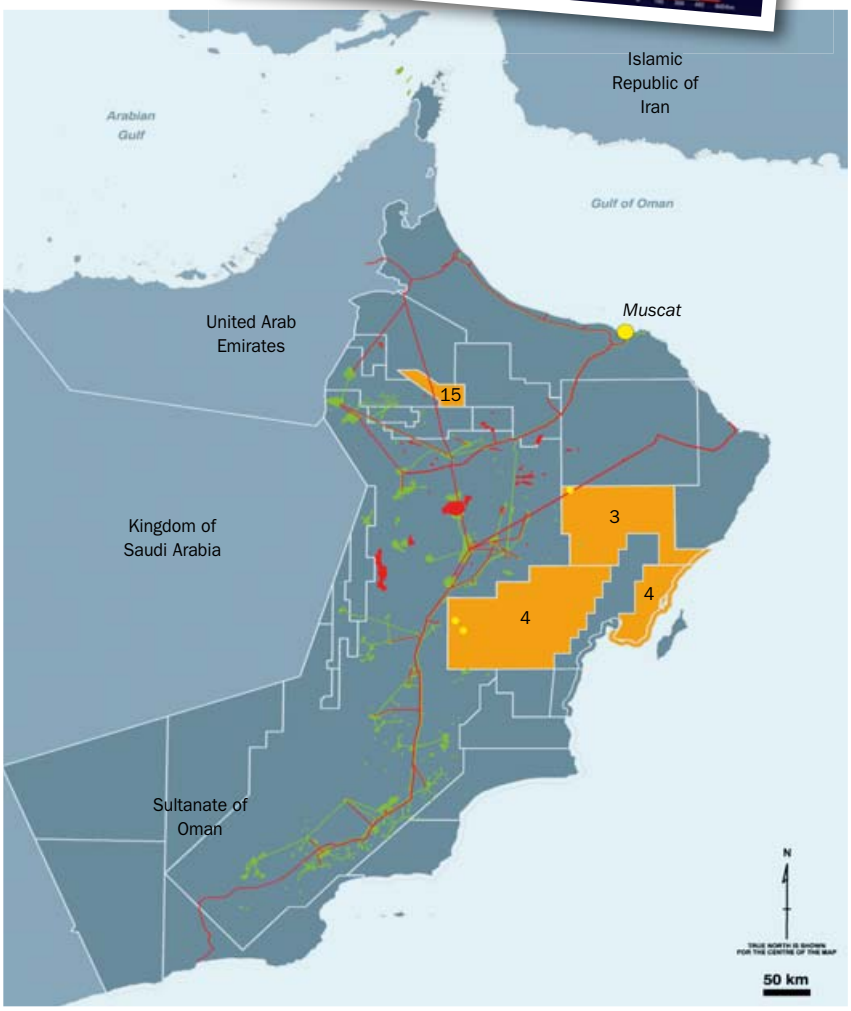
Oman Oil

Oman is economically dependent on its oil revenues, which account for about 75 per cent of the Oman's export earnings and 40 per cent of its gross domestic product. Oman has about 5.6 billion barrels of proven oil reserves, corresponding to about 0.4 per cent of the worlds proven oil reserves. The oil reserves are not as large 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 barrels per capita is just slightly less than Norway's of 1.8 but more than Russia's of 0.6 barrels per capita.

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 bopd, 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 seen a reduction oil production. Peak production of crude oil in Oman occurred in 2000 when production reached 970,000 bopd. The production in 2008 amounted to about 728,000 bopd. Oman is not a formal member of OPEC.

Source: BP Statistical Review 2009, CIA–The World Fact Book, Wikipedia.org, Nationalencyklopedin, EIA.gov

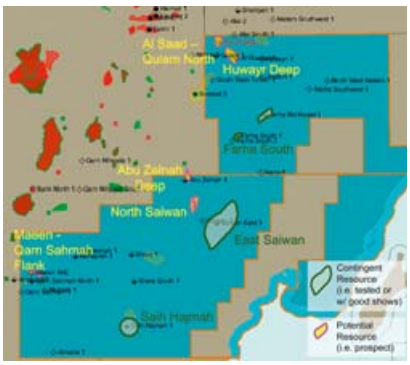


Block boundaries and infrastructure onshore Oman
Yellow: Tethys Oil. Red: gasfield/gaspipeline. Green: oilfield/oilpipeline.

Tethys Oil Oman

Tethys Oil entered Oman in May 2006 with the acquisition of a 40 per cent interest in Block 15 onshore Oman. In 2007, Tethys Oil acquired a 50 per cent stake in Blocks 3 and 4 onshore Oman. After successful drillings on all Blocks, Oman has become Tethys Oil's undisputed core area. Oman accounts for almost 100 per cent of Tethys Oil's value in oil and gas assets. The three blocks have a combined gross area of around 30,000 square kilometres, which makes Tethys Oil the second largest onshore oil and gas concession-holder in Oman. 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 Oil's ambition is to continue to appraise and develop the known discoveries as well as to explore for new ones.

Oman, Block 3, Farha South



Block 3 is situated in the eastern part of Oman and covers an area of about 10,000 square kilometres. Tethys has a 50 per cent interest in the licence with Consolidated Contractors Energy Development as operator. The oil of Farha South was first discovered in 1986 with the Farha South-1, drilled by a previous operator.

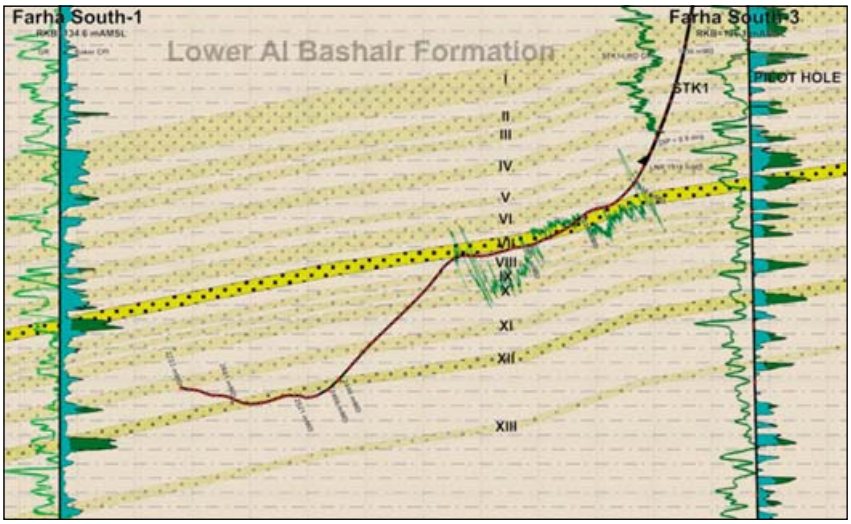
The licence contains many exploration plays for both oil and natural gas. Large parts of the licence have been covered with seismic – more than 30,000 kilometres of 2D seismic cover Blocks 3 and 4 together. Some 30 wells have also been drilled on the two licences, of which about two thirds encountered oil shows.

Drilling of Farha South-3

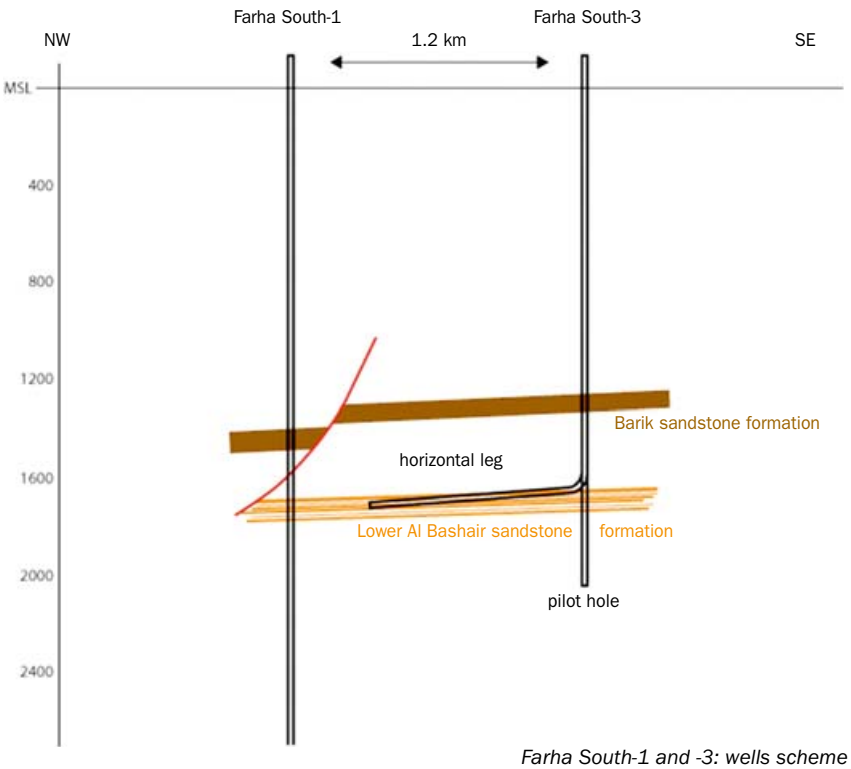
Farha South-3, a delineation well to Farha South-1, was spudded on 9 February 2009. Drilling target was the Lower Al Bashir sandstone formation at a depth of around 1,900 metres. Farha South-3 was drilled from a drill site 1.2 kilometres south east of the Farha South-1.

On 6 April 2009, 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 Farha South-1, 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 degree API) with a low gas oil ratio.

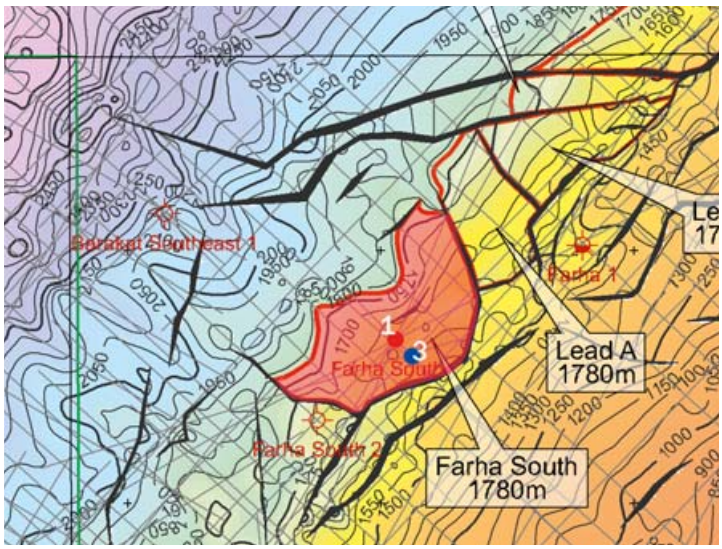
Whilst drilling Farha South-3, oil shows similar to those recorded in the deeper Lower Al Bashir sandstone were also observed in the shallower Barik sandstone. The Barik layer was neither logged nor tested at the time of drilling. When Tethys returned to the well in November 2009 with a 450 hp MB 49 work over rig, the Barik layer flowed 379 bopd from a four metre zone of perforations at the top, in the vertical section of the Farha South-3 well. The oil had a density of 42 degree API and a low gas-oil-ratio.



