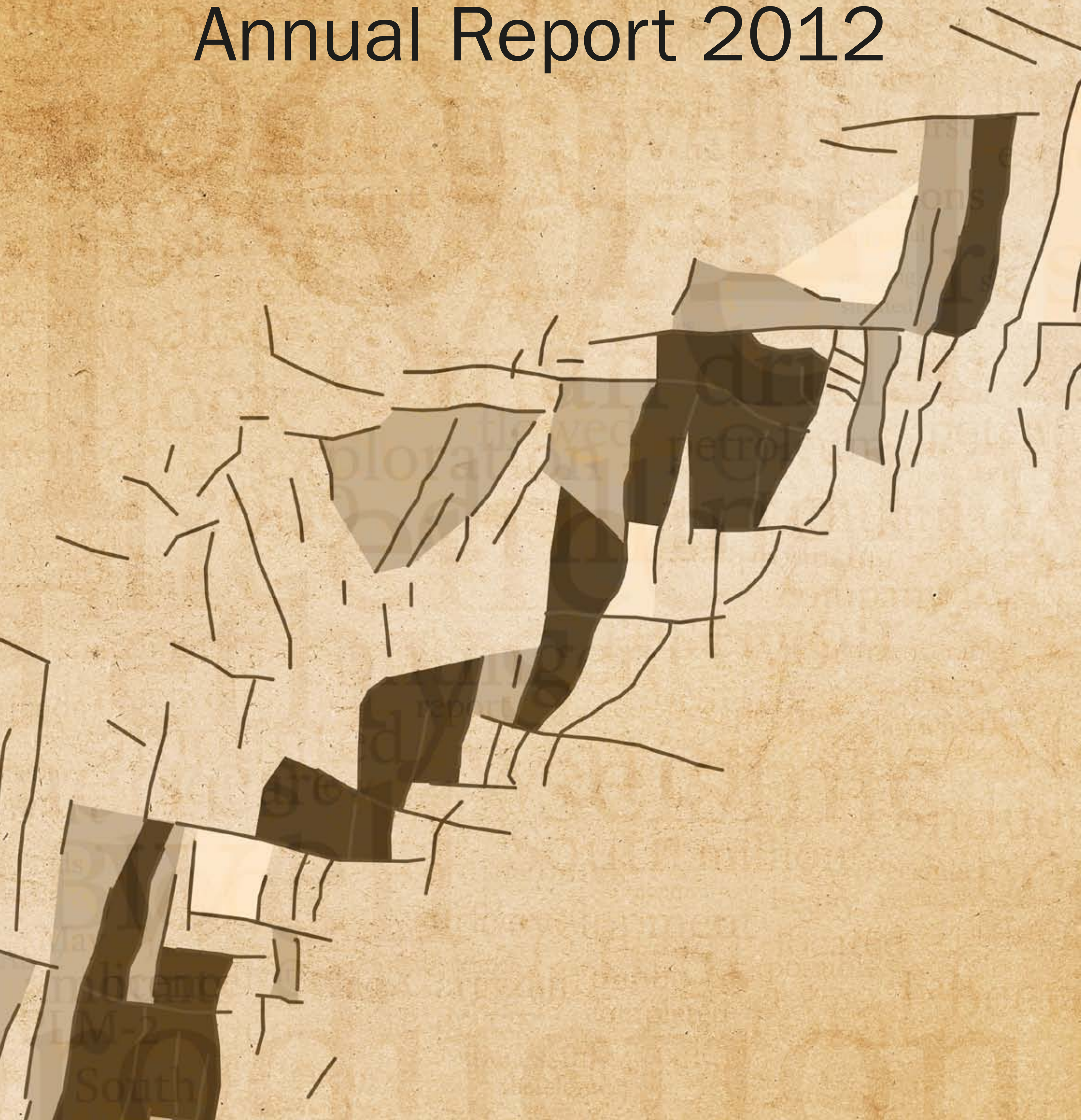
TETHYS OIL

Annual Report 2012



Tethys Oil in brief

Tethys Oil is a Swedish energy company focused on exploration and production of oil and natural gas. Tethys core area is Oman, where the company is one of the largest onshore oil and gas concession-holder with licence interests in three onshore blocks. Tethys also has licences in Lithuania, France and Sweden. Some of the licences are in commercial oil production, in Oman and Lithuania. The production of oil generates cash flow that makes it possible to invest in further development, exploration and growth.

Key financials

	Q1	Q2	Q3	Q4	2012
Sales oil and gas, MSEK	145	154	116	170	584
EBITDA, MSEK	119	136	78	177	509
EBITDA margin, %	82.1	73.6	67.2	114.1	87.1
Earnings per share, SEK	3.31	0.46	1.35	4.08	9.11
Operating Cash flow, MSEK	186	72	38	216	530
Investments, MSEK	210	232	147	280	875

2012 in brief

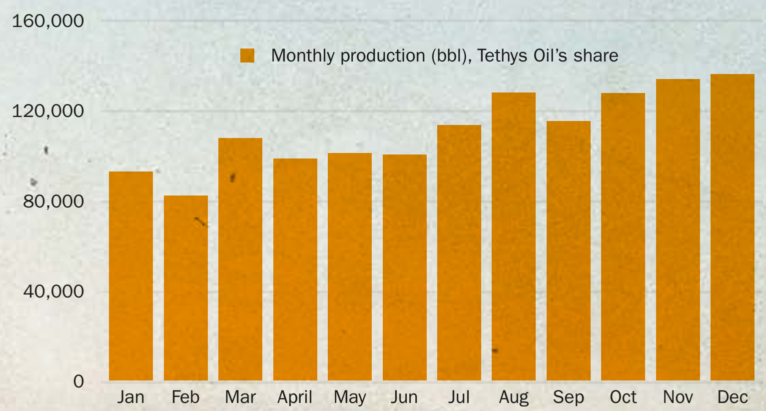
Financial

- Net sales of MSEK 584 (MSEK 104)
- Earnings per share before and after dilution of SEK 9.11 (SEK 2.12)
- Net result after tax MSEK 314 (MSEK 69) – significantly impacted by exploration costs
- Exploration costs mainly regard Block 15 and projects in France of MSEK 118 (MSEK –)
- MSEK 120 raised in private placement of 3 million shares in May 2012
- A secured three-year bond loan of MSEK 400 issued in September 2012

Operational

- Field development plan approved and commerciality declared in December. Blocks 3 & 4 converted into a production licence expiring in July 2040
- Record gross production from Oman of 1,345,854 barrels corresponding to 3,677 barrels per day
- Most of the permanent production facilities on the Farha and Saiwan fileds were completed and commissioned
- 37 wells completed on Blocks 3 & 4
- Acquisition of indirect Lithuanian interests completed. Three licences, one in production.
- Farm out of Lithuanian licence Rietavas to Chevron in exchange for a fully funded work programme.

Production data



Vision and strategy

Tethys Oil shall have a well balanced and self financed portfolio of oil and natural gas assets. The company also aims to conduct business in an economical, socially and environmentally responsible way, to the benefit of all stakeholders.

The company's strategy is:

- Organic growth in existing assets by taking a proactive role and by building strategic partnerships to convert acreage to reserves and reserves to production
- Seek new growth platforms, primarily onshore appraisal projects with material impact and low entry cost

In the company's existing assets, a proactive role with strategic partners is key to maximizing the potential of the projects. Growth will primarily come from appraisal projects where oil has previously been discovered, but was deemed sub-commercial for various reasons.

Dividend policy

Tethys Oil aims to offer high return on capital through investments and growth in oil and gas projects and no dividends is therefore expected to be paid during the coming years. Future dividend policy will be determined by the company's financial position and assessment of future growth potential.

Financial targets

Most of the investments that are required for commercial oil production in larger scale in the producing areas of Blocks 3 & 4 in Oman have been completed. This, in combination with a positive cash flow from the business, means that there is no continuous need for any additional capital to the current operations. A strong cash position is important to pursue the growth strategy.

Long term capital structure targets:

- Debt/equity ratio of 30-40%
- Net debt /EBITDA of up to 2x
- Strong cash position to have the ability to grow

The capital structure targets are long term targets and Tethys will allow that these targets are not met for a short time period or for specific circumstances.

Operational targets

- Develop Tethys Oil's business as an attractive licence holder and partner
- Focus on developing the assets in Oman
- Evaluation of both conventional and unconventional assets in Lithuania
- Actively evaluate new projects

History

2001

Tethys Oil was founded

2002

Award of first licence in Denmark

2003

Acquisition interests in Turkey and Denmark

Acquisition of interests in Spain

2004

IPO and listing on First North

2006

Award of licence in France, Attila

Award of licence in Oman, Block 15

First Company-operated well drilled in Denmark

2007

Drilling starts in Block 15. The reservoirs produced hydrocarbons of good quality

Acquisition of interests in Blocks 3 & 4 in Oman.

Award of licence on the island Gotland in Sweden

2009

Encouraging results from appraisal drilling on Block 3 & 4

2010

20 percent of Blocks 3 & 4 farmed out to Mitsui

Early production from Blocks 3 & 4 begins

2011

Farha South field on Block 3 expands rapidly

Acquisition of additional licence in France, Bassin d'Ales

Three year extension of the licence for Block 15

Contents

Information regarding Annual General Meeting

The Annual General Meeting of shareholders of Tethys Oil will be held on Wednesday 22 May 2013, 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 Thursday 16 May 2013 and must notify Tethys Oil no later than Thursday 16 May 2013. 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 month report 2013 (January – March 2013) on 7 May 2013
Six month report 2013 (January – June 2013) on 20 August 2013
Nine month report 2013 (January – September 2013) on 12 November 2013
Year end report 2013 (January – December 2013) on 14 February 2014

Letter to the shareholders

Dear Friends and Investors,
This annual report summarises the year 2012 – the year that Tethys Oil became a real Oil Company. And our friends, investors, co-workers and other stakeholders became oil men and oil women.