Farha South-3 horizontal section

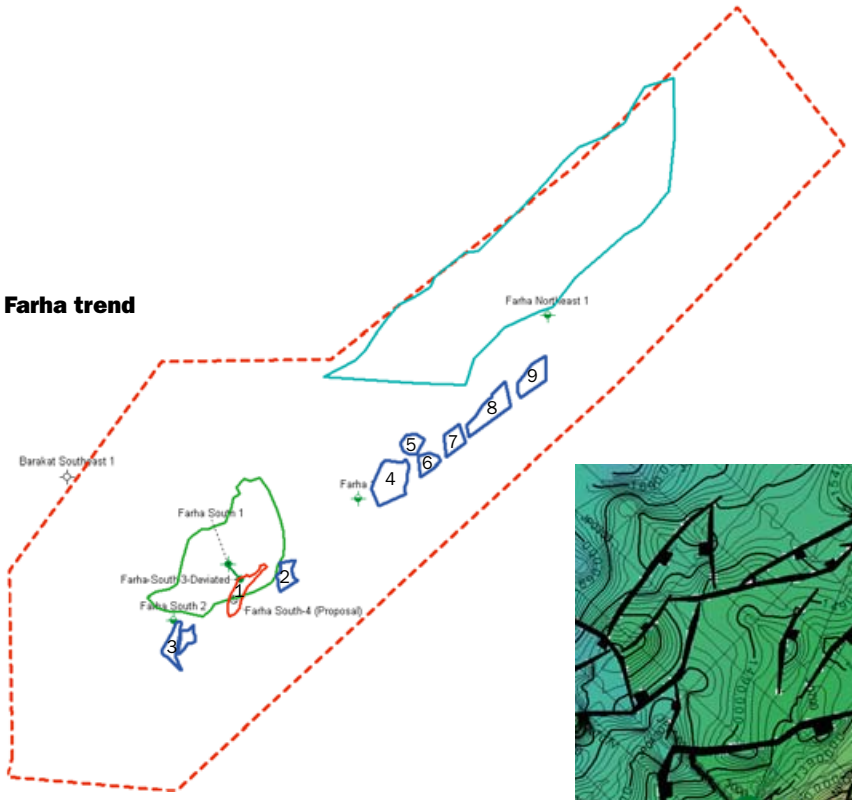


Farha South-1 and -3: wells scheme

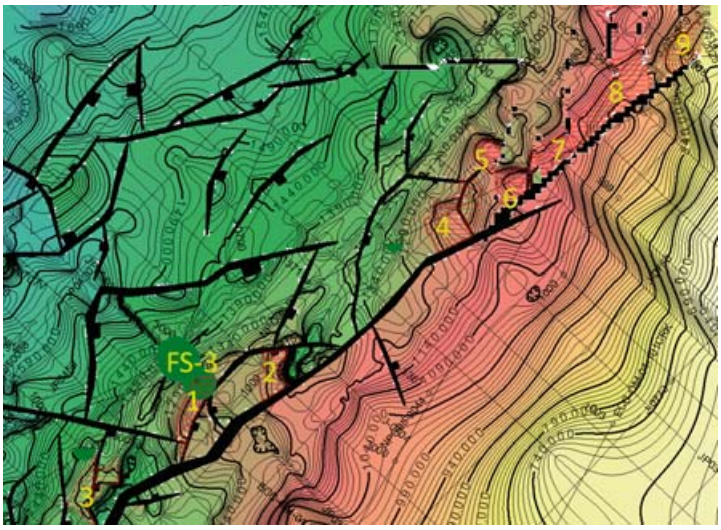


Farha South-1 and -3.
FS-3 well located 1 km to southeast and drilled horizontally back towards FS-1 well.

Farha trend



Farha 3D area 740 km²



Barik depth structure map

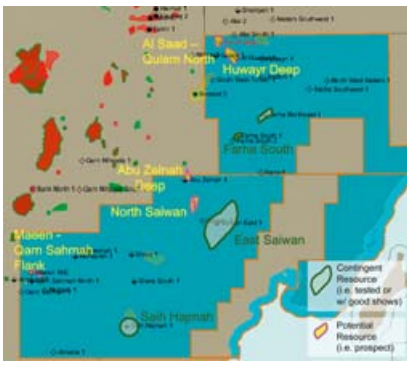
In January 2010, a production test using a down hole Electrical Submersible Pump (ESP) was completed in the Barik formation. With the pump, the Barik layer flowed 1,010 bopd.

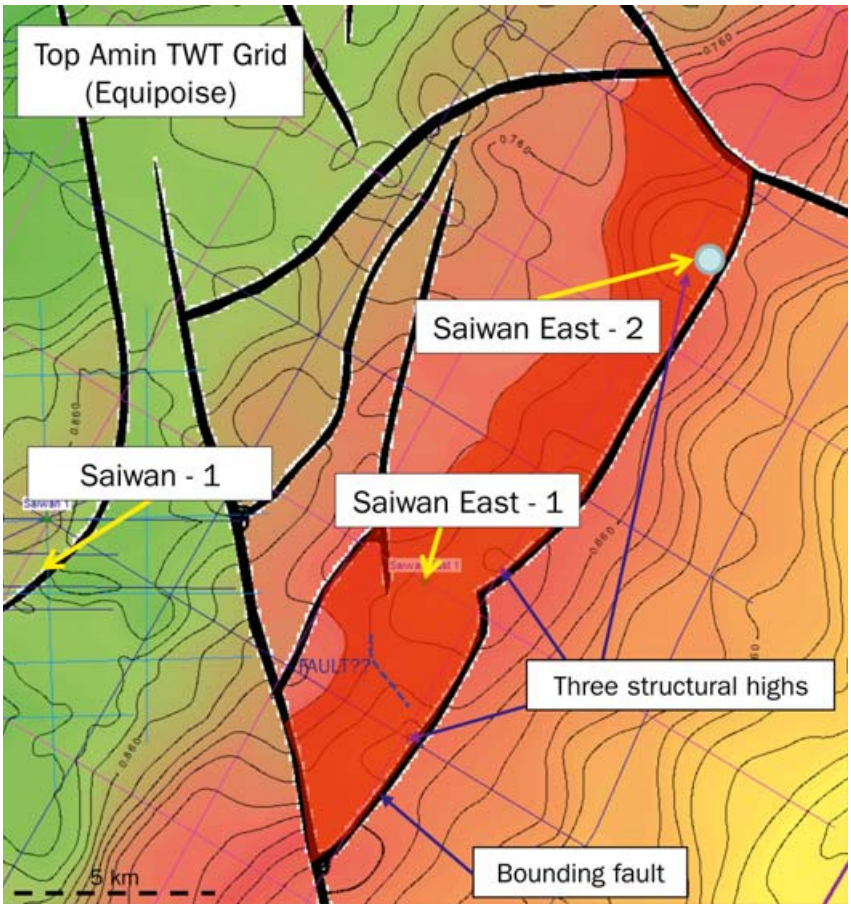
3D Seismic survey

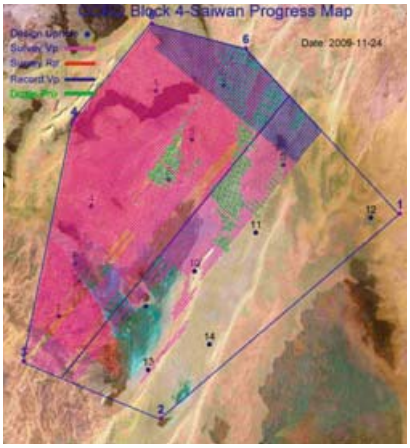
In March 2010, an extended seismic survey over the Farha South trend was launched. The survey will cover the entire Farha trend, where a number of structures similar to Farha South have been identified but as yet have not been drilled. The entire survey will encompass 740 square kilometers, starting with an area surrounding the Farha South-3 well and then continuing on to the rest of the trend. The acquisition is expected to be completed in May 2010. The objective of the survey is to further define and map the oil bearing Farha South structure. The study will also map the extend of the Barik formation along the entire Farha trend.

Oman, Block 4, Saiwan East

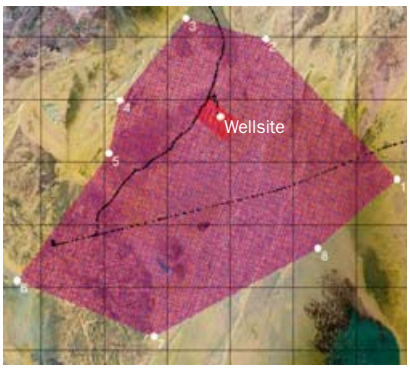
Block 4 is situated immediately south of Block 3 in the eastern part of Oman and covers an area of about 20,000 square kilometres. Tethys has a 50 per cent interest in the licence with Consolidated Contractors Energy Development as operator. As with Block 3, the licence contains both known oil discoveries as well as many exploration plays for both oil and natural gas.







3D seismic survey, about 400 km², covering the entire Saiwan East structure. Defining the extension of light oil and heavy oil reservoirs.



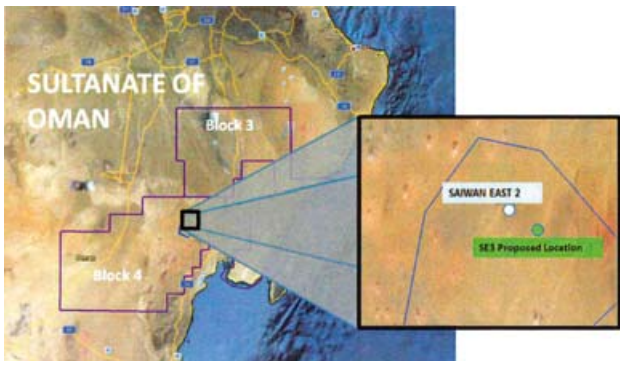
Drilling of Saiwan East-2

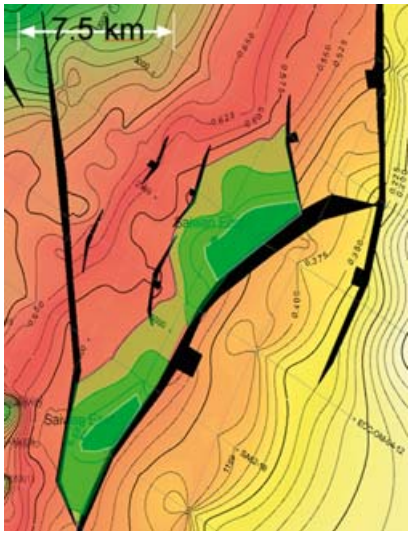
The Saiwan East-2 well was drilled in the second quarter of 2009 with the objective to delineate the areal extent of the three heavy oil bearing zones discovered by the previous licence holders in the Saiwan East-1 well drilled in 2005. Saiwan East-2 was drilled 12 kilometres from Saiwan East-1. Electric logging confirmed the presence of heavy oil in all three primary target formations. A gross hydrocarbon bearing column of more than 400 metres covering the Miqrat, Amin and Buah reservoirs was measured.

The well was deepened and a previously undiscovered target was encountered at a depth of around 1,600 metres. The Khufai limestone, a 30 metres thick oil bearing reservoir, was drill stem tested and flowed 280 bopd of 33 degree API oil on a 24/64" choke. No water was produced during the test and the oil has a very low gas oil ratio. Pressure gauges left in the hole was recovered and analysed in July 2009. Preliminary analysis of the data suggests the Khufai to suffer from skin damage (+20) as a result of the heavy drilling mud used whilst drilling. The true, undamaged, production potential from the vertical well is estimated to yield higher flow rates.

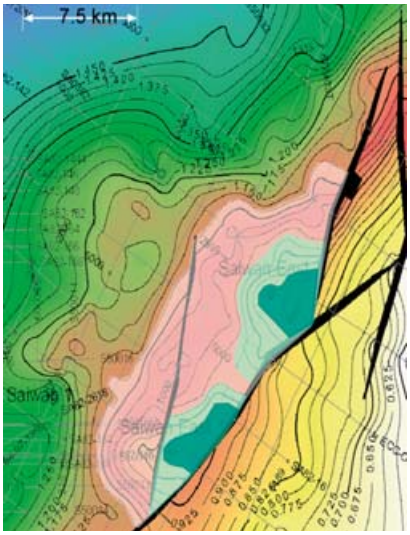
Testing of the heavy oil zones

Tethys returned to the well in late 2009 to conduct testing operations with the objective to verify mobility of the heavy oil and to assess possible production rates. The results was cautiously encouraging. Liquid samples were obtained from three of the four zones tested. Further evaluation of these samples are being conducted. However, the results suggest that any potential production from the heavy oil in Saiwan East will require enhanced oil recovery techniques. No recovery factors can be established with the current data.

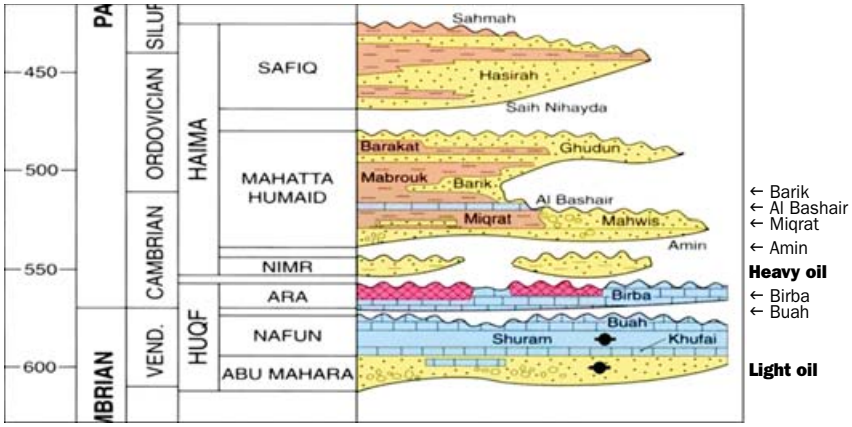




Heavy oil layers – Miqrat, Amin, Buah



2D seismic structure map on top Khufai



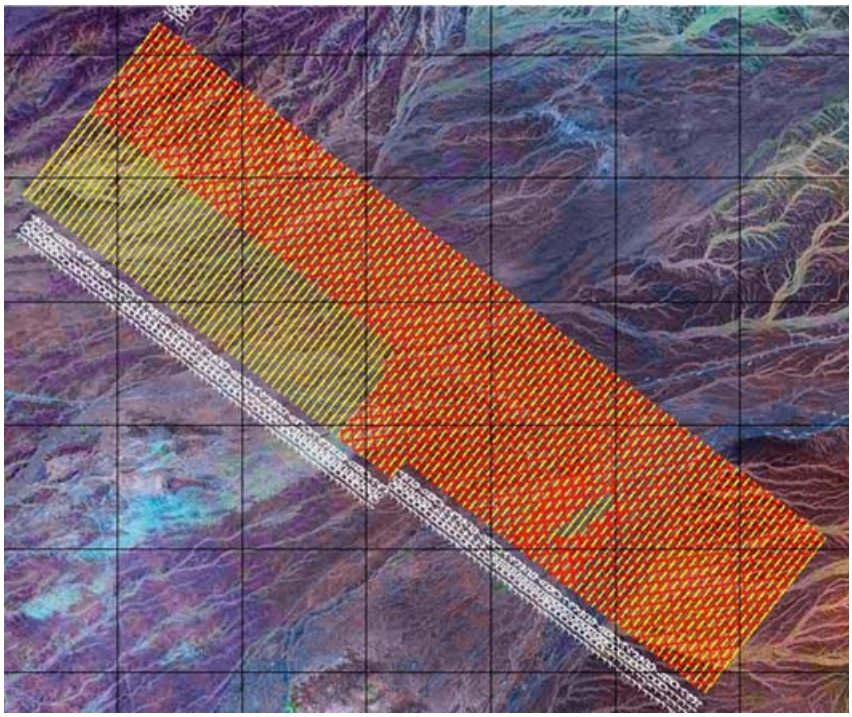
Saiwan East-2 – Stratigraphy

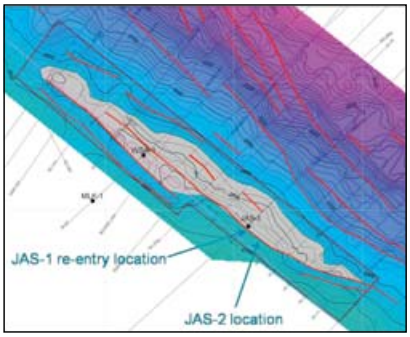
3D seismic survey

In the fourth quarter of 2009, BGP Oil and Gas Services of China were awarded the contract to conduct a 400 square kilometres 3D seismic survey covering the entire Saiwan East structure. The objective of the survey is to define and map the extension of both the light oil and the heavy oil reservoirs. The seismic data acquired is now being processed. Accelerated processing of an area around the Saiwan East-2 well has been completed and the data is now being interpreted and mapped by the operator.

Oman, Block 15, Jebel Aswad

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 has a 40 per cent interest and is operator of Block 15. Danish company Odin Energi A/S holds the remaining 60 per cent interest.





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. 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 mmcfpd and 793 bopd of 57 degree 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.

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

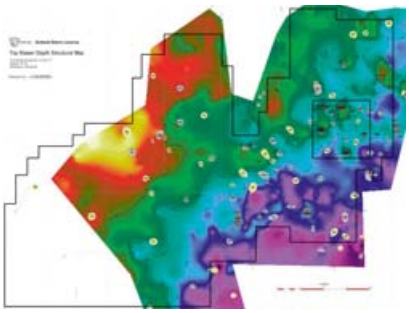
3D seismic survey

In 2008, a 3D seismic survey covering the entire Jebel Aswad structure commenced. A total of 285 square kilometres of 3D seismic data was acquired. Processing, interpretation and preliminary results the survey was completed in the first quarter 2009. The data is of excellent quality. Final structural maps have been drawn, and a revised "in house" resource base has been initiated. The 3D seismic revealed a smaller structure compared to the previous 2D based structure. Additionally, the structural sealing element on the south eastern part of the structure has become somewhat uncertain. However, the deepest logged hydrocarbons in JAS-2 confirm hydrocarbon presence deeper than the questionable sealing element therefore highlighting the complexity of the structure.

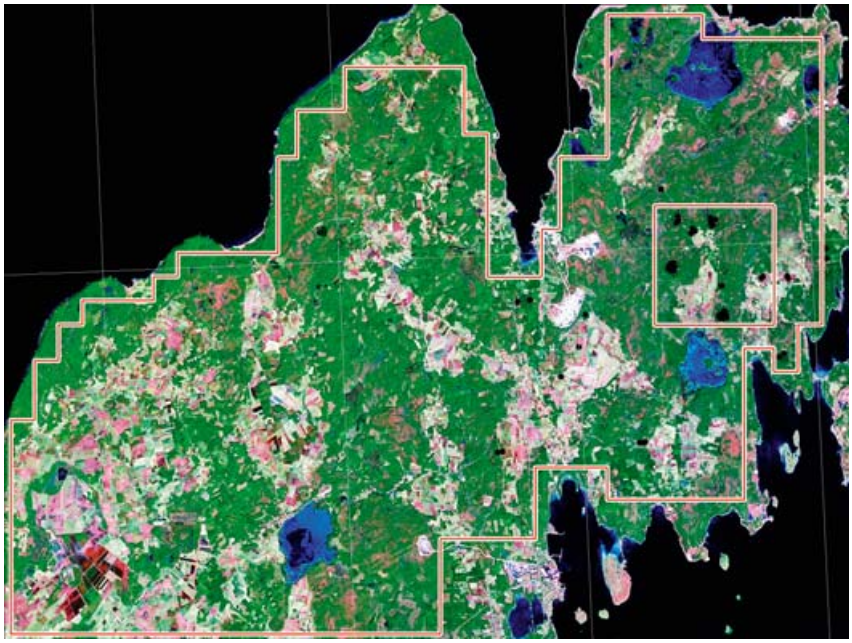
Photo: Niklas Berglus, www.flickr.com/berglus

Sweden, Gotland Större

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. 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 metres below surface, even comparable small quantities could prove to be very profitable. Tethys is operator of the licence with a 100 per cent interest.



Depth structural map



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 Oljeprospektering AB (OPAB) started operations on the island. During the company's 17 years on Gotland, OPAB drilled 241 wells and acquired over 2,500 kilometres of seismic. After OPAB left, Gotlandsolja AB 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 ten 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.

Licence work

In 2009, seismic lines covering the licence area have been selected, scanned and processed. A LiDAR survey (Light detection and ranging / high resolution elevation measures) was performed over the licence area during the summer 2009. The data from the LiDAR survey has been integrated with the seismic data.

In 2008, Tethys conducted a comprehensive study of the existing data over the license area and a detailed database has been created. The interpretation of existing satellite radar data has resulted in new maps, which have provided better understanding of the land cover and the relief within the licence area.

The work to identify reefal trends within the licence area continues. Future plans include acquisition of new geophysical and geological data.

Corporate Responsibility

Photo: Luca Gargano, www.flickr.com/lucagargano

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. However, 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.

Photo: rurukina. www.flickr.com/19803853@N08

The driling of Karlebo-1, Autumn 2006

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 selfcontained for drainage of rain water and other fluids, and an oil skimmer was installed between site drainage and public sewer but was never needed to be used.

Oman – Water is life!

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

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

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

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

Board of Directors, Management and

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: 2,326,955 and 0 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 Lundin Oil, 2001–2004, (acting CEO) Vostok Oil Ltd. October 2002–2003, CEO of Sodra Petroleum 1998–2000. Board member of Minotaurus AB.
Number of shares in Tethys Oil: 1,398,856 and 60,271 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. Mr. Hoey has a management background in corporate finance and energy sector. President and Director of Hondo Oil & Gas Co, 1993–1998. President and Director of Atlantic Petroleum Corp. of Pennsylvania, 1985–1992. Various executive positions in commercial and investment banking in Saudi Arabia, England and the USA with Arab and American financial institutions, 1972–1984. Co-founder of VietNam Holding Ltd. and Chairman of Mundoro Capital Inc.
Number of shares in Tethys Oil: 717,828 and 103,565 warrants.[1]

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, degree in executive development from the Institute for Management Development (IMD), Lausanne, Switzerland. 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, and has

Auditors

Jonas Lindvall, Håkan Ehrenblad, John Hoey, Vincent Hamilton, Magnus Nordin, Jan Risberg.

published several books. Mr. Ehrenblad is active in publishing and media and also an active investor. Board member of Tanganyika Oil Company Ltd. until 2008.
Number of shares in Tethys Oil: 311,336 and 0 warrants.

Jan Risberg,
born in 1964. Member of the Board since 2004 and Chairman of the audit committee and the remuneration committee. Mr. Risberg has several years of experience from the financial sector. Various position within Aros Securities department of Corporate Finance, 1993–1996, at Enskilda Securities department of Corporate Finance, 1996–2000, and as Manager of Ledstiernan AB's London branch, 2000–2002. Mr. Risberg is today active as an independent consultant in the financial sector.
Number of shares in Tethys Oil: 797,092 and 41,327 warrants.[1]

Jonas Lindvall,
born in 1967. Member of the Board since 2006. Managing director of Tethys Oil's subsidiary Tethys Oil Oman Ltd. Education: Bachelor of Science in Petroleum Engineering, University of Tulsa, Tulsa, Oklahoma. Mr. Lindvall worked for IPC/Lundin Oil until 1998, e.g as head of the Bukha oil field. Employed by Shell Petroleum in Oman, 1998–2000. Head of drilling department of Talisman Energy in Malaysia, 2001–2004. Mr. Lindvall has experience in drilling over 100 holes, both onshore and offshore.
Number of shares in Tethys Oil: 568,000 and 38,600 warrants.

[1] *These warrants have been excercised but shares have as per publication of this report not yet been registered*

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, 1998–2002.
Number of shares in Tethys Oil: 66,000 and 73,600 warrants

Auditors

PricewaterhouseCoopers AB

Klas Brand,
born in 1956.
Authorized Public Accountant. Lead partner. Company's auditor since 2001.