This letter will not dwell on the achievements of 2012, that is what this annual report is about, but rather reflect on what it means to be an "oil company" and what we believe to be the way forward for Tethys. But we must mention some of the more significant milestones of 2012.

A year of great significance both operationally and financially was crowned in December, when the Field Development Plan for Blocks 3 & 4 was approved and the subsequent declaration of commerciality extended the license contract until 2040. Net sales as well as EBITDA increased by close to 500 percent, and amounted to MSEK 584 and MSEK 509 respectively. Our net result reached MSEK 314 and earnings per share amounted to SEK 9.11. Tethys Oil's share of oil production from Blocks 3 & 4, before government take, increased to 1.35 million barrels corresponding to 3,677 barrels of oil per day. We participated in drilling almost 40 wells on Blocks 3 & 4 in 2012, and our proven and probable producing reserves at the close of the year stood at more than 14 million barrels of oil.

So truly we are an oil company but that does not mean we have to be an "oily company." We are part of an industry that extracts resources from the earth. All extraction carries drawbacks as well as benefits. As an oil company we have a responsibility to the environment where we work and operate. But as an oil company we also have a responsibility to supply energy to a world that is evolving and developing fast. These dual responsibilities should not and need not be incompatible.

Today's technology offers a wealth of tools to mitigate the environmental impact while the energy made available to support economic growth has contributed to the drop in worldwide poverty rates we have seen over the last five years.

For Tethys Oil, the oil company, influence in the short run can primarily be asserted in the processes of extraction, including using energy for extraction as efficiently as possible. Broader environmental goals lie outside of our remit as an oil company. Our mission is to supply energy in an environmentally, ethically and financially sustainable way.

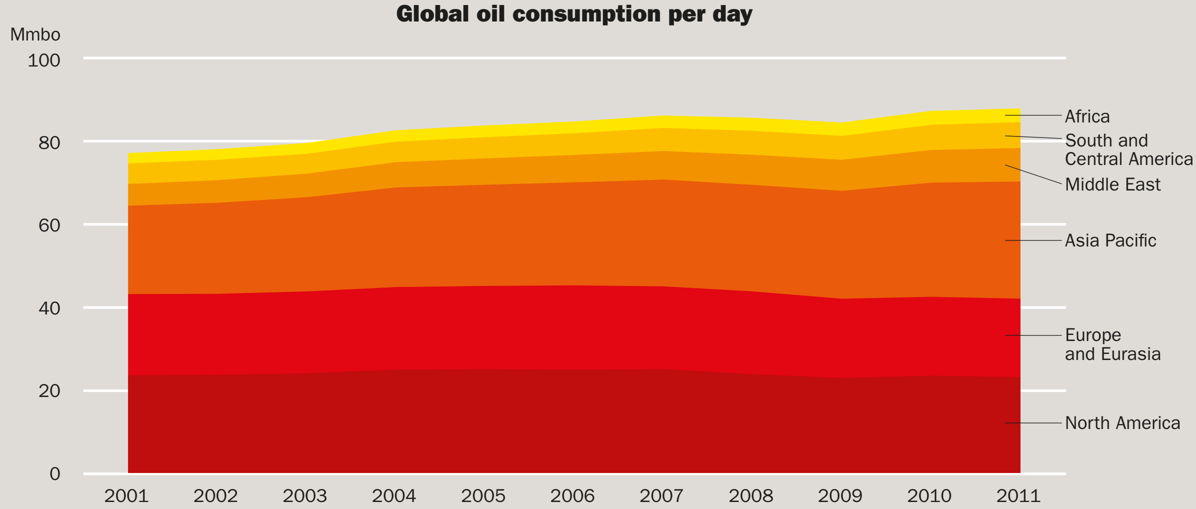
To achieve this, Tethys will try to employ the significant cash flow we expect to generate during 2013 to the task of excelling as an oil company and judiciously embark upon a strategy for long term growth. We believe Blocks 3 & 4 in Oman offer significant upside to increase both reserves and production. We believe the same to be true about our projects in Lithuania. And we are not foreign to additional projects should they meet our criteria of offering the crucial combination of significant potential and manageable risk.

So stay with us, not for short term cash dividends or high profile share buyback schemes, but for a serious attempt at strong growth within our industry. We believe we are on the road to becoming a significant oil company and, to the extent it is up to us, one with an increasing focus on sustainability.

Magnus Nordin
Managing Director

Vince Hamilton
Chairman of the Board

The global oil market

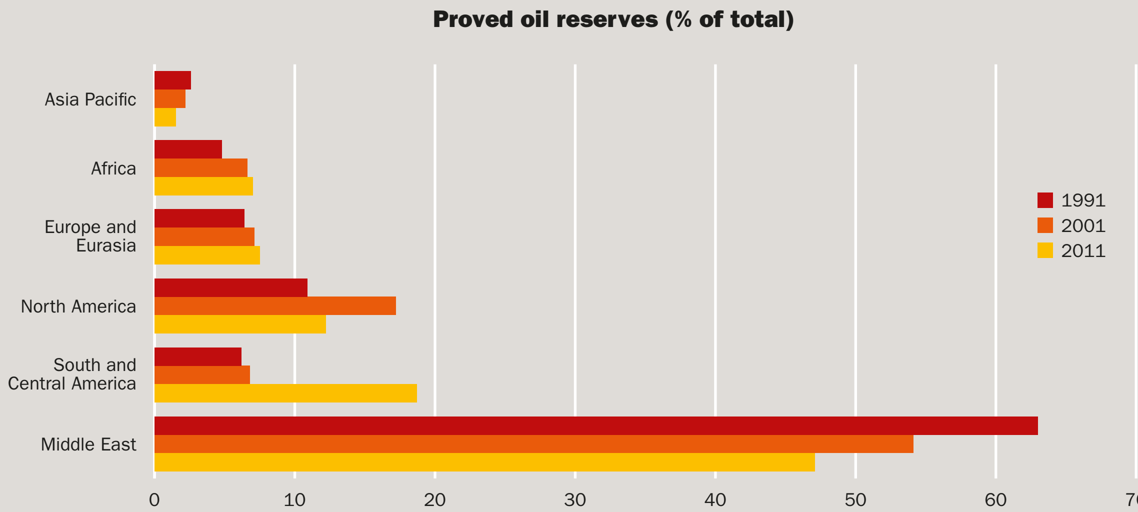


Source: BP Statistical Review of World Energy 2012

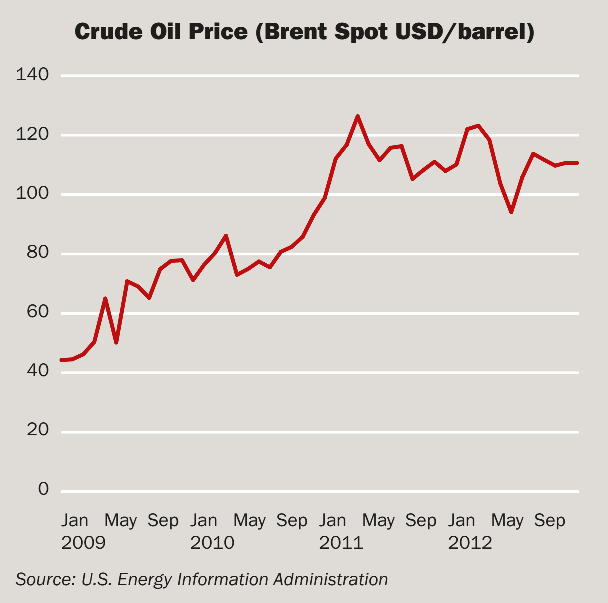
Consumption

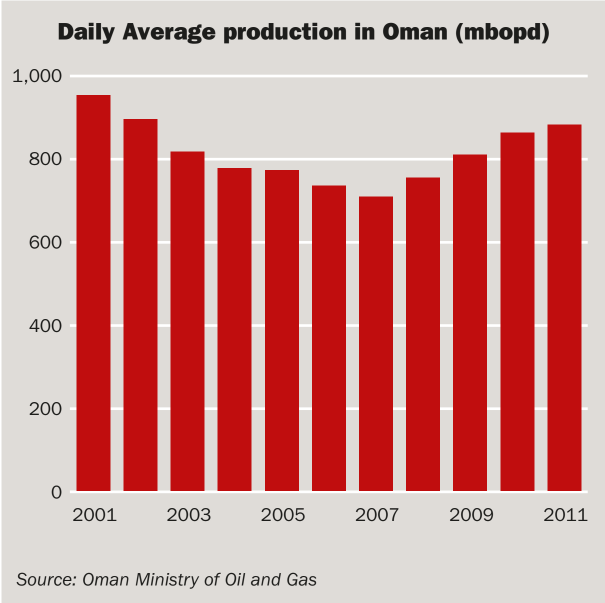
Global oil consumption during 2011 was 88 million barrels per day. In the ten year period from 2001 until 2011 consumption of all kind of oil products increased. The largest individual consumer was the US followed by China and Japan. In the next five years, the oil map will be deeply transformed. The emerging and newly industrialized economies are more energy –intensive than the mature economies of the OECD and by 2017, the non-OECD share of global oil demand is forecasted to reach 53 percent, up from just 36 percent as recently as 1996 (IEA Medium Term Oil Market Report 2012). The demand in the traditionally rich OECD will be down, while the non- OECD demand will increase in a more rapid rate. Asia and the Middle East lead the growth, followed by the former Soviet Union and Africa (IEA Medium Term Oil Market Report 2012). It is primarily the consumption for transports in China, India and the Middle East that grows. The transport sector already accounts for over half of global oil consumption and this share increases (IEA World Energy Outlook).