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

The Tethys Oil share

Tethys Oil AB's (hereafter referred to as "the Company" or together with subsidiaries "the Group" or "Tethys Oil") 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 2009 amounts to SEK 4,674,849 represented by 28,049,091 shares with a quota value of SEK 0.17. (SEK 0.17). During 2009, Tethys Oil conducted two private placements of 1,300,000 and 2,000,000 shares to Swedish and international investors. Furthermore, 769,005 warrants have been exercised during 2009 and a an equivalent number of shares have been issued.

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 2009 the Board of Directors had remaining outstanding authorization from the AGM to issue 500,000 shares up until the next AGM. During 2010, Tethys Oil has utilized the remaining authorization from the last AGM and issued 500,000 shares. Furthermore, 1,144,451 warrants have been exercised during 2010 and an equivalent number of shares have been issued. The share capital as per publication of this report therefore amounts to SEK 4,948,924 and the number of outstanding shares as per publication of this report amounts to 29,693,542.

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. As per publication of this report the number of outstanding warrants amounts to 2,880,393. The average share price during 2009 has been above the subscription price, SEK 23. The fully diluted number of shares as per 31 December 2009 therefore amounts to 32,073,935. The fully diluted number of shares as per publication of this Annual report, including the 500,000 shares from private placements conducted in March 2010, amounts to 32,573,935.

Share capital development

Since the Company's inception in September 2001 and up the publication of this Annual report the Parent Company's share capital has developed as shown below:

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	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	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	Share issue	0.50	400,000	4,784,800	200,000	2,392,400
2006	Non-cash issue	0.50	876,960	5,661,760	438,480	2,830,880
2006	Share issue	0.50	80,000	5,741,760	40,000	2,870,880
2007	Share issue	0.50	300,000	6,041,760	150,000	3,020,880
2007	Exercise of warrants	0.50	2	6,041,762	1	3,020,881
2007	Share 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	Split 3:1	0.17	12,785,524	19,178,286	–	–
2008	Share issue	0.17	4,800,000	23,978,286	800,000	3,996,381
2008	Exercise of warrants	0.17	1,800	23,980,086	300	3,996,681
2009	Share issue	0.17	1,300,000	25,280,086	216,667	4,213,348
2009	Share issue	0.17	2,000,000	27,280,086	333,333	4,546,618
2009	Exercise of warrants	0.17	176,186	27,456,272	29,364	4,576,045
2009	Exercise of warrants	0.17	592,819	28,049,091	98,803	4,674,849
2010	Exercise of warrants	0.17	252,080	28,301,171	42,013	4,716,862
2010	Exercise of warrants	0.17	137,429	28,438,600	22,905	4,739,767
2010	Exercise of warrants	0.17	754,942	29,193,542	125,824	4,865,590
2010	Share issue	0.17	250,000	29,443,542	41,667	4,907,257
2010	Share issue	0.17	250,000	29,693,542	41,667	4,948,924

Dividend policy

Tethys Oil has, since the foundation of the Company, not paid any dividends. Future dividends are dependent of the financial 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 2010.[1]

Shareholders as of 31 March 2010	Number of shares	Capital and votes, %
SIX Sis AG	5,557,413	19.04%
MZ Investments	2,708,420	9.28%
BNP Paribas (Suisse) S.A.	2,372,522	8.13%
Vincent Hamilton [2]	2,326,955	7.97%
Bk Julius Baer und Co.	1,523,844	5.22%
Magnus Nordin [3]	1,398,856	4.79%
Lorito Holdings Ltd.	1,055,594	3.62%
Jan Risberg	797,092	2.73%
John Hoey [2]	717,828	2.46%
Pictet & Cie	645,406	2.21%
Jonas Lindvall [2]	568,000	1.95%
Jean-Marie Lattès	550,000	1.88%
SEB Private Bank S.A.	460,501	1.58%
Cogeval S.A.	400,000	1.37%
Avanza Pension	394,952	1.35%
Grebbeshult Holding AB	339,000	1.16%
Nordnet Pensionsförsäkringar AB	330,912	1.13%
Svenska Handelsbanken S.A.	321,700	1.10%
Håkan Ehrenblad	311,336	1.07%
SEB Copenhagen	291,000	1.00%
Total, 20 largest shareholders	**23,071,331**	**79.03%**
Other, about 1,380 shareholders	6,122,211	20.97%
TOTAL	**29,193,542**	**100.00%**

Source: Euroclear Sweden AB and Tethys Oil AB

Distribution of shareholdings

Distribution of shareholdings in Tethys Oil as per 31 March 2010.[1]

Size categories as per 31 March 2010	Number of shares	Percentage of shares, %	Number of shareholders	Percentage of shareholders, %
1 – 1,500	518,035	1.77%	945	67.60%
1,501 – 30,000	2,536,879	8.69%	401	28.68%
30,001 – 150,000	2,289,683	7.84%	33	2.36%
150,001 – 300,000	704,743	2.41%	3	0.21%
300,001 –	23,144,202	79.28%	16	1.14%
Total	**29,193,542**	**100.00%**	**1,398**	**100.00**

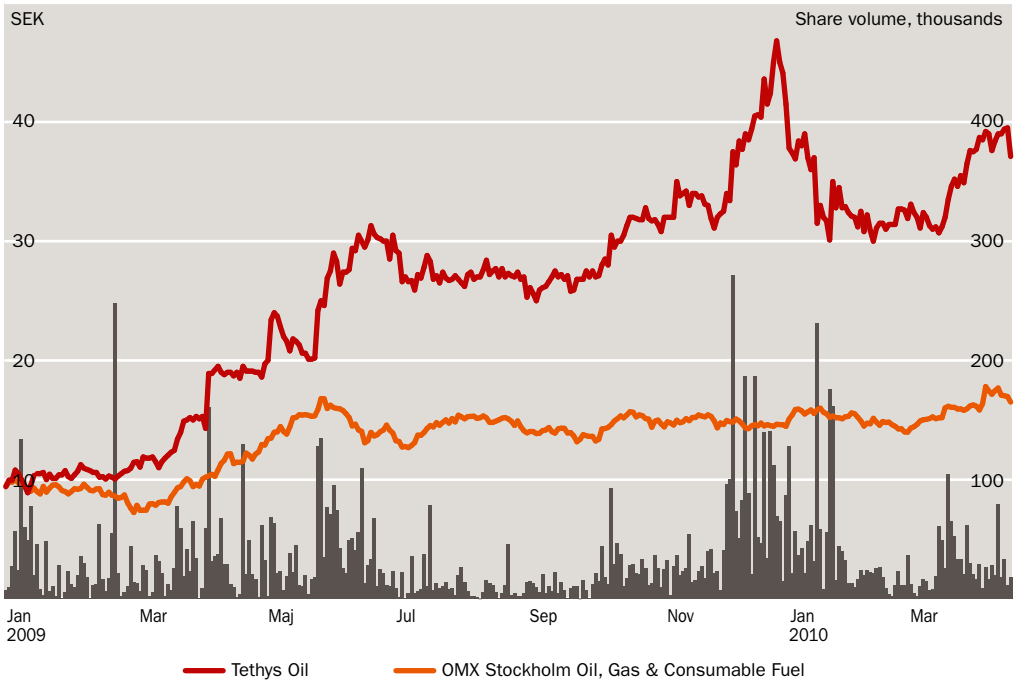
Source: Euroclear Sweden AB and Tethys Oil AB

[1] 500,000 shares from the two share issues conducted in March 2010 were not registered as per 31 March 2010.

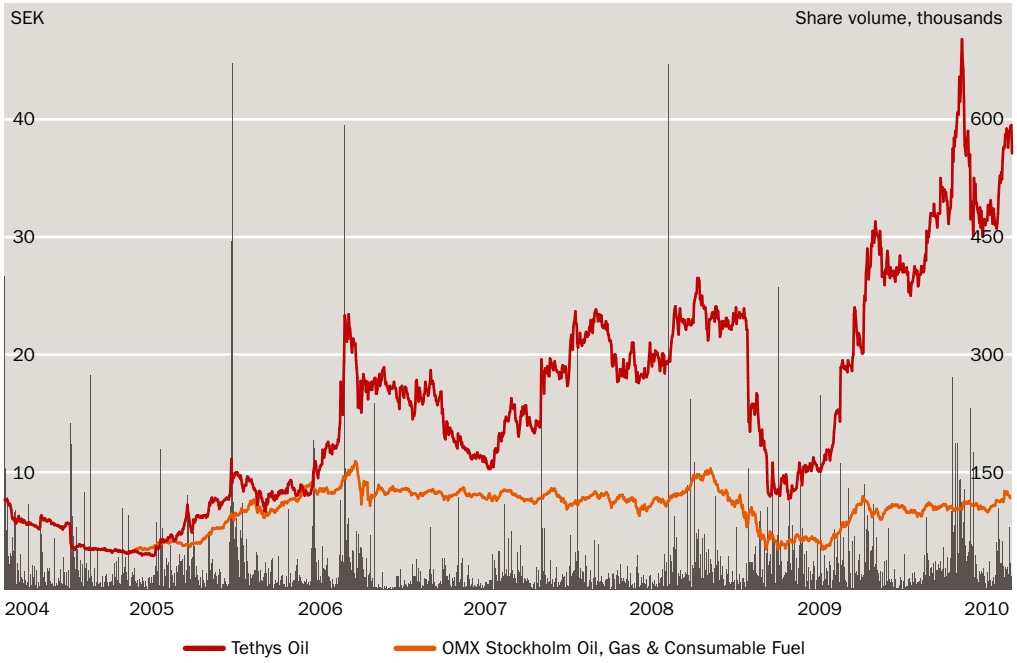
[2] Through company

[3] Incl 60,000 shares lent to H&Q Bank AB

Share price development and turnover January 2009 – April 2010



Share price development and turnover since inception 6 April 2004



Share statistics 2009

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

Ticker name	TETY
Year high	49.30 (22 December 2009)
Year low	8.90 (14 January 2009)
Average turnover per day, shares	32,000
Period turnover, shares	8,024,038
Period turnover/outstanding shares	29%

Source: First North

Key financial data

Group	2009	2008	2007	2006	2005
Items regarding the income statement and balance sheet					
Gross margin, TSEK	n.a.	n.a.	n.a.	n.a.	n.a.
Operating result, TSEK	-28,985	-31,748	-23,533	-30,976	-14,998
Operating margin, %	n.a.	n.a.	n.a.	n.a.	n.a.
Result before tax, TSEK	-42,446	-16,395	-24,704	-29,802	-14,368
Net result, TSEK	-42,503	-16,426	-24,721	-29,802	-14,368
Net margin, %	n.a.	n.a.	n.a.	n.a.	n.a.
Shareholders' equity, TSEK	202,770	177,077	103,196	95,230	52,375
Balance sheet total, TSEK	222,680	179,909	105,586	118,983	54,833
Capital structure					
Equity ratio, %	91.06%	98.43%	97.74%	80.04%	95.52%
Leverage ratio, %	n.a.	n.a.	n.a.	n.a.	n.a.
Adjusted equity ratio, %	91.06%	98.43%	97.74%	80.04%	95.52%
Interest coverage ratio, %	n.a.	n.a.	n.a.	n.a.	n.a.
Investments, TSEK	81,681	72,512	51,765	35,207	6,491
Profitability					
Return on shareholders' equity, %	neg.	neg.	neg.	neg.	neg.
Return on capital employed, %	neg.	neg.	neg.	neg.	neg.
Employees					
Average number of employees	10	10	9	5	4
Number of shares					
Dividend per share, SEK	n.a.	n.a.	n.a.	n.a.	n.a.
Cash flow used in operations per share, SEK	neg.	neg.	neg.	neg.	neg.
Number of shares at year end, thousands	28,049	23,980	19,179	17,226	13,155
Shareholders' equity per share, SEK	7.23	7.38	5.38	5.53	3.98
Weighted number of shares for the year, thousands	26,274	22,669	17,592	15,330	13,155
Earnings per share, SEK	-1.62	-0.72	-1.41	-1.94	-1.09

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.