Oil consumption has increased over the last ten years and long term demand is expected to continue to grow (IEA World Energy Outlook). Short term, on the other hand, IEA World Energy Outlook forecasts that the consumption growth rates and the assessment of current demand will be moderate. It is affected by low expectations of economic growth through the forecast period due to persistent OECD debt concerns, especially in the euro zone. Even China, the main engine of demand growth in the last decade, is showing signs of slowing down.



Sorce: BP Statistical Review of World Energy 2012





Production

Oil is found on most continents of the world. The Middle East possesses the largest oil reserves, even though many of the larger fields are suspected to decline. Following the Middle East are the Americas and Europe and Eurasia.

To meet global demand larger volumes of oil will need to be produced, compelling companies to explore in underdeveloped and often politically unstable areas of the globe. Since oil production from individual reservoirs grows to a peak and then declines, new reservoirs must be discovered continually and brought into production to compensate for the depletion of older reservoirs. This may have a significant impact on supply and pricing.

Technological advances and innovation, despite logistical bottlenecks and constraints to market access, have unlocked more supply growth than anticipated in North America, a trend that is now expected to continue, albeit at a somewhat reduced rate, for the next five years. OPEC production has not been without surprises either. The Libyan production recovery defied expectations, Iraqi output scaled new heights and Saudi Arabia has been producing on historically high levels (IEA Medium Term Oil Market Report 2012).

IEA forecasts that global production capacity will increase in the next few years. Iraqi production growth is expected to continue. Most of the additional production is expected to come from Iraq and the US. The growth in North America reflects the technological advances applied to developing unconventional resources, mainly the 3D seismic exploration and development. The new technologies enable oil production from shale and tight formations in North America and exceed earlier expectations.

Pricing

The oil price has historically been highly volatile. Like those for other commodities, oil prices are inherently volatile and volatility itself varies over time. Inherent volatility in oil prices is primarily a result of uncertainty about global business conditions and lack of data, rather than financial speculation. Economic and political developments in resource-producing regions significantly affect the price, as well as to which extent organizations as OPEC and other producing nations are able to influence global production levels. In addition, oil prices are impacted by various factors such as the prices of alternative fuels and weather conditions. During the last ten years, oil prices have soared amid tumultuous events in the Middle East, first with the invasion of Iraq and then the "Arab Spring".

Oman

Though Oman is a significant net exporter of petroleum, it is not a member of OPEC. Oman possesses the largest oil reserves of any non-OPEC country in the Middle East and significant reserves of natural gas. Oman's Ministry of Oil and Gas coordinates the state's role in the country's hydrocarbon sectors. Final approval on policy and investment, however, rests with the sultan of Oman. The implementation of oil policy is done through an integrated company in which the Sultanate of Oman owns the majority stake. Petroleum Development Oman (PDO) holds more than 90 percent of Oman's oil reserves and is responsible for 85 percent of its production.

Oman produced 889,000 barrels per day (bbl/d) of total petroleum liquids in 2011, Oil production in Oman has increased by more than 24 percent over the past four years, from a low of 714,000 bbl/d in 2007. While crude oil remains a significant yet declining part of its economy, Oman has made a concerted effort to diversify its economic base in face of its declining output. Oman has made considerable investments and progress into developing gas resources, increasing gas production, and developing current and new oil fields. PDO owns a concession which previously encompassed most of the country, which has since been broken up and parceled out in successive bidding rounds. Much of the production growth has come from the success of international firms in developing these concessions.

Operations

Licences

Tethys Oil operates currently in four countries where it has acquired licences; Oman, Lithuania, France and Sweden. Two of the licences are in production, Blocks 3 & 4 in Oman and Gargzdai in Lithuania.

Tethys Oil's licenses

Country	Licence	Total area	Tethys' interest	Partners (Operator in bold text)	Phase
Oman	Blocks 3 & 4	34,610 km²	30%	**CCED**, Mitsui, Tethys Oil	Production
Oman	Block 15	1,389 km²	40%	**Odin Energi**, Tethys Oil	Exploration
Lithuania*	Rietavas	1,594 km²	14%	Odin Energi, Chevron, Tethys Oil, private investors	Exploration
Lithuania*	Raseiniai	1,535 km²	26%	Odin Energi, Tethys Oil, private investors	Exploration
Lithuania*	Gargzdai	884 km²	25%	Odin Energi, Tethys Oil, Geonafta	Production
France	Attila	1,986 km²	40%	**Galli Coz**, Tethys Oil	Exploration
France	Alès	215 km²	37.5%	**Tethys Oil**, Mouvoil	Exploration
Sweden	Gotland Större/Mindre	581 km²	100%	**Tethys Oil**	Exploration

* Tethys Oil's interest in the three Lithuanian licenses is held indirectly through ownership in two Danish companies. The ownership is undergoing a reconstruction, for further information please see the Administration report page 37 and note 6 to the financial reports.

Partners

Tethys Oil holds its license interests together with different partners. In each licence one partners act as operator. The operator is responsible for the day-to-day operations, and has the overall responsibility for implementing the work programme approved by the license partners. Besides Gotland, Tethys Oil is currently not operator in any of its licences.

Tethys Oil's Partners

Mitsui

The Japanese company Mitsui is a multilateral company pursuing business that ranges from product sales, worldwide logistics and financing, through to the development of major international infrastructure and other projects in the following fields: Iron & Steel Products, Mineral & Metal Resources, Infrastructure Projects, Motor Vehicles & Construction Machinery, Marine & Aerospace, Chemicals, Energy, Food Resources, Food Products & Services, Consumer Services, IT, Financial & New Business and Transportation Logistics.
www.mitsui.com

CCED

CC Energy Development (CCED) is a part of Consolidated Contractors Company (CCC). CCC is the largest engineering and construction company in the Middle East. The CCC Group has expanded to include several subsidiaries, augmenting CCC's regional and international status. Today, CCC leads the industry in the adoption of new technology to improve construction efficiency and enhance project controls.
www.ccc.gr

Chevron

Chevron is a US based company and one of the world's leading integrated energy companies and conducts business worldwide. Chevron is involved in virtually every facet of the energy industry. Chevron explore for, produce and transport crude oil and natural gas; refine, market and distribute transportation fuels and lubricants; manufacture and sell petrochemical products; generate power and produce geothermal energy; provide energy efficiency solutions; and develop the energy resources of the future, including research for advanced biofuels.
www.chevron.com

Odin Energi

Odin Energi A/S is a privately owned Danish Exploration and Production company with producing assets in Lithuania and Russia and appraisal assets in Oman & offshore Latvia.
www.odinenergi.com

LOTOS Geonafta

LOTOS Geonafta is a Lithuanian company and one of the leading oil production companies that is distinguished for the stability and versatility of its activities. The company not only carries out oil exploration, prospecting and production in the licenced areas owned by the company, but also provides deep drilling and other services related to oil works to other oil companies in Lithuania.
www.geonafta.lt

Property rights to oil and natural gas discoveries

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

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

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

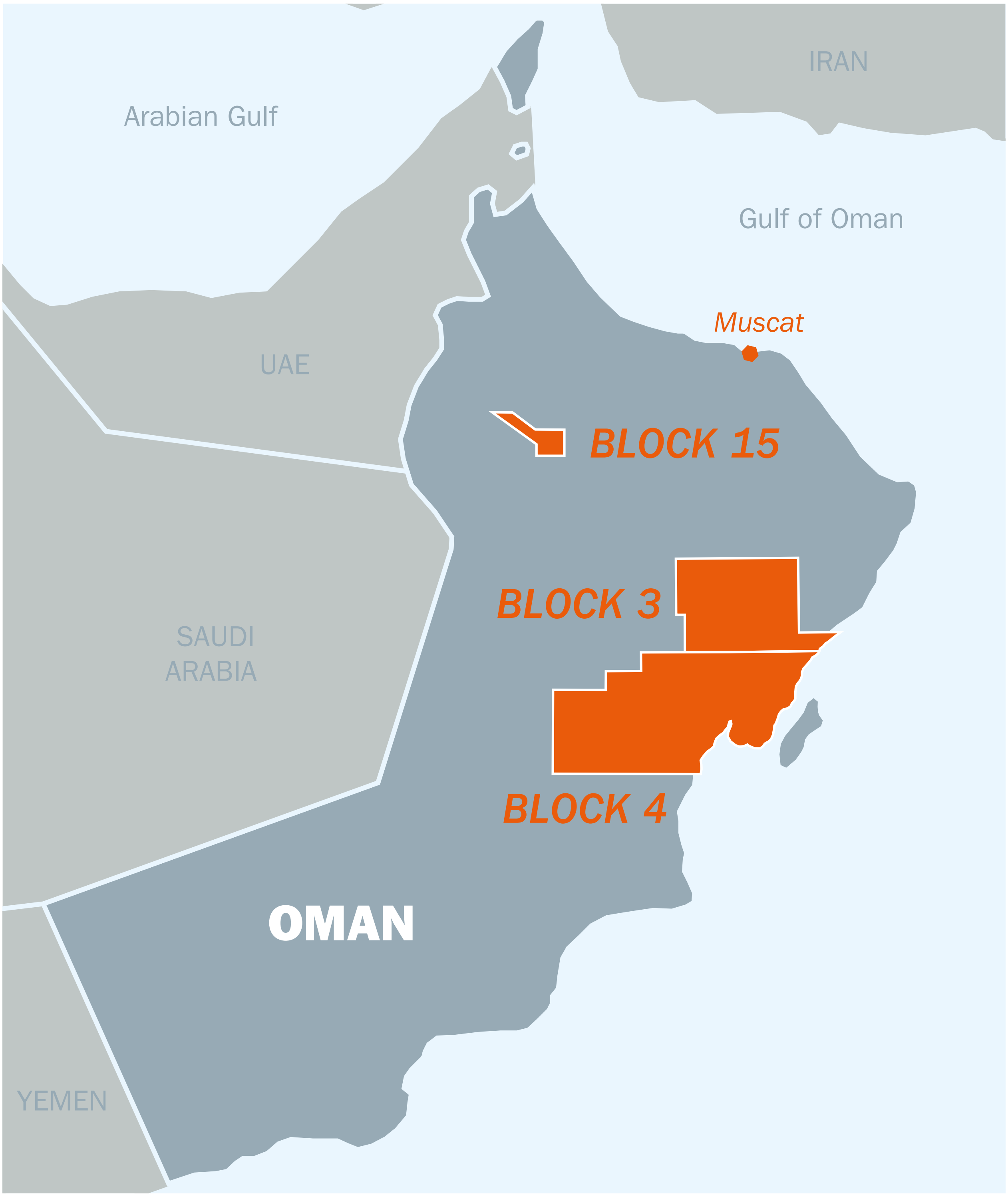
Co-operation and partners

Because exploration costs are high, oil companies often co-operate. A typical oil concession could be held by five different companies with 20 percent each in the licence. The company first awarded the licence is usually inviting other companies to participate. Invited companies thereafter pay for all or for part of the undertaken work commitments. In return, they receive part of potential future earnings. This is called to "farm out" or "farm in". The company with the operating responsibility, called the operator, can either carry out the work themselves or acquire the services on contract.

Photo by Charles Roffey, Amsterdam (flickr)

Oman

Oman is Tethys Oil's core area and the company has interests in three onshore blocks covering an area of around 36,000 square kilometers, which makes Tethys Oil one of the largest concession-holder onshore in Oman. The operation consists mainly of two oil projects; Farha South (Block 3) and Saiwan East (Block 4). On top of that, exploration in Jebel Aswad (Block 15) is also included.



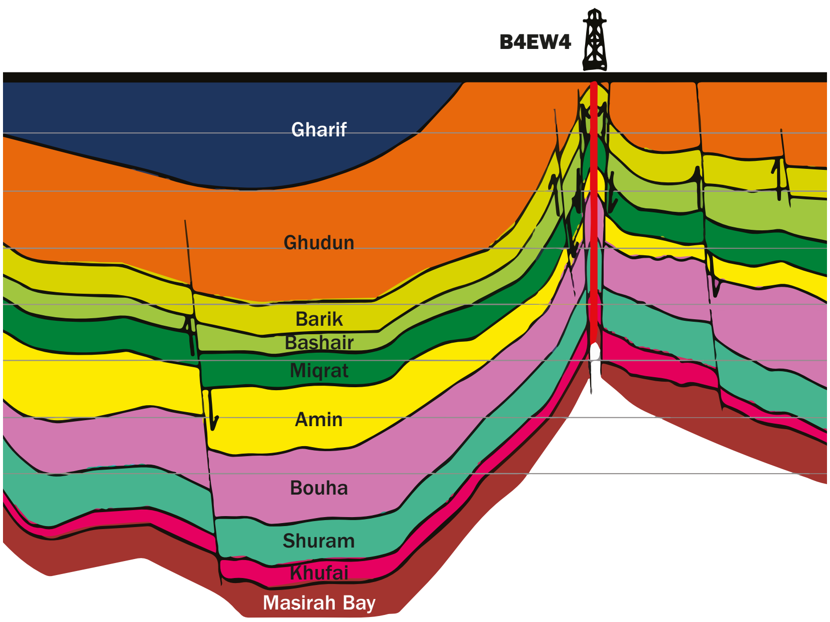
Licence	Tethys Oil's interests	Total area	Partners	License expiration date
Blocks 3 & 4	30%	34,610 km²	CCED, Mitsui	2040
Block 15	40%	1,389 km²	Odin Energi	2014

Blocks 3 & 4

Blocks 3 & 4 are located in the eastern part of Oman and covers an area of 34,610 square kilometers, corresponding to an area the size of Belgium. Tethys Oil is one of the largest concession holders in Oman. Tethys has a 30 percent interest in the Blocks. Partners are Mitsui (20 percent) and the operator CC Energy Development S.A.L (Oman branch) (50 percent). In December 2012 the Ministry of Oil and Gas in Oman approved the Field Development Plan for Blocks 3 & 4, and consequently the blocks were declared commercial. What previously was an exploration licence was converted into a production licence valid until July 2040.

Block 3 currently holds the main part of Tethys' reserves in the oil field Farha South. The producing reserves are assigned to the sandstone formation Barik at a depth of about 1,600 meters. The Barik sandstone is a finegrained, porous sandstone in several layers, separated by shale. The oil is of high quality, more than 40 degrees API and does not contain any sulfur. The low content of gas combined with the absence of a water drive in the Barik layer, which gives a natural pressure support, make pumps and water injections necessary to reach a satisfactory production and extraction rate. The Barik sandstone is widespread in Block 3 and possibly also in Block 4. However it does not consist of one large, continuous field. The oil is stored in smaller, usually adjacent fault blocks where the faults create seals, which trap the oil to remain in the Barik sandstone. These faults are relatively small and 3D seismic is required to be able to commercial produce oil on the Farha field. Tethys Oil is currently expanding the area covered by 3D seismic to merge Blocks 3 & 4 and map for instance the extent of the Barik also in the northern part of Block 4.

Saiwan East is inherently different from Farha. In Saiwan the oil is found in a limestone layer at about 1,600 meters depth, where the various densities in different areas of the field seems to have big impact on where conventional oil has been found. The Saiwan oil is of lower quality than the Farha oil with a density of 32 degrees API with some sulfur content. Here 3D seismic is essential to decide primarily the presence of high porosity areas and possible oil bearing fractures in the rock.



Oil can be found in different formations in different geographical areas. On Blocks 3 & 4 in Oman, the reservoirs that currently flow, is located in the formations Khufai and Barik. Other formations where Tethys Oil has encountered oil is for example Lower Al Bashir, Buah and Masirah Bay.

Exploration

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

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

Development of geological models to locate oil and natural gas prospects

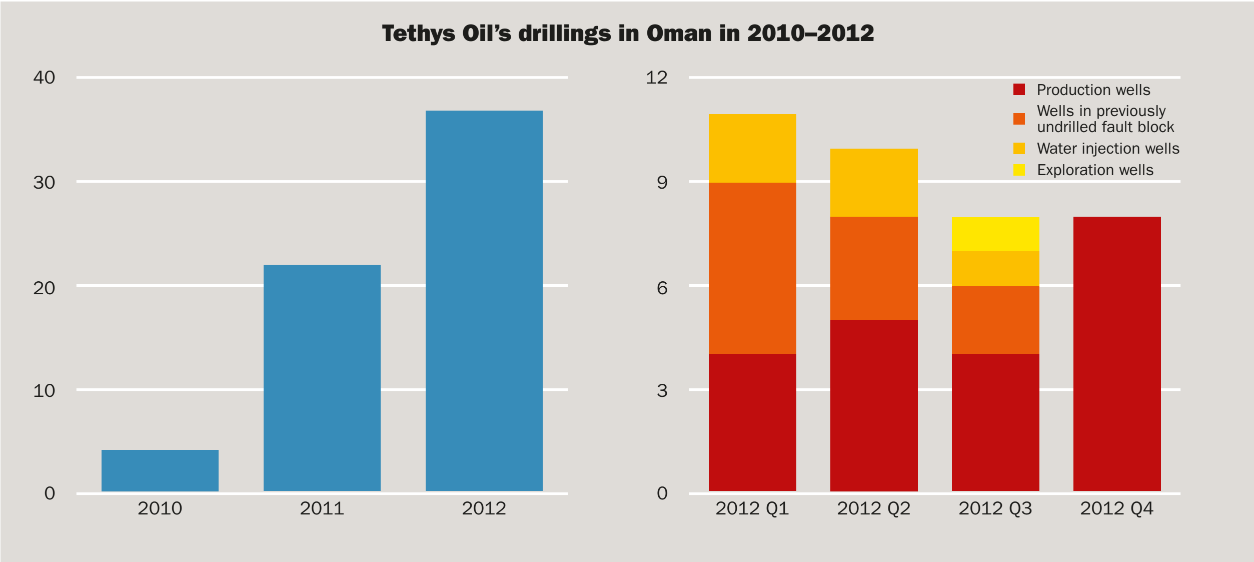
The aim of a geological model is to locate potential reserves of oil and natural gas by the development of a model, which aims to explain why an area contains an appropriate geological prospect. For oil and natural gas to be present, a number of conditions must be fulfilled. The geological models should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

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

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

Work programme

There are two drillings rigs in operation on Blocks 3 & 4. One currently working the Farha trend on Block 3, primarily focusing on water injection, new production and expanding into new fault blocks. In total, 37 wells were completed on the Block in 2012, 35 of these on Block 3 and two on Block 4. At the Farha South oil field on Block 3, 10 wells were drilled into the reservoir of a previously undrilled fault block resulting in the discovery of eight new oil bearing blocks. 19 production wells were drilled and completed in previously drilled blocks to increase production and six water injection wells were drilled and completed. As at 31 December 2012, a total of 15 fault blocks are in production on the Farha South Field. The other rig is operating on Block 4. During 2012, one production well and one exploration well were drilled here, resulting in the B4EW3 discovery.