Parent	2009	2008	2007	2006	2005
Items regarding the income statement and balance sheet					
Gross margin, TSEK	n.a.	n.a.	n.a.	n.a.	n.a.
Operating result, TSEK	-5,366	-6,853	-3,996	-4,488	-3,786
Operating margin, %	n.a.	n.a.	n.a.	n.a.	n.a.
Result before tax, TSEK	-30,327	-12,389	-22,558	-28,178	-12,391
Net result, TSEK	-30,327	-12,389	-22,558	-28,178	-12,391
Net margin, %	n.a.	n.a.	n.a.	n.a.	n.a.
Shareholders' equity, TSEK	226,005	187,035	113,197	100,945	56,444
Balance sheet total, TSEK	226,800	188,409	115,179	121,232	58,982
Capital structure					
Equity ratio, %	99.65%	99.27%	98.28%	83.27%	95.70%
Leverage ratio, %	n.a.	n.a.	n.a.	n.a.	n.a.
Adjusted equity ratio, %	99.65%	99.27%	98.28%	83.27%	95.70%
Interest coverage ratio, %	n.a.	n.a.	n.a.	n.a.	n.a.
Investments, TSEK	62,999	82,755	21,887	59,096	5,874
Profitability					
Return on shareholders' equity, %	neg.	neg.	neg.	neg.	neg.
Return on capital employed, %	neg.	neg.	neg.	neg.	neg.
Employees					
Average number of employees	6	5	5	4	4
Number of shares					
Dividend per share, SEK	n.a.	n.a.	n.a.	n.a.	n.a.
Cash flow used in operations per share, SEK	neg.	neg.	neg.	neg.	neg.
Number of shares at year end, thousands	28,049	23,980	19,179	17,226	13,155
Shareholders' equity per share, SEK	8.06	7.80	5.90	5.53	4.29
Weighted number of shares for the year, thousands	26,274	22,669	17,592	15,330	13,155
Earnings per share, SEK	-1.15	-0.55	-1.28	-1.84	-0.94

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.

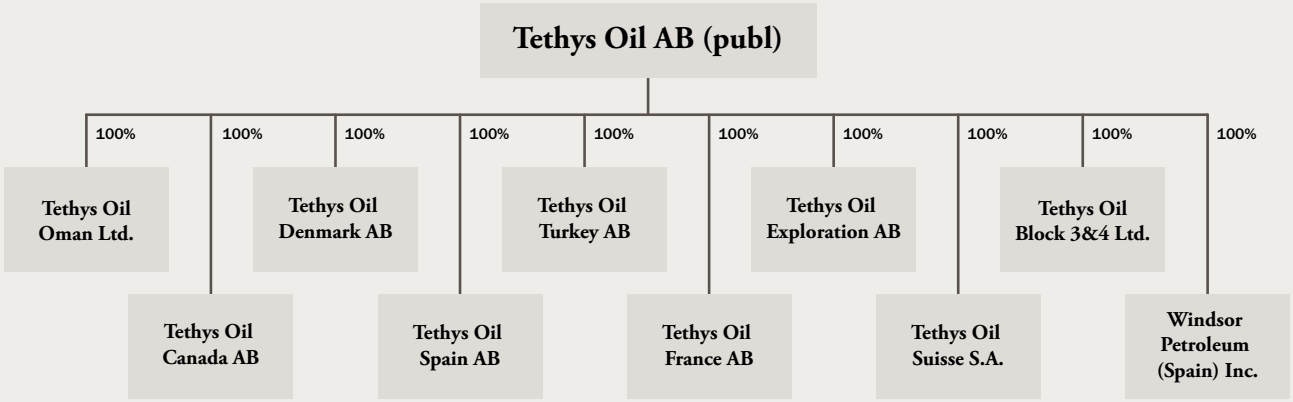
Weighted numbers of shares
Weighted number of shares during the year.

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 AB (publ) ("the Company") is a Swedish company, that together with its subsidiaries (together "the Group" or "Tethys Oil"), is 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 2009 the Company had interests in licences in Oman, France and Sweden.

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 ("CCED") holding the remaining 50 per cent.

Country	Licence name	Tethys Oil, %	Total area, km²	Partners (operator in bold)	Book value 31 Dec 2009	Book value 31 Dec 2008
Oman	Block 15	40%	1,389	**Tethys Oil,** Odin Energi	99,064	98,729
Oman	Block 3,4	50%	33,125	**CCED,** Tethys Oil	101,615	34,867
France	Attila	40%	1,986	**Galli Coz,** Tethys Oil	3,628	3,589
Morocco	Bouanane				–	1,858
Turkey	Ispandika				–	1,289
Sweden	Gotland Större	100%	540	**Tethys Oil**	1,142	429
New ventures					174	52
Total			**37,040**		**205,623**	**140,811**

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 mmcfpd and 57 degree API condensate at a rate of 793 bopd condensate of 57 degree API (corresponding to 2,626 boepd).

In the summer 2008, Tethys Oil spudded Jebel Aswad-2 (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 were acquired with a geophone spacing of 15 x 15 metres.

Processing, interpretation and preliminary results of the Jebel Aswad 3D seismic survey was completed in the first quarter 2009. The data is of excellent quality. Final structural maps have been drawn, and a revised "in house" resource base has been initiated. The 3D seismic revealed a smaller structure compared to the previous 2D based structure. Additionally, the structural sealing element on the south eastern part of the structure has become somewhat uncertain. However, the deepest logged hydrocarbons in JAS-2 confirm hydrocarbon presence deeper than the questionable sealing element therefore highlighting the complexity of the structure. As a result of the 3D survey and the new structural maps, further seismic inversion processing commenced in July 2009 with an objective to map porosity occurrence in the Natih limestone. Preliminary results suggest that this is possible, and may provide further information regarding the location of producible hydrocarbons and structural seal. Once the inversion study has been finalised it should be possible to finally determine an up to date resources base for Jebel Aswad.

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 discoveries have been of particular interest. During 2009 two wells were drilled; Farha South-3 (FS-3) and Saiwan East-2 (SE-2).

The FS-3 well was drilled in the first quarter of 2009 to appraise the Farha South oil discovery. The drilling target was the Lower Al Bashir sandstone formation at a depth of around 1,900 metres. The well was drilled to a total measured depth of 2,723 metres, corresponding to a true vertical depth of 1,857 metres. The two main sandstone stringers, that produced oil in Farha South-1 (FS-1), 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 degree API) with a low gas oil ratio. Whilst drilling FS-3, oil shows similar to those recorded in the deeper Lower Al Bashir sandstone were also observed in the shallower potentially oil bearing Barik sandstone. The Barik layer, was neither logged nor tested at the time of drilling.

The SE-2 well was drilled in the second quarter of 2009 with the objective to delineate the areal extent of the three heavy oil bearing zones discovered by the previous license holders in the Saiwan East-1 (SE-1) well drilled in 2005. SE-2 was drilled 12 kilometres from SE-1. Electric logging confirmed the presence of heavy oil in all three primary target formations. A gross hydrocarbon bearing column of more than 400 metres covering the Miqrat, Amin and Buah reservoirs was measured. The well was deepened and a previously undrilled target was encountered at a depth of around 1,600 metres. The Khufai limestone, a 30 metres thick oil bearing reservoir, was drill stem tested and flowed 280 bopd of 33 degree API oil on a 24/64" choke. No water was produced during the test and the oil has a very low gas oil ratio. Pressure

gauges left in the hole was recovered and analysed in July 2009. Preliminary analysis of the data suggests the Khufai to suffer from skin damage (+20) as a result of the heavy drilling mud used whilst drilling. Testing the heavy oil layers was postponed until sufficient information had been extracted from the three cores obtained across the most promising heavy oil intervals.

Several production tests were conducted in the later part of 2009 and in the beginning of 2010. Of particular interest was the testing of the Barik discovery in FS-3. On test, the Barik layer produced 1,010 bopd using a pump. The oil was of high quality, 42 degrees API. In December 2009 and January 2010, several tests were conducted to establish flow rates from the heavy oil discoveries in SE-2. No flow rates were established, although the oil seemed movable in some sections. Oil samples were taken and will be analyzed to determine future work.

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.

The exploration well Pierre Maubeuge-2 (PLM-2) on the Attila licence in France proved the presence of natural gas. Wireline logging confirmed the indications of gas while drilling in 2007. In 2008, well completion and production tests were conducted. Subsequent analysis of the results however suggests the PLM-2 well to be non commercial in its current state. Further well testes will be conducted in 2010.

Sweden

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

In 2009, seismic lines covering the licence area have been selected, scanned and processed. A LiDAR survey (Light detection and ranging / high resolution elevation measures) was performed over the licence area during the summer 2009. The data from the LiDAR survey will be integrated with the seismic data. In 2008, Tethys Oil conducted a comprehensive study of the existing data over the license area and a detailed database has been created. The interpretation of existing satellite radar data has resulted in new maps, which have provided better understanding of the land cover and the relief within the licence area. The work to identify reefal trends within the licence area continues. Future plans include acquisition of new geophysical and geological data.

Morocco, Turkey and Spain

A decision was taken to focus even more on Oman and, at least for now, limit exposure to other areas. Consequently, Tethys Oil has withdrawn from its licenses in Morocco, Spain and Turkey.

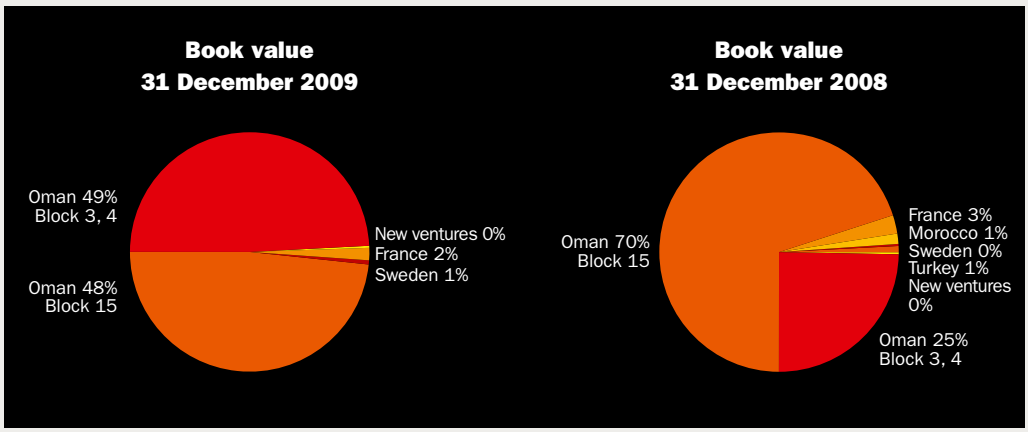
Significant agreements and commitments

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 and Sweden. 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 amounts to MUSD 3.5 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 2009. 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.

Result for the period and sales

Tethys Oil reports a result for the year 2009 of TSEK -42,503 (TSEK -16,426 for last year), representing earnings per share of SEK -1.62 (SEK -0.72) for the year 2009. The result for 2009 has been significantly impacted by net foreign exchange losses. The currency exchange effect of the Group amounts to TSEK -13,528 and almost all of the effect relates to the weaker US dollar in relation to the Swedish krona. The background to this is that the majority of Tethys Oil's assets relate to Block 15 and Blocks 3 and 4 in Oman which are held through two foreign subsidiaries and financed through intercompany loans 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 loss effect is part of net financial result amounting to TSEK -13,461 for the year 2009. Apart from net currency exchange gains/losses, net financial result consist of net interest received and return on short term investments of TSEK 66 for the year 2009.