Drilling

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

Indications of oil and gas whilst drilling

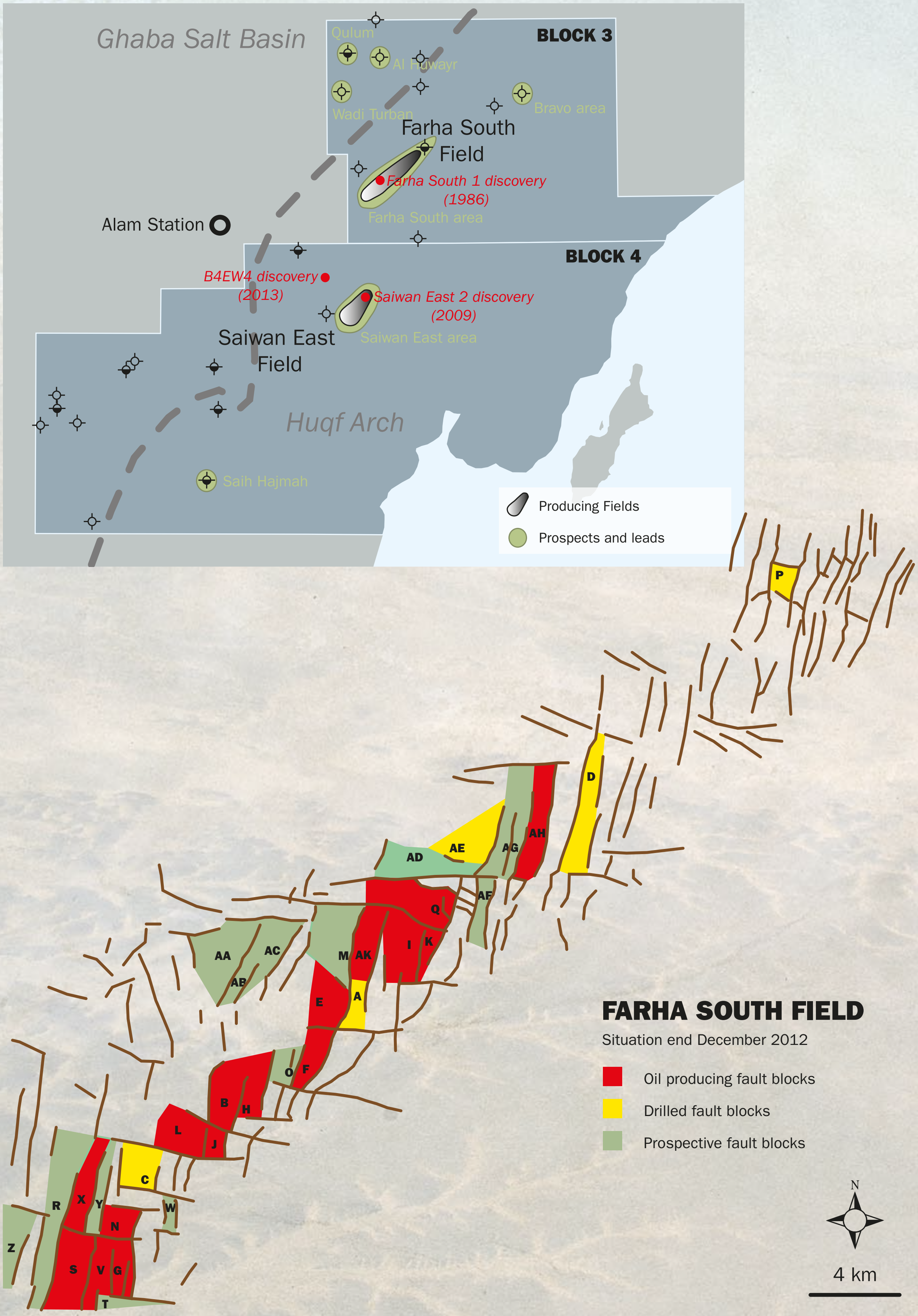
Whilst drilling the borehole is monitored by many means. Should hydrocarbons be encountered, the first indication of this will be in the drilling mud and in the drilled cuttings that are circulated up to the surface. When the drillbit cuts the hydrocarbon bearing rock oil and gas are liberated from the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

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

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

Water injection

Water injection is a method to increase oil recovery from an existing reservoir. Water is injected back into the reservoir, usually to increase pressure and thereby stimulate production from a well. Water is injected to support pressure of the reservoir and to sweep or displace oil from the reservoir, and push it towards a well. Normally only 30 percent of the oil in a reservoir can be extracted, but water injection increases that percentage and maintains the production rate of a reservoir over a longer period.



Ghaba Salt Basin
BLOCK 3
Qulum
Al Huwayr
Wadi Turban
Bravo area
Farha South
Field
Farha South 1 discovery
(1986)
Farha South area
Alam Station
BLOCK 4
B4EW4 discovery
(2013)
Saiwan East 2 discovery
(2009)
Saiwan East
Field
Saiwan East area
Huqf Arch
Saih Hajmah
Producing Fields
Prospects and leads
FARHA SOUTH FIELD
Situation end December 2012
Oil producing fault blocks
Drilled fault blocks
Prospective fault blocks
N
4 km

In 2009, a test was conducted to verify the mobility of the heavy oil on Saiwan East on Block 4. Liquid samples were obtained from three of the four zones tested. Tethys believes that the results are cautiously encouraging, however any potential production of heavy oil in Saiwan East will require enhanced oil recovery techniques. In 2010 a new well was drilled in another area of Saiwan East, but no production tests were made at that point. When the tests were carried out in the beginning of 2011, they suggested that the oil was of a different quality from the oil encountered in previous Saiwan wells and also of various qualities. The latest results will prompt a reevaluation of the data from the previous drillings.

Reserves and resources

Reserves, million barrels of oil (December 31, 2012)

	1P	2P	3P
Farha South	4.2	12.5	15.7
Saiwan East	0.9	1.4	2.5
B4EW3 discovery	0.2	0.4	0.5
Total	**5.3**	**14.3**	**18.7**

Tethys Oil's net working interest reserves in Oman as per December 31, 2012, amounts to 14.3 million barrels of oil ("mmbo") of proven and probable reserves. The reserves have been audited by independent petroleum consultant DeGolyer and MacNaughton. Tethys Oil's reserves amounted on this date to 5.3 million barrels of oil of proven reserves 1P, 14.3 million barrels 2P and 18.7 million barrels 3P. In December 2012 the Ministry of Oil and Gas in Oman approved the Field Development Plan for Blocks 3 & 4, and consequently the declaration of commerciality. What previously was contingent resources then became upgraded to reserves in the revised report. The reserves in the Farha South field are from the Barik reservoir section only. The reserves in the Saiwan East field and the B4EW3 area discovery are in the Khufai reservoir.

Different types of oil

Liquid petroleum pumped from a well is called crude oil. Crude oil consists of mostly hydrocarbons, but to different extent also of oxygene, nitrogen and helium. The oil industry normally names the oil from its geographical origin, for example West Texas Intermediate (WTI), Brent and Omani Blend. Crude oil is also classified after its chemical composition, primarily density and sulfur. Crude oil with low sulfur content is classified as sweet and crude oil with low density as light. The density of crude oil is measured in relationship to the density of water according to American Petroleum Institute (API); if the oil's API is higher than 10 it is light and would float on water. If the density is lower than 10, it's heavy and would sink. Sweet and light oil is considered more attractive since it requires less refining than sour and heavy oil.

Calculation of reserves

Reserves and resources are the volumes of oil, gas and other hydrocarbons that are estimated to be commercially recoverable from the bedrock at our licences. For a quantity of hydrocarbons to be classified as reserves the decision must be made that the accumulation will be developed and put into production within a reasonable timeframe. The reserves are divided into two groups, proven and unproven reserves. In turn, the unproven reserves are divided into probable and possible reserves.

Proved reserves (1P)

Proved reserves are those quantities of petroleum which can be estimated with reasonable certainty (more than 90 percent) to be commercially recoverable from known reservoirs and under current economic conditions and operating methods.

Probable reserves (2P)

Probable reserves are those unproved reserves which are more likely than not to be recoverable. There should be at least a 50 percent probability that the quantities are technological and commercially recoverable under current or future economic conditions.

Possible reserves (3P)

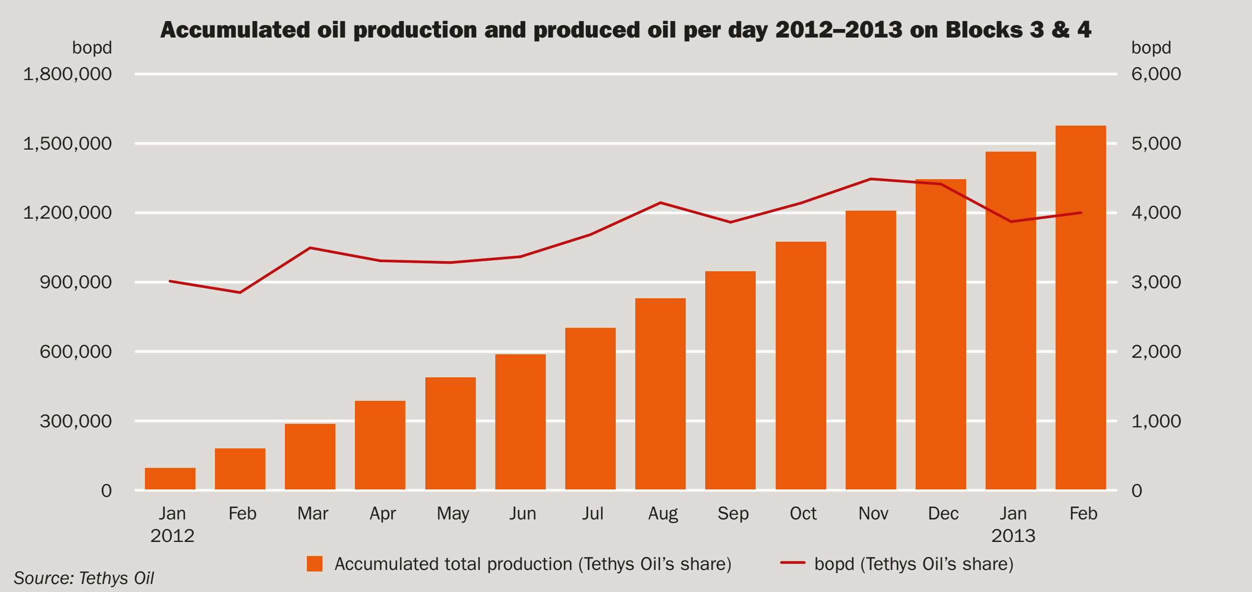
Possible reserves are reserves that are less likely to be available for extraction. Proved plus probable reserves plus possible reserves has a probability of more than 10 percent that the quantities are technological and commercially recoverable under current or future economic conditions.

Other quantities are designated as resources. All estimates of resources and reserves involve a certain degree of uncertainty, which is primarily due to the geological data available at the time of appraisal and the interpretation of this data. Resources are therefore divided into various categories depending on the relative uncertainty that exists.

About Contingent and Prospective Resources

Contingent Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingent resources are divided into three different classes, 1C, 2C and 3C, which in theory will become 1P, 2P and 3P respectively when contingencies are removed.

Prospective Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated chance of discovery and a chance of development. Prospective Resources are further subdivided in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development and may be sub-classified based on project maturity.



Source: Tethys Oil

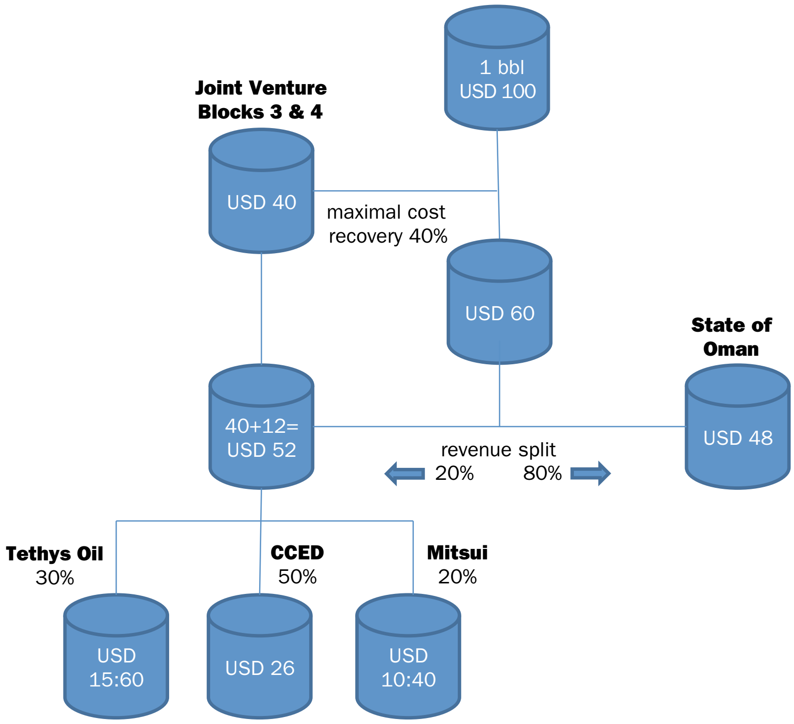
Production

The production from Blocks 3 & 4 has continuously increased in 2012 and was in December 456 762 barrels, of which Tethys share is 30 percent, corresponding to 137 029 before government take. The production of oil on Blocks 3 & 4 is currently coming from the two oil fields Saiwan East and Farha South. The two reservoirs flowing on the fields respectively are found in the formations Khufai and Barik. The Permanent Production System has been gradually commissioned during the year with on-going fine tuning. The export pipeline that connects the Farha South oil field with the production facilities at the Saiwan East oil field was completed and has been in operation since June 2012. The investment covers the main requirements of infrastructure that ensures Tethys to be able to produce oil commercially from the known deposits in the area.

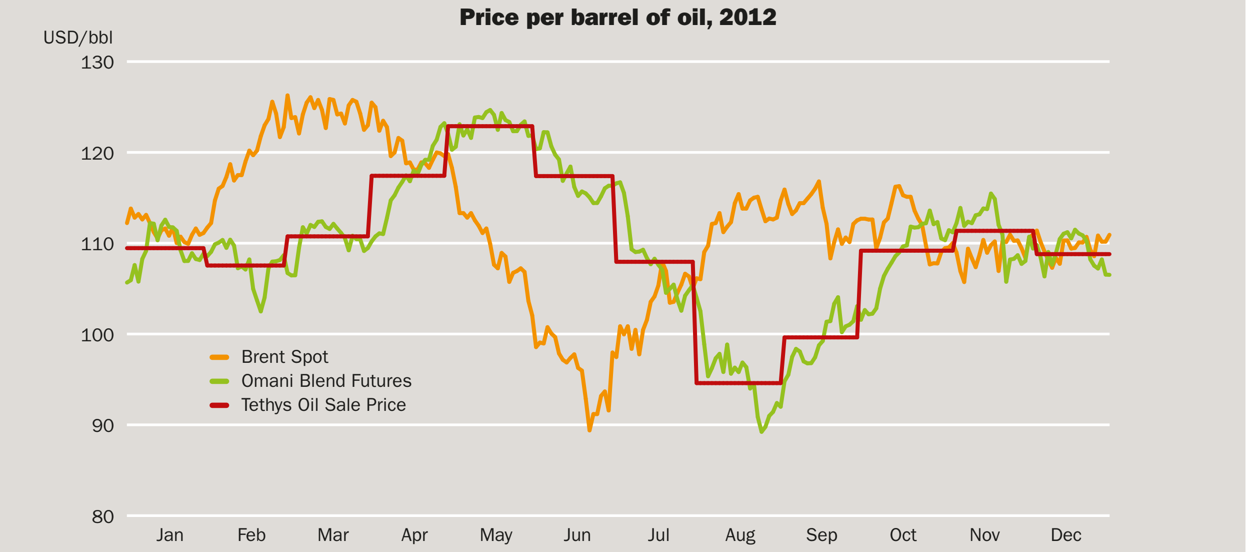
Each month Tethys Oil must report two months in advance the estimated production volume from the licences to the Omani government. The production estimate will be the base for the sale, no matter how the actual produced volume turns out. The difference is called under-/overlift and will be corrected subsequently. Because of that, the revenue from oil sales does not always correspond to the actual produced volume during a period.

Cost recovery

The terms of the agreement with the Omani government on Blocks 3 & 4 in Oman allows the holder of the licence to recover their costs up to 40 percent of the value of total oil production. This is referred to as cost oil. After deducting any allowance for cost oil, the remaining oil production is split 80/20 between the government and the joint venture partners. If there is no cost oil to be recovered, the joint venture partners receive their share of 20 percent



Tethys Oil's part of revenues from production depends on both how much cost recovery the company are able to use and the size of Tethys Oil's holding in the licence. In this example maximum cost recovery is used and Tethys Oil's part of the licence and thus revenues is 30 percent.



Source: Platts, Dubai Merchantile Exchange

of the oil produced. The terms of the agreement thus result in the joint partnership's share of production in the interval 20–52 percent, depending on available recoverable cost. So far on Blocks 3 & 4, Tethys and its partners share has been in the high end of the interval, 52 percent, as commercial production relatively recently commenced and large investments have been made. The estimated recoverable costs as per 31 December 2012, net to Tethys Oil, amounted to MUSD 89.

Pricing

The selling price received by Tethys Oil is determined for each calendar month based on the monthly average prices of the two month future price of Omani Blend. The Omani Blend and hence Tethys Oil's achieved oil price is therefore typically priced with a two month lag to spot prices. During the twelve month period, prices have been trading between high levels of around USD 125 per barrel and low levels of around USD 90 per barrel. The oil produced on Blocks 3 & 4 is of higher quality than Omani Blend. Because of the better quality, Tethys Oil receives a premium from the state of Oman. The premium was in 2012 around USD 1 per barrel.

Development plans

The majority of the investments in infrastructure and production facilities, necessary to produce currently known reserves on Blocks 3 & 4, were completed in 2012. For the immidiate future it is expected that the investments will mainly focus on exploration of nearby areas and improved extraction by a water injection programme. The extension of the licence until 2040 create great scopes for further investments. The licence consists of large land areas and many possibilities of new discoveries.

Block 15

Block 15 is situated in the north western part of central Oman and covers an area of about 1,400 square kilometers. Tethys Oil has a 40 percent interest in the licence and Odin Energi the other 60 percent. In the end of 2011, the licence for Block 15 was extended for three years until October 2014 with a work programme consisting of additional seismic studies and drilling of one more well.

Work programme

Two wells have been drilled since Tethys entered the licence. The Jebel Aswad-1 ("JAS-1") well was drilled in 2007. Upon testing, it flowed 11.03 mmcfpd of gas and 793 bopd of condensate (total of 2,626 boepd). The JAS-2 well, drilled in 2008, showed the same log response whilst drilling as the JAS-1, however, the JAS-2 well tested only water.

In the first quarter of 2012 a production test and evaluations was conducted of JAS-2. The conclusion was that the JAS-2 well most likely cannot be put in production. Regarding JAS-1 the plan is to commence a long term production test.

Development plan

The main efforts on Block 15 are focused on finding the most economic method of putting the JAS-1 well in production. The field work on Block 15 will be intensified in 2013, with the main focus to put the JAS-1 well in an extended production test during the first half of the year. An extension of the previous 3D seismic survey on the licence is also planned and will be completed when JAS-1 is in production.

Lithuania

Tethys Oil holds interests in three Lithuanian licences. All licences are onshore and cover some 4,000 square kilometers of the Baltic Sedimentary Basin. Tethys Oil has an indirect ownership of 25 percent in the Gargzdai licence, 14 percent in the Rietavas licence and 26 percent in the Raiseniai licence.

In contrast to Oman, where the licences are owned directly by the joint venture company, the Lithuanian interests are owned indirectly through shares in Odin Energy and Jyllands Olie. These companies then own the shares in the local Lithuanian companies UAB Minijos Nafta (Gargzdai) and UAB LL Investicos (Rietavas and Raiseniai) that hold the licences. The ownership structure means that Tethys does not consolidate the Danish or the Lithuanian companies. These are accounted for as associated companies. The results from Lithuania are classified as income of associates in Tethys' income statement and any surplus will be received as annual dividends.

The Gargzdai licence

The Gargzdai licence is located in western Lithuania.