Write downs of oil and gas properties of TSEK 15,872 has negatively affected the result of 2009. The write downs mainly regard previously made investments regarding the Bouanane project in Morocco and the Ispandika project in Turkey. The write down of the Bouanane project is a consequence of the exploration well made during the second quarter 2009 which did not prove commercial quantities of natural gas. The write down of the Ispandika assets in Turkey is made in the light of the Group's increased focus on Oman, whereby Tethys Oil decided not to continue with the licence which expired during the first quarter 2009. Cash flow from operations before changes in working capital during 2009 amounted to TSEK -12,856 (TSEK -9,195).

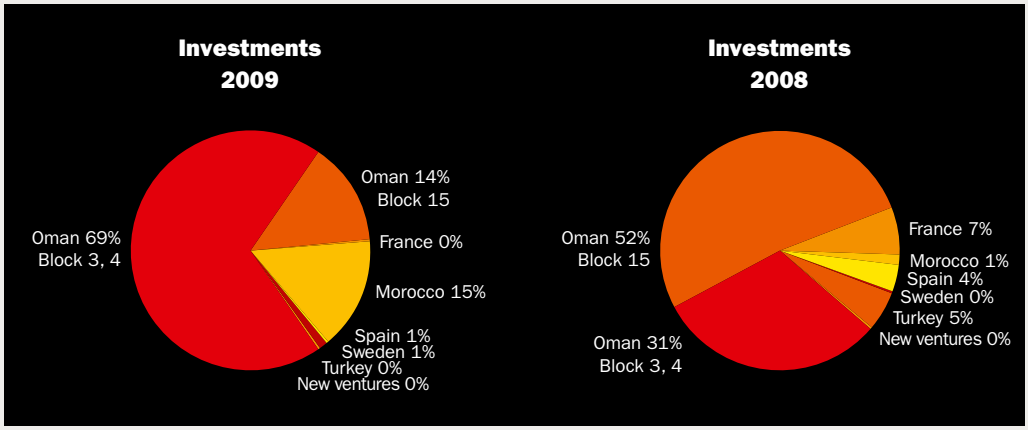
Tethys Oil has not recorded any sales or production of oil and gas for the twelve month period that ended 31 December 2009. Accordingly, there has been no depletion of oil and gas properties.

Other income, administrative expenses

Administrative expenses amounted to TSEK -15,343 (TSEK -13,818) for the year 2009. Depreciation amounted to TSEK 284 (TSEK 186) during 2009. Administrative expenses are mainly salaries, rents, listing costs and outside services. These costs are corporate costs and are accordingly not capitalised. Depreciation is referable to office equipment. The administrative expenditures during the year 2009 are in line with the equivalent period last year. Part of the administrative expenses in Tethys Oil Oman Ltd. is charged to the Joint venture in Block 15 in Oman where the expenditures are capitalised and, in line with the Exploration and Production Sharing Agreement, recoverable. These administrative expenditures 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 if Tethys Oil is the operator theses expenses are funded by partners. 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, France and Sweden. Oman account for the largest part of the book values of oil and gas properties, around 98 per cent as per 31 December 2009 compared to 95 per cent as



per 31 December 2008. Oil and gas properties as at 31 December 2009 amounted to TSEK 205,623 (TSEK 140,811). Investments in oil and gas properties of TSEK 81,480 (TSEK 71,506) were incurred for the twelve month period ended 31 December 2009.

Investments in oil and gas properties in Block 15 Oman of TSEK 11,480 have mainly been related to the completion and interpretation of the 3D seismic acquisition which was conducted during the last part of 2008 and the first part of 2009. Investments related to Blocks 3 and 4 amounted during the period to TSEK 56,401 and accounts for most of the oil and gas investments during the year 2009. Investments on Blocks 3 and 4 regard Tethys Oil's share of the Farha South-3 (FS-3) well and Tethys Oil's share of the Saiwan East-2 (SE-2) well. In April 2009, Tethys Oil announced that FS-3 flowed 754 bopd during production test. Furthermore, SE-2 proved the presence of heavy oil and the presence of lighter oil which produced 280 bopd during production test. During the last quarter of 2009 Tethys Oil and partner also conducted several production tests of the FS-3 and SE-2 wells.

In Morocco, Tethys Oil has decided to write down all previously incurred investments relating to the Bouanane licence in Morocco amounting to TSEK 14,076.

Investments in other licence areas have during the full year 2009 amounted to TSEK 1,380 and mainly regarded licence administration and geological work on Gotland. The book value of oil and gas properties include currency exchange effects of TSEK -16,123 during the full year 2009, which are not cash related items and therefore not included in investments. Furthermore, the book value of oil and gas properties includes other non cash related items of TSEK 15,327. For more information please see above *Result for the period and sales.*

Liquidity and financing

Cash and bank as at 31 December 2009 amounted to TSEK 13,620 (TSEK 29,886). Tethys Oil has entirely relied on equity financing since the Company was founded in 2001. The Company's capital needs have been met with share issues; rights issues or private placements. The Company has developed a policy of raising funds when needed, thereby maintaining a low liquidity level. As projects develop to require more investments, the Company has sourced the funds from international as well as the Swedish capital markets. The financing of Tethys Oil has therefore been closely related to the development of the projects.

Based on an authorization from the AGM held 8 May 2008, the Board of Directors resolved to issue 1,300,000 shares through a private placement. The private placement was made at SEK 10 per share, which was in line with the prevailing market price at the time. The total proceeds from this issue amounted to TSEK 13,000 before issue costs. The newly issued shares in the private placement were registered 10 March 2009 and the total number of shares after the private placement amounted to 25,280,086.

Based on an authorization from the AGM held 20 May 2009, the Board of Directors resolved to issue 2,000,000 shares through a private placement. The private placement was made at SEK 20 per share, which was in line with the prevailing market price at the time. The total proceeds from this issue amounted to TSEK 40,000 before issue costs. The newly issued shares in the private placement were registered 26 June 2009 and the total number of shares after the private placement amounted to 27,280,086.

In July, Tethys Oil received proceeds of TSEK 4,052 from 176,186 exercised warrants, which increased the total number of shares to 27,456,272. In October, Tethys Oil received TSEK 13,635 from 592,819 exercised warrants, which increased the total number of shares to 28,049,091.

Current receivables

Current receivables amounted to TSEK 1,810 (TSEK 7,239) as at 31 December 2009. The reduction of current receivables relates to reduced partner receivables on Block 15 in Oman compared to 31 December 2008.

Current liabilities

Current liabilities as at 31 December 2009 amounted to TSEK 19,911 (TSEK 2,832), of which TSEK 1,080 (TSEK 1,358) relates to accounts payable, TSEK 18,448 (TSEK 385) relates to other current liabilities and TSEK 383 (TSEK 1,088) relates to accrued expenses. The high level of liabilities compared to the equivalent period last year relates to Block 3 and 4 in Oman and Tethys Oil's share of expenditures incurred.

Parent company

The Parent company reports a result for the year 2009 amounting to TSEK -30,327 (TSEK -12,389). Administrative expenses amounted to TSEK -7,934 (TSEK -8,503) for the year 2009. Net financial result amounted to TSEK -24,961 (TSEK -5,536) during the year 2009. Write down of shares in subsidiaries are included in net financial result. The weaker US dollar has had a negative impact on net financial result. The exchange rate losses regard translation differences and are non cash related. Investments during 2009 amounted to TSEK 98,400 (TSEK 59,961). Financial investments are financial loans to subsidiaries for their oil and gas operations. The turnover in the Parent company relates to chargeouts of services to subsidiaries.

Subsequent events

Tethys Oil has in January 2010, after the reporting period announced production tests from the Barik layer in the Farha South-3 well. In the test the well produced, using a pump (ESP), 1,010 bopd.

During 2010 Tethys Oil has utilized the remaining authorization from the AGM and issued 500,000 shares in to placements. These placements were made in line with the market price prevailing at the time, SEK 30.75 and SEK 33.75. Furthermore, 1,144,451 warrants have been exercised during 2010 and an equivalent number of shares have been issued. The share capital as per publication of this report therefore amounts to SEK 4,948,924 and the number of outstanding shares as per publication of this report amounts to 29,693,542. As per publication of this report the number of outstanding warrants amounts to 2,880,393. The private placements and the exercise of warrants have resulted in proceeds of MSEK 42 before issue costs.

Derivative financial instruments

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

Board of Directors and Management

At the AGM on 20 May 2009, Håkan Ehrenblad, Vincent Hamilton, John Hoey, Jonas Lindvall, Magnus Nordin and Jan Risberg were re-elected members of the Board. No deputy directors were appointed. At the same meeting Vincent Hamilton was appointed Chairman of the Board.

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 eleven meetings during 2009. Most importantly the Board has adopted the interim reports of the year as well as the budget of 2010.

The six member Board consist 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 five meetings during 2009. 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 Ltd., Tethys Oil Block 3&4 Ltd., Windsor Petroleum (Spain) Inc., Tethys Oil Denmark AB, Tethys Oil Canada 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 2009, the number of outstanding shares in Tethys Oil amount to 28,049,091 (23,980,086), 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 2009, Tethys Oil had 23,980,086 shares. In March 2009, Tethys Oil conducted a share issue which increased the number of shares with 1,300,000 to 25,280,086. The shares from the share issue are included as per registration dated 10 March 2009. In June 2009, Tethys Oil conducted a second share issue of 2,000,000 which increased the number of shares to 27,280,086. Furthermore in July 2009, 176,186 warrants were exercised and accordingly an equivalent number of shares were issued by Tethys Oil. Tethys Oil received proceeds of TSEK 4,052 before issue costs. The shares were registered 10 July 2009 and the total number of outstanding shares increased to 27,456,272. In October 2009, 592,819 warrants were exercised and an equivalent number of shares were issued. Tethys Oil received proceeds of TSEK 13,635 and the total number of shares thereafter amounted to 28,049,091.

The warrants from the rights issue conducted 2008 amounted as per 31 December 2009 to 4,024,844 with an exercise price of SEK 23 and where one war-

rant gives the right to purchase one new share. The warrants can be exercised continuously up until 30 June 2010. The average share price during 2009 was above the subscription price, SEK 23. The fully diluted number of shares therefore amounts to 32,073,935.

Risk and uncertainties

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

Dividend

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

Proposed disposition of unrestricted earnings

The Board of Directors propose that the unrestricted earnings of SEK 150,259, of which the loss for the year, SEK -30,327, 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 adopted at the AGM, 19 May 2010.

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, 28 April 2010

Vincent Hamilton
Chairman of the Board

Håkan Ehrenblad
Director

John Hoey
Director

Jonas Lindvall
Director

Jan Risberg
Director

Magnus Nordin
Managing director

Our audit report was submitted on 28 April 2010

PricewaterhouseCoopers AB

Klas Brand
Authorized Public Accountant
Lead partner

Johan Rippe
Authorized Public Accountant

Consolidated Statement of Comprehensive Income

TSEK	Note	2009	2008
Net sales of oil and gas		–	–
Depreciation of oil and gas properties		–	–
Write off of oil and gas properties	4	-15,872	-21,088
Other income		2,287	3,450
Other losses, net	5	-56	-293
Administrative expenses	6-8	-15,343	-13,818
Operating result		**-28,985**	**-31,748**
Financial income and similar items	9	2,234	15,565
Financial expenses and similar items	10	-15,696	-212
Net financial income		**-13,461**	**15,353**
Result before tax		**-42,446**	**-16,395**
Income tax	11	-57	-30
Loss for the year		**-42,503**	**-16,426**
Other comprehensive result			
Currency translation differences		-1,103	4,079
Other comprehensive result for the period		**-1,103**	**4,079**
Total comprehensive result for the period		**-43,607**	**-12,347**
Number of shares outstanding	14	28,049,091	23,980,086
Number of shares outstanding (after dilution)	14	32,073,935	23,980,086
Weighted number of shares	14	26,274,023	22,668,770
Earnings per share, SEK	14	-1.62	-0.72
Earnings per share (after dilution), SEK	14	-1.33	-0.72

Consolidated Balance Sheet

TSEK	Note	31 Dec 2009	31 Dec 2008
ASSETS			
Fixed assets			
Oil and gas properties	4	205,623	140,811
Office equipment	12	1,045	1,128
Total fixed assets		**206,668**	**141,940**
Current assets			
Other receivables	13	1,810	7,239
Prepaid expenses		583	843
Short term investments		–	9,283
Cash and bank		13,620	20,603
Total current assets		**16,011**	**37,969**
TOTAL ASSETS		**222,680**	**179,909**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	14	4,675	3,997
Additional paid in capital		331,601	262,982
Other reserves		794	1,897
Retained earnings		-134,300	-91,799
Total shareholders' equity		**202,770**	**177,077**
Non interest bearing current liabilities			
Accounts payable		1,080	1,358
Other current liabilities		18,448	385
Accrued expenses		383	1,088
Total non interest bearing current liabilities		**19,911**	**2,832**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**222,680**	**179,909**
Pledged assets	16	500	500
Contingent liabilities	17	25,804	43,230

Consolidated Statement of Changes in Equity

TSEK	Share capital	Paid in capital	Other reserves	Retained earnings	Total equity
Opening balance 1 January 2008	**3,196**	**177,555**	**-2,182**	**-75,374**	**103,196**
Total comprehensive result 2008	–	–	4,079	-16,425	-12,347
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
Closing balance at 31 December 2008	**3,997**	**262,982**	**1,897**	**-91,799**	**177,077**
Opening balance 1 January 2009	**3,997**	**262,982**	**1,897**	**-91,799**	**177,077**
Total comprehensive result 2009	–	–	-1,103	-42,505	-43,607
Private placement February	217	12,783	–	–	13,000
Issue costs	–	-83	–	–	-83
Private placement June	333	39,667	–	–	40,000
Issue costs warrant issue	–	-1,307	–	–	-1,307
Warrant exercise July	29	4,023	–	–	4,052
Warrant exercise October	99	13,536	–	–	13,635
Closing balance 31 December 2009	**4,675**	**331,601**	**794**	**-134,300**	**202,770**

Consolidated Cash Flow Statement

TSEK	Note	2009	2008
Cash flow from operations			
Operating result		-28,985	-31,748
Interest received		67	1,233
Interest paid		-5	-1
Income tax		-57	-30
Adjustment for write down of oil and gas properties	4	15,872	21,088
Adjustment for depreciation and other non cash related items		251	263
Total cash flow used in operations before change in working capital		**-12,856**	**-9,195**
Decrease/increase in receivables		5,691	-4,646
Increase in liabilities		1,752	442
Cash flow used in operations		**-5,413**	**-13,399**
Investment activities			
Investments in oil and gas properties	4	-81,480	-71,506
Investments in other fixed assets	12	-201	-1,007
Cash flow used for investment activities		**-81,681**	**-72,512**
Financing activities			
Share issues, net after issue costs		69,297	98,884
Return on short term investments		4	417
Cash flow from financing activities		**69,301**	**99,301**
Cash flow for the year		**-17,793**	**13,390**
Cash and cash equivalents at the beginning of the period *		29,886	12,252
Exchange gains/losses on cash and cash equivalents		1,524	4,245
Cash and cash equivalents at the end of the period *		13,620	29,886

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

Parent Company Income Statement

TSEK	Note	2009	2008
Net sales of oil and gas		–	–
Depreciation of oil and gas properties		–	–
Write off of oil and gas properties		–	–
Other income		2,625	1,881
Other losses/gains, net	5	-56	-231
Administrative expenses	6-8	-7,934	-8,503
Operating result		**-5,366**	**-6,853**
Financial income and similar items	9	7,962	19,457
Financial expenses and similar items	10	-15,641	-134
Write down of shares in group company	15	-17,282	-24,859
Net financial income		**-24,961**	**-5,536**
Result before tax		**-30,327**	**-12,389**
Income tax	11	–	–
Loss for the period		**-30,327**	**-12,389**
Number of shares outstanding	14	28,049,091	23,980,086
Number of shares outstanding (after dilution)	14	32,073,935	23,980,086
Weighted number of shares	14	26,274,023	22,668,770

Parent Company Balance Sheet

TSEK	Note	31 Dec 2009	31 Dec 2008
ASSETS			
Fixed assets			
Oil and gas properties	4	–	35,569
Other fixed assets	12	225	198
Total fixed assets		**225**	**35,767**
Financial assets			
Shares in subsidiaries	15	26,456	26,347
Long term receivables from group companies		187,326	97,198
Total financial fixed assets		**213,782**	**123,545**
Current assets			
Other receivables	13	209	205
Prepaid expenses		306	550
Short term investments		–	9,283
Cash and cash equivalents		12,278	19,059
Total current assets		**12,793**	**29,097**
TOTAL ASSETS		**226,800**	**188,409**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	14		
Restricted equity:			
Share capital		4,675	3,997
Statutory reserve		71,071	71,071
Unrestricted equity:			
Share premium reserve		260,530	191,911
Retained earnings		-79,944	-67,555
Net result		-30,327	-12,389
Total shareholders' equity		**226,005**	**187,035**
Non interest bearing current liabilities			
Accounts payable		536	634
Other current liabilities		209	347
Accrued expenses		49	393
Total non interest bearing current liabilities		794	1,374
TOTAL SHAREHOLDERS'EQUITY AND LIABILITIES		**226,800**	**188,409**
Pledged assets	16	500	500
Contingent liabilities	17	25,804	43,230

Parent Company Statement of Changes in Equity

	Restricted equity		Unrestricted equity			
TSEK	Share capital	Statutory reserve	Share premium reserve	Retained earnings	Net result	Total equity
Opening balance at 1 January 2008	**3,196**	**71,071**	**106,484**	**-44,997**	**-22,558**	**113,197**
Transfer of prior year net result	–	–	–	-22,558	22,558	–
Loss for the year 2008	–	–	–	–	-12,389	-12,389
	3,196	**71,071**	**106,484**	**-67,555**	**-12,389**	**100,807**
Issue costs set off issue	–	–	-107	–	–	-107
Private placement	801	–	90,441	–	–	91,242
Issue costs	–	–	-4,585	–	–	-4,585
Issue costs warrants issue	–	–	-322	–	–	-322
Closing balance at 31 December 2008	**3,997**	**71,071**	**191,911**	**-67,555**	**-12,389**	**187,035**
Opening balance 1 Jan 2009	**3,997**	**71,071**	**191,911**	**-67,555**	**-12,389**	**187,035**
Transfer of prior year net result	–	–	–	-12,389	12,389	–
Loss for the year 2009	–	–	–	–	-30,327	-30,327
Private placement March	217	–	12,783	–	–	13,000
Issue costs	–	–	-83	–	–	-83
Private placement June	333	–	39,667	–	–	40,000
Issue costs warrant exercise	–	–	-1,307	–	–	-1,307
Warrant exercise July	29	–	4,023	–	–	4,052
Warrant exercise October	99	–	13,536	–	–	13,635
Closing balance at 31 December 2009	**4,675**	**71,071**	**260,530**	**-79,944**	**-30,327**	**226,005**

Parent Company Cash Flow Statement

TSEK	Note	2009	2008
Cash flow from operations			
Operating result		-5,366	-6,853
Interest received		6,857	5,056
Interest paid		-5	-13
Adjustment for depreciation		-17,140	118
Total cash flow used in operations before change in working capital		**-15,654**	**-1,692**
Decrease/increase in receivables		240	-70
Decrease in liabilities		-580	-608
Cash flow used in operations		**-15,994**	**-2,370**
Investment activities			
Acquisition of subsidiary, net of cash acquired	15	109	–
Investments in oil and gas properties	4	35,569	-22,787
Investments in long term liabilities		-98,509	-59,961
Investments in other fixed assets	12	-168	-7
Cash flow used for investment activities		**-62,999**	**-82,755**
Financing activities			
Share issues, net after issue costs		69,297	98,884
Return on short term investments		4	417
Cash flow from financing activities		**69,301**	**99,301**
Cash flow for the year		**-9,692**	**14,176**
Cash and cash equivalents at the beginning of the period *		28,344	9,656
Exchange gains on cash and cash equivalents		-6,372	4,512
Cash and cash equivalents at the end of the period *		12,278	28,344

** 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 and Sweden.

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 28 April 2010.

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 2008 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 1.2 "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.

Accounting standards, amendments and interpretations effective in 2009 and adopted by the Group
IFRS 2 (Amendment), "Share-based payment".
The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment does not have a material impact on the Group's financial statements.

IFRS 7 (Amendment) "Financial instruments – Disclosures".
The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The amendment has not had any impact on financial statements.

IFRS 8, "Operating segments".
IFRS 8 replaces IAS 14. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This standard does not result in changes to the disclosures.

IAS 1 (Amendment/Revised), "Presentation of financial statements".
The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Tethys Oil has chosen to present the statement of comprehensive income.

IAS 23 (Amendment), "Borrowing costs".
It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. In addition the definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method as defined in IAS 39. The amendment does not have a material impact on the Group's financial statements.

In addition to the above mentioned a number of amendments and interpretations are effective in 2009 but have not had impact on the Group's financial statements.

Accounting standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group
The following new standards, amendments and interpretations to existing standards have not been approved by the EU and are therefore not mandatory. They related to the Group's accounting periods beginning on or after 1 January 2010 or later periods:

IFRS 3 (Revised), "Business combinations".
The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair vale or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

IAS 27 (Revised), "Consolidated and separate financial statements".
The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

IFRIC 17, "Distribution of non-cash assets to owners".
This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The Group and Company will apply IFRIC 17 from 1 January 2010. It is not expected to have a material impact on the Group or Company's financial statements.

In addition to the above mentioned a number of accounting standards, amendments and interpretations are effective from 1 January 2010 but have not been assessed to have material impact on the Group's financial statements.

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.

Currency 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
Operating segments are reported in a manner consistent with the internal reporting provided to management, which, due to the unique nature of each country's operations, commercial terms or fiscal environment, is at a country and field level. New ventures are disclosed as a group since each venture is not material separately. Information for segments is only disclosed when applicable.

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 three 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 rate 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 Exploration and Production Sharing Agreements 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 2009, there has been no depletion of oil and gas properties in the Group.

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 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. 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 exists 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 2009 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 2009 the Group held interest in four 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 theses supplies can present difficulties for Tethys Oil to fulfil projects. In recent years shortages of specialised equipment have increased costs and delayed projects.

Political risk

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

Environment

Oil and 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 2009. 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 Group has not presented any revenues the financing of the Group has been through share issues. Additional capital will be needed to finance Tethys Oil's future operations and/or for acquisition of additional licences. The main risk is that this need may occur during less favourable market conditions.

Note 2, Critical accounting estimates and judgements

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

Impairment of oil and gas properties – The Group annually tests, on a field-by-field basis, oil and gas properties to determine that the net book amount of capitalized costs within each field less royalties and deferred production or revenue related taxes is covered by the anticipated future net revenue from oil and gas reserves attributable to the Group's interest in related fields. The Group will use its judgement and make assumptions to perform these tests.

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

Note 3, Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to management, which, due to the unique nature of each country's operations, commercial terms or fiscal environment, is at a country and field level. New ventures are disclosed as a group since each venture is not material separately. Information for segments is only disclosed when applicable.