Reserves and resources

In a report submitted in May 2011, the independent petroleum consultant Miller Lents estimated the reserves as per 1 Janyary 2011 on the Gargzdai licence to be 6.92 million barrels of proven and probable (2P) oil as at May 2011 (gross). Total gross production January–December 2011 amounted to 253,548 barrels and total

Licence	Tethys Oil's interests	Total area	Partners	License expiration date
Rietavas*	14%	1,594 km²	Odin Energi, Chevron, private investors	Sept 2017
Raseiniai*	26%	1,535 km²	Odin Energi, private investors	Sept 2017
Gargzdai*	25%	884 km²	Odin Energi, Geonafta	Until further

* Tethys Oil's interest in the three Lithuanian licenses is held indirectly through ownership in two Danish companies. The ownership is undergoing a reconstruction, for further information please see the Administration report page 37 and note 6 to the financial reports.

gross production January–December 2012 amounted to 214,658 barrels. Note that Tethys Oil's indirect share of the Gargzdai licence and above mentioned numbers and estimates is 25 percent.

Production and pricing

Tethys share of the Lithuanian production in the fourth quarter 2012 was on average 144 barrels of oil per day. The oil produced at the Gargzdai licence has an API of about 42 degrees and is normally sold on weekly basis to a nearby refinery. The price is based on and set close to the daily Brent price.

Development plans

The licence continues to produce oil. A reservoir study made on the licence area suggests that the reserves could be significantly increased with the use of modern enhanced oil recovery techniques. The licence also holds significant unconventional hydrocarbon potential from shale sections.

The Rietavas licence

The Rietavas licence is located close to the Gargzdai licence, with a known oil discovery in the Cambrian sandstones, the same reservoir layer which is in production in Gargzdai. The Rietavas licence is yet quite unexplored. In October 2012 Chevron came in as partner in the project. Part of the licence was farmed out in exchange for cash and a comprehensive work programme. Following the transaction, Tethys' indirect interest in the licence was reduced from 20 to 14 percent. Chevron has further obtained an option to acquire additional interest in the Rietavas licence at a predetermined price, to be exercised within three years. If the option is exercised, Tethys indirect interest in the Rietavas licence will be reduced to 5.6 percent.

Work programme

The 2013 work programme on the Rietavas licence is expected to commence by mid-year. The work programme, to be fully funded by Chevron, is primarily designed to evaluate the licence for shale gas/oil potential.

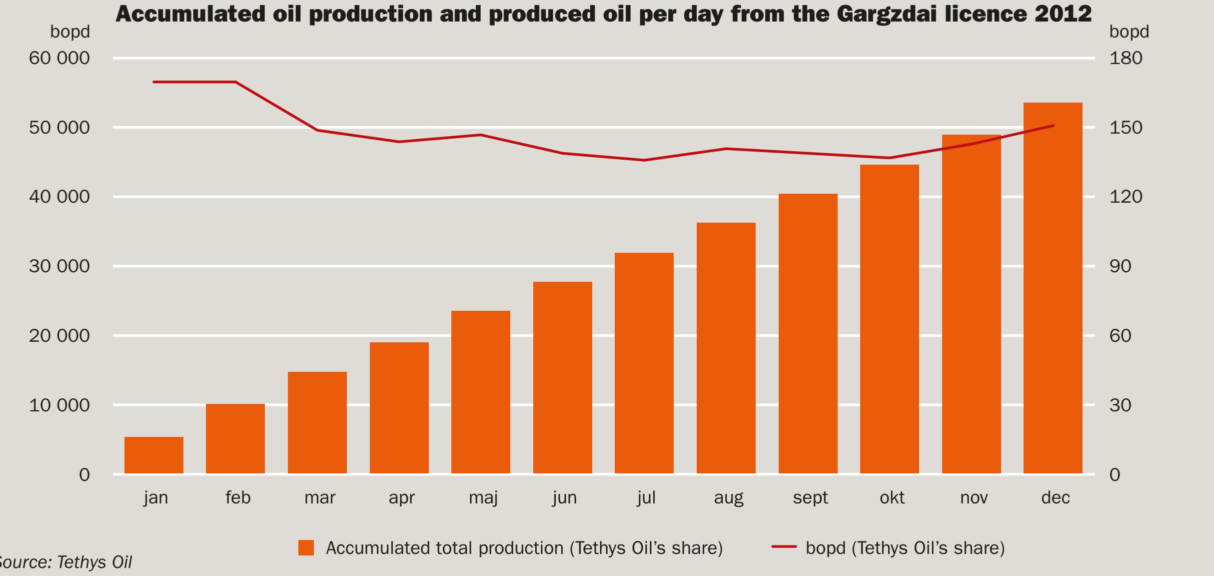
The Raseiniai licence

The Raseiniai licence covers a so far unexplored trend of Silurian reefs similar to, but expected to be of larger size, the Ordovician reefs found on Gotland. The Silurian/Ordovician shale section is present also in the Rietavas and Raseiniai licences.

Work programme

On the Raseiniai licence, the work with compiling old data, mainly from the Soviet era, continues. One exploration well and some 3D seimic acquisition is planned for 2013.

Accumulated oil production and produced oil per day from the Gargzdai licence 2012



Source: Tethys Oil

Photo: "The bell tower of the Cathedral of Vilnius" by FromTheNorth (flickr)

Photo: "Agathe bergère" by Thomas Claveirole (flickr)

France

Tethys has interests in two French licences. The licence Permis du Bassin D'Alès, an exploration and production licence in the Alès basin in southern France. The Attila licence is located in the oil and gas producing Paris basin, some 250 kilometers east of Paris.

Currently there are no on-going activities on the French licences. Because of political reasons it is uncertain if or when any oil and gas exploration can be conducted in France.

Sweden

Tethys holds two licences in Sweden called Gotland Större (Greater Gotland) and Gotland Mindre. The licences cover an area of about 581 square kilometers over the northern part of the Baltic island Gotland.

Gotland Större

Gotland Större covers an area of around 556 square kilometers. Oil has previously been produced from reef structures on Gotland, proving the existence of a viable petroleum system within the licence area. Tethys has conducted a comprehensive study of the existing data over the licence. More than 300 kilometers of seismic data has been digitalized and reprocessed with modern computer technology. A soil sampling survey over parts of its licence area has also been conducted. So far some 10 potential locations for exploratory drilling have been identified. In 2012 an external consultant has made a report covering the environmental impact drilling would have on the locations.

Gotland Mindre

Tethys Oil was awarded the licence area of Gotland Mindre in February 2011 going three years forward. The area is situated within our Gotland Större licence with an area covering around 25 square kilometers. The licence is set within a similar geological environment as Gotland Större, and has been the ground on which a number of successful wells were drilled in the past.

Licence	Tethys Oil's interests	Total area	Partners	License expiration date
Attila	40%	1,986	Galli Coz	2015
Alès	37,5%	215	MouvOil	2015
Gotland större/mindre	100%	581	–	Dec 2013

Corporate Social Responsibility

An oil company having business in different parts of the world will sooner or later meet issues about Corporate social responsibility ("CSR"), where environment of course is the most obvious. Tethys Oil always strives to conduct the business in an economically, socially, and environmentally responsible way. The ethical requirements are the same regardless of where in the world the business takes place. The company will always follow good oilfield practice and act as good citizens and will under all circumstances aim to follow the best available practices, even if this will go beyond local laws.

In an oil project the operator is the main responsible for the day to day work and the business on the site. Tethys Oil is currently not acting as operator in any of its active assets. The activities in Tethys different projects are therefore decided in cooperation with partners and primarily the operator. Assets not operated by Tethys are independently reviewed by Tethys Oil out of a HSES (health, safety, environmental and social) perspective and Tethys 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 practises are followed. Tethys Oil's guidelines for CSR and how the company and its employees shall behave are described in the company's CSR policy which permeates the total business and is a part of the corporate culture.

The company's fundamental values are:

- To act in a fair, honest and equitable way.
- To observe local laws and regulations.
- To respect local customs and traditions.
- To observe applicable international laws and standards.
- To uphold the ten principles of the United Nations Global Compact on human rights, labour standards, environment and anti-corruption.

The agreements that Tethys Oil has with the host nation and its partners prescribes that the licence owner commits to be careful with the environment, surroundings and the people in the neighborhood who will be affected and all the work in the area will be done by "good oil praxis". All subcontractors that are used are subject to the same conditions. In Oman, preference shall be given to Omani contractors and Omani Nationals. The company shall also establish a fund for the Ministry of Oil and Gas. This fund will be used for internal and external training courses, participation in international seminars, contribution to scholarships etc, which can support the oil industry.

According to the Joint Ventures Agreements, the operator must implement a HSE plan that follows both international and local standards for the oil industry. A programme for follow up and evaluation of the HSE plan has to be included.

Corporate governance report

Corporate governance refers to the rules and structure established for the efficient management of a limited liability company's operations. Ultimately, the purpose of corporate governance is to accommodate the shareholders' demand for returns and all stakeholders' need for information regarding the Company and its development.

Since the Company's shares have been listed on NASDAQ OMX First North the Company has not yet been required to comply with the Swedish Code of Corporate Governance (the "Code"). As from the listing of the Company's shares on NASDAQ OMX Stockholm the Company will comply with the Code. The Code stipulates what is good practice on the Swedish stock market for all Swedish limited liability companies, regardless of market capitalisation, the shares of which are listed for trading on a regulated market in Sweden. At present there are two regulated markets in Sweden, NASDAQ OMX Stockholm and NGM Equity. The Code is based on the "comply or explain" principle, which means that a company can deviate from the Code's norms if such deviations are satisfactorily explained. Possible deviations will be announced and explained by Tethys Oil in the yearly corporate governance report. The Company expects that the Code will be adhered to in its entirety and, accordingly, that no deviations will have to be explained.