Note 4, Oil and gas properties

Country	Book value 31 Dec 2009, TSEK	Write downs 2009, TSEK	Investments 2009, TSEK	Book value 1 Jan 2009, TSEK	Book value 31 Dec 2008, TSEK	Write downs 2008, TSEK	Investments 2008, TSEK	Book value 1 Jan 2008, TSEK
Oman Block 15	99,064[1]	–	11,480	98,729	98,729	–	37,282	47,984
Oman Blocks 3,4	101,615[1]	–	56,401	34,867	34,867	–	22,085	12,782
France Attila	3,628	–	38	3,589	3,589	-9,813	4,558	8,844
Morocco Bouanane	–	-14,076	12,218	1,858	1,858	–	887	971
Turkey Ispandika	–	-1,364	75	1,289	1,289	–	–	1,289
Turkey Thrace	–	–	–	–	–	-7,108	3,783	3,325
Spain Sedano	–	–	–	–	–	-3,702	2,505	1,197
Spain Cameros	–	-433	433	–	–	-466	208	258
Sweden Gotland Större	1,142	–	712	429	429	–	170	259
New ventures	174	–	122	52	52	–	29	23
Total	**205,623**	**-15,872**	**81,480**	**140,811**	**140,811**	**-21,088**	**71,506**	**76,932**

[1] *The book value of oil and gas properties include non cash related items of TSEK -796 during the full year 2009, which are not included in investments. For more information please see the Administration report under the heading "Result for the period and sales."*

Oil and gas properties	Group		Parent	
TSEK	**2009**	**2008**	**2009**	**2008**
Investments in oil and gas properties				
Opening balance	209,485	124,518	34,867	12,782
Investments in France	38	4,558	–	–
Investments in Morocco	12,218	887	–	–
Investments in Oman	67,881	59,366	-34,867[2]	22,085
Investments in Spain	433	2,713	–	–
Investments in Turkey	75	3,783	–	–
Investments in Sweden	712	170		
Other investments in oil and gas properties	122	29	–	–
Adjustment	-796	13,461	–	–
Closing balance	290,168	209,485	–	34,867
Depletion				
Depletion	–	–	–	–
Write down				
Opening balance	68,674	47,586	–	–
Write down	15,872	21,088	–	–
Closing balance	84,546	68,674	–	–
Net book value	**205,623**	**140,811**	**–**	**34,867**

[2] *Oil and gas properties were transferred from the Parent company to a wholly owned subsidiary during the year.*

Note 5, Other losses/gains, net

TSEK	Group		Parent	
Other losses/gains, net	**2009**	**2008**	**2009**	**2008**
Foreign exchange gains	23	85	23	85
Foreign exchange losses	-80	-378	-80	-316
Total	**-56**	**-293**	**-56**	**-231**

Note 6, Remuneration to company auditor

TSEK	Group		Parent	
Remuneration to company auditor include:	**2009**	**2008**	**2009**	**2008**
PricewaterhouseCoopers:				
Audit fee	618	711	504	510
Other	–	–	–	–
Total	**618**	**711**	**504**	**510**

Note 7, Administrative expenses

TSEK	Group		Parent	
Administrative expenses	**2009**	**2008**	**2009**	**2008**
Staff	-8,445	-6,969	-3,040	-2,895
Rent	-1,119	-926	-707	-659
Other office costs	-601	-612	-353	-344
Listing costs	-590	-970	-590	-970
Audit	-618	-711	-516	-578
Costs of external relations	-1,575	-1,995	-1,173	-1,755
Other costs	-2,111	-1,448	-1,413	-1,183
Depreciation	-284	-186	-142	-118
Total	**-15,343**	**-13,818**	**-7,934**	**-8,503**

Note 8, Employees

	2009		2008	
Average number of employees	**Total**	**Total men**	**Total**	**Total men**
Parent company	6	3	5	3
Subsidiaries	4	3	4	3
Total	**10**	**6**	**9**	**6**

TSEK	2009		2008	
Salaries, other remuneration and social costs	**Salaries, other remuneration**	**Social costs**	**Salaries, other remuneration**	**Social costs**
Parent company	2,339	702	2,270	624
Subsidiaries	4,992	413	3,844	230
Total	**7,331**	**1,115**	**6,114**	**855**

	2009		2008	
Salaries and other remuneration distributed between the board and other employees	**Board and Managing director**	**Other employees**	**Board and Managing director**	**Other employees**
Parent company	986	1,353	976	1,294
Subsidiaries	4,697	295	3,658	186
Total	**5,683**	**1,648**	**4,634**	**1,480**

The Group has currently nine 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. Furthermore, there have been no agreements during 2009 of bonuses or variable remuneration for the Managing director.

Salaries and other remuneration to operative Board members and executive management	**Salaries**	**Bonus**	**Benefits**	**Total 2009**	**Total 2008**
Vincent Hamilton	1,096	–	–	1,096	960
Magnus Nordin	976	–	10	986	976
Jonas Lindvall	1,472	–	2,129	3,601	2,698
Total	**3,544**	**–**	**2,139**	**5,683**	**4,634**

TSEK **Salaries and other remuneration to Board members (in their capacity as Board members)**	**Salaries**	**Remuneration**	**Total 2009**	**Attendance 2009**
Vincent Hamilton	–	–	–	11/11
Magnus Nordin	–	–	–	11/11
Jonas Lindvall	–	–	–	11/11
John Hoey	–	100	100	11/11
Håkan Ehrenblad	–	100	100	11/11
Jan Risberg	–	150	150	11/11
Total	**–**	**350**	**350**	

At the AGM on 20 May 2009 Håkan Ehrenblad, Vincent Hamilton, John Hoey, Jonas Lindvall, Magnus Nordin and Jan Risberg were re-elected members of the Board. No deputy directors were appointed. At the same meeting Vincent Hamilton was appointed Chairman of the Board.

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**	
	2009	**2008**	**2009**	**2008**
Interest income	67	1,233	6,857	5,056
Currency gains	2,162	13,914	1,101	13,984
Fair value adjustment of short term investments	4	417	4	417
Total	**2,234**	**15,565**	**7,962**	**19,457**

Note 10, Financial expenses and similar items

TSEK	**Group**		**Parent**	
	2009	**2008**	**2009**	**2008**
Interest expenses	-5	-1	-5	-1
Currency losses	-15,690	-211	-15,636	-122
Other	–	–	–	-11
Total	**-15,696**	**-212**	**-15,641**	**-134**

Note 11, Tax

The Group's income tax charge of TSEK 57 (TSEK 30) relate to a tax negotiated in Switzerland by the Swiss subsidiary Tethys Oil Suisse S.A.

The Group has not recorded a deferred tax asset in relation to the tax losses carried forward since the Group 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 24,842 (TSEK 16,623), regarding tax losses carried forward of TSEK 94,460 (TSEK 63,201).

Note 12, Office equipment

TSEK	Group		Parent	
Office equipment	**2009**	**2008**	**2009**	**2008**
Assets				
1 January	1,553	546	553	546
Additions	201	1,007	169	7
Disposals	–	–	–	–
31 December	1,754	1,553	722	553
Depreciations				
1 January	-425	-239	-357	-239
Depreciation charges of the year	-284	-186	-142	-118
Disposals	–	–	–	–
31 December	-709	-425	-497	-357
Net book value	**1,045**	**1,128**	**225**	**198**

Note 13, Other receivables

TSEK	Group		Parent	
Other receivables	**2009**	**2008**	**2009**	**2008**
Share issue receivable	–	–	–	–
VAT	437	509	209	136
Receivables operations	1,370	6,364	–	–
Other	3	366	–	69
Total	**1,810**	**7,239**	**209**	**205**

Note 14, Shareholders' equity

As per 31 December 2009, the number of outstanding shares in Tethys Oil amount to 28,049,091 (23,980,086), 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 2009, Tethys Oil had 23,980,086 shares. In March 2009, Tethys Oil conducted a share issue which increased the number of shares with 1,300,000 to 25,280,086. The shares from the share issue are included as per registration dated 10 March 2009. In June 2009, Tethys Oil conducted a second share issue of 2,000,000 which increased the number of shares to 27,280,086. Furthermore in July 2009, 176,186 warrants were exercised and accordingly an equivalent number of shares were issued by Tethys Oil. Tethys Oil received proceeds of TSEK 4,052 before issue costs. The shares were registered 10 July 2009 and the total number of outstanding shares increased to 27,456,272. In October 2009, 592,819 warrants were exercised and an equivalent number of shares were issued. Tethys Oil received proceeds of TSEK 13,635 and the total number of shares thereafter amounted to 28,049,091.

The warrants from the rights issue conducted 2008 amounted as per 31 December 2009 to 4,024,844 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 2009 was above the exercise price, SEK 23. The fully diluted number of shares therefore amounts to 32,073,935.

Note 15, Shares in subsidiaries

Company	Reg. Number	Reg. office	Number of shares	Percentage	Nominal Value per share	Parent company Book amount 31 December 2009, TSEK	Parent company Book amount 31 December 2008, 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 Canada AB	556788-2872	Sweden	1,000	100%	SEK 100	100	–
Tethys Oil Oman Ltd.	95212	Gibraltar	100	100%	GBP 1	25,280	25,280
Tethys Oil Block 3&4 Ltd.	101981	Gibraltar	1000	100%	USD 1	9	–
Tethys Oil Suisse S.A.	660-1139007-2	Switzerland	100	100%	CHF 1,000	567	567
Windsor Petroleum (Spain) Inc.	549 282	British Virgin Islands	1	100%	USD 1	–	–
Total						**26,456**	**26,347**

TSEK **Shares in subsidiaries**	**Parent company 31 December 2009**	**Parent company 31 December 2008**
1 January	26,347	26,347
Acquisitions	109	–
Shareholder's contribution	17,282	24,859
Write down of shares in group companies	-17,282	-24,859
31 December	**26,456**	**26,347**

The acquisition of shares in subsidiaries 2009 regards the founding of Tethys Oil Block 3&4 Ltd. and Tethys Oil Canada AB.

Note 16, Pledged assets

In the Parent company, pledged assets as per 31 December 2009 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 2008-2009.

Note 17, Contingent liabilities

The contingent liabilities as per 31 December 2009 amount to TSEK 25,804 (TSEK 43,230). The contingent liabilities regard Blocks 3 and 4 where Tethys Oil has a work commitment, the fulfilment of which is estimated to cost MUSD 3.5. The difference between contingent liabilities 31 December 2009 and 31 December 2008 relates to adjusted estimates regarding the work commitment and currency exchange differences.

Contingent liabilities in the Parent company as per 31 December 2009 amounted to TSEK 25,804 and regard Blocks 3 and 4 in Oman described above.

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 Exploration and 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

Tethys Oil has in January 2010, after the reporting period announced production tests from the Barik layer in the Farha South-3 well. In the test the well produced, using a pump (ESP), 1,010 bopd.

During 2010 Tethys Oil has utilized the remaining authorization from the AGM and issued 500,000 shares in two placements. These placements were made in line with the market price prevailing at the time, SEK 30.75 and SEK 33.75. Furthermore, 1,144,451 warrants have been exercised during 2010 and an equivalent number of shares have been issued. The share capital as per publication of this report therefore amounts to SEK 4,948,924 and the number of outstanding shares as per publication of this report amounts to 29,693,542. As per publication of this report the number of outstanding warrants amounts to 2,880,393. The private placements and the exercise of warrants have resulted in proceeds of MSEK 42 before issue costs.

Auditor's report

To the Annual General 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 2009. The Company's annual accounts and the consolidated accounts are included in the printed version on pages 33–57. 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 statement and balance sheet of the Parent company and statement of comprehensive income and balance sheet for 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.

Gothenburg, 28 April 2010

PricewaterhouseCoopers AB

Klas Brand
Authorized Public Accountant
Lead partner

Johan Rippe
Authorized Public Accountant

Definitions and Abbreviations

General

AGM	Annual 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

Petroleum related abbreviations and definitions

bbl	Barrel
bbls	Barrels
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
bcf	Billion cubic feet
mcf	Thousand cubic feet
mcfpd	Thousand cubic feet per day
mmcf	Million cubic feet

Industry specific terms

Barrel
1 barrel = 159 liters.
1cubic foot = 0.028 m^3

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.

Tethys Oil AB (publ)

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