General meetings

The general meeting is the Company's highest decision-making body. The responsibilities of the general meeting are regulated in the Swedish Companies Act ("SCA") and in the articles of association. Annual general meetings are to be held at the latest six months after the end of the fiscal year. Shareholders registered in the share register and which have given notice of their intention to participate in due time have a right to participate at the general meeting. The annual general meeting is normally held in Stockholm in May. At the annual general meeting the shareholders elect the board of directors and the auditors and resolve on remuneration, principles for the nomination committee and on discharge of liability for the board of directors and the managing director and adopt the profits/losses of the parent company and the group. The articles of association are changed by the annual general meeting or an extraordinary general meeting.

The annual general meeting on 16 May 2012 dealt with customary matters, such as the appropriation of the Company's profits, determination of the remuneration for the board of directors and the auditors, and of the number of members of the board of directors, election of the board of directors and the chairman and the establishment of procedures for appointing the nomination committee. Further it was resolved on guidelines for remuneration of senior management and on an authorisation for the board of directors to resolve on an issue of shares. See the section "The Tethys Oil share" for more information on the authorisation and the section "Compensation" for more information on the guidelines. All board members, senior management and auditors were present at the annual general meeting. The nomination committee was not completely formalised and thus did not participate at the 2012 annual general meeting.

The board of directors

The articles of association stipulate that the board of directors of Tethys Oil shall consist of no less than three and no more than ten board members with no more than tree deputy board members. Board members are elected for a maximum of one year at a time. The board of directors of Tethys Oil consists of seven directors and no deputies. Six board members are independent from the Company, the Company's management and the Company's larger shareholders, and seven board members are independent from larger shareholders/interested parties. Morgan Sadarangani has been appointed the secretary of the board of directors. The chairman of the board of directors, Vincent Hamilton, was active in the Company up to and including November 2012, but is since then no longer active in the Company.

The board of directors has the overall responsibility for managing the Company's business and affairs in the best possible way on behalf of the shareholders. The board of directors' work is governed by annually adopted rules of procedure. The board of directors supervise the work of the managing director by continually following up the Company's operations. The board of directors also ensures that the Company's organisation, administration and control are properly managed. The board of directors adopts strategies and goals and resolves on larger investments, acquisitions and disposals of business activities or assets. The board of directors also appoints the managing director and determines the managing director's salary and other compensation.

The chairman of the board of directors supervises the work and is responsible for it being well organised and efficient. This entails, among other things, continually following the Company's operations in contact with the managing director and being responsible for other board members receiving the information and documentation needed to ensure high quality discussions in and well founded decisions by the board of directors. The chairman is responsible for the evaluation of the board of directors' and the managing director's work and represents the board of directors in ownership matters.

According to the current rules of procedure the board of directors shall, after the constituent board meeting following the annual meeting, hold a minimum of 6 planned meetings during the financial year. During 2011 the board held 9 meetings and during 2012 it held 13 meetings. So far during 2013 the board of directors has held 2 meetings where minutes were kept, in addition to on-going contact with the Company's management. The board of directors has established two committees: the remuneration committee and the audit committee.

Remuneration committee

The board has established a remuneration committee for the period up to and including the annual meeting for 2013, consisting of all board members with the exception of Magnus Nordin and Vincent Hamilton. Jan Risberg is the chairman of the committee. The remuneration committee prepares the board of directors' decisions in matters of remuneration and the principles for remuneration, especially concerning the Company's senior management. The committee monitors and evaluates programs for variable remuneration to senior management, the application of the guidelines for remunerations to senior management adopted by the general meeting as well as the current structures and levels of remuneration in the Company. The remuneration committee has a preparatory role and presents decision proposals for the board of directors to decide on.

Audit committee

The board has established a remuneration committee for the period up to and including the annual meeting for 2013, consisting of all board members with the exception of Magnus Nordin and Vincent Hamilton. Jan Risberg is the chairman of the committee. The audit committee monitors the financial reporting, the quality of the Company's internal control, internal auditing and risk management. The committee informs itself on the auditing, oversees the impartiality and independence of the auditor and assists the nomination committee with proposals for auditors to the general meeting. The audit committee has a preparatory role and presents decision proposals for the board of directors to decide on.

Attendance

The table below shows the attendance during 2012 of each board member in the meetings of the board of directors, the remuneration committee and the audit committee, respectively.

Nomination Committee

The nomination committee is the shareholders' body tasked with submitting proposals to the general meeting concerning election and remuneration matters, and in certain cases propose procedural matters regarding the nomination committee for the following year. The nomination committee is appointed annually by decision of the annual general meeting. At the annual general meeting in 2012 it was resolved that an independent board member who is not active in the Company is to invite four of the Company's larger shareholders to constitute the nomination committee. The nomination committee shall appoint a chairman from its members. The members of the nomination committee shall be announced at least six months prior to the annual general meeting of 2013. If a member of the nomination committee resigns before it has finished its assignment the remaining members shall appoint a new member.

The nomination committee for the annual general meeting of 2013 consists of the following members:

Dennis Harlin, who is chairman of the nomination committee and who represents himself and Annemarie Danielsson;
Vincent Hamilton, who represents himself;
Jan Risberg, who represents himself;
Mikael Petersson, who represents himself, Niklas Antman and SSE Capital.

Managing director

The managing director of Tethys Oil is, in accordance with the SCA, responsible for the day-to-day management of the Company's operations according to the guidelines and instructions of the board of directors. The board of directors has adopted an instruction for the managing director which clarifies the responsibilities and authority of the managing director. According to the instruction the managing director shall provide the board of directors with decision data in order to enable the board to make well-founded decisions and with documents to enable it to continually monitor the activities for the year. The managing director shall take the decisions needed for developing the business, within the framework of the SCA, the business plan, the budget and the instruction for the managing director adopted by the board of directors as well as in accordance with other guidelines and instructions communicated by the board of directors.

Name	Board meetings	Remuneration committee meetings	Audit committee meetings
Håkan Ehrenblad	13 of 13	0 of 0	5 of 5
Vincent Hamilton	13 of 13	n.a.	n.a.
John Hoey	12 of 13	0 of 0	4 of 5
Staffan Knafve	7 of 7	0 of 0	2 of 2
Magnus Nordin	13 of 13	n.a.	n.a.
Jan Risberg	13 of 13	0 of 0	5 of 5
Katherine Støvring	7 of 7	0 of 0	2 of 2

Internal control

The board of directors' responsibility for internal control is governed by the SCA and the Code which require the annual announcing of information regarding how the internal control of financial information is organised. The internal control of Tethys Oil is designed to provide reasonable assurance that the Company's assets are protected and that financial reporting is reliable and in accordance with generally accepted accounting principles, laws and regulations. The internal control is in accordance with what is expected from a listed company, taking into account the size and the complexity of the Company's operations.

Tethys Oil continually works on improving the financial reporting through evaluating the risk of errors in the financial reporting and related control activities. Control activities include following up instructions and the application of accounting principles. The board of directors is responsible for and monitors the control activities, which involve all levels of the organisation. The activities limit the identified risks and ensure correct and reliable financial reporting. The Group's central financial department analyses and follows up on budget deviations, draws up forecasts, follows up on significant variations between periods and reports to the board of directors, which minimises the risks for errors in the financial reporting. The control activities also include following up on the authorisation manual and accounting principles. These control activities also include the operators of co-owned projects. The board of directors further decides on specific control activities and internal auditing and auditing of operators in cooperation projects.

Financial reporting and follow up

In accordance with applicable laws and stock market regulations and other rules applicable from time to time the Company aims to regularly provide correct, reliable and current financial information. The financial information is regularly published in the form of quarterly reports, annual reports and press releases containing news and important events that could affect the Company's share price.

Remuneration

Principles and guidelines

The general meetings resolve on remuneration to the board of directors. Remuneration is not paid for service on the boards of directors of subsidiaries. Magnus Nordin, who is employed by Tethys Oil, does not receive any remuneration for his service on the board of directors. The salaries of the managing director and senior management are determined by the board of directors after proposal by the remuneration committee.

The remuneration for members of the board of directors and senior management during 2012 is shown in the table below.

The board of directors

Remuneration to the board of directors during 2012 amounted to a total of TSEK 350, allocated among the board members in the way shown in the below table.

The annual general meeting 2012 resolved that remuneration of the chairman of the board of directors shall be TSEK 0 per annum and of the other members of the board of directors TSEK 125 per board member per annum.

Senior Management

Total remuneration to the senior managers Vincent Hamilton, Magnus Nordin and Morgan Sadarangani during 2012 amounted to TSEK 4,588, of which TSEK 1,220 was remuneration to the managing director Magnus Nordin. All amounts regarding remuneration to senior management are exclusive of social security contributions. See table below.

For termination of employment the notice period is 12 months when the managing director gives notice, and 12 months when the Company gives notice. For other senior managers the notice period is 9 months and when the Company gives notice 9 months.

Pensions

Pension costs for senior management amounted to TSEK 30 during 2012.

Auditors

Remuneration to the auditors of Tethys Oil is paid in accordance with approved current accounts. During 2012, remuneration to PricewaterhouseCoopers AB amounted to TSEK 1,162.

Incentive plan

No share related incentive plans that lead to the issue of new shares or other financial instruments exist.

Bonus plan

The Company has not currently adopted any bonus plan. As part of its efforts to retain and recruit personnel, the Company is considering adopting a bonus plan. From time to time the Company has decided to pay bonuses to reward special achievements. This has been done restrictively and has been limited to amounts equivalent to one or two monthly salaries per year.

Remuneration and other benefits 2012 (TSEK unless otherwise stated)	**Salary/Board member remuneration**	**Variable remuneration**	**Other benefits**	**Pension Costs**	**Share related compensation**	**Total**
Board members						
Magnus Nordin	–	–	–	–	–	–
Vincent Hamilton, chairman[1]	–	–	–	–	–	–
Håkan Ehrenblad	100	–	–	–	–	100
John Hoey	100	–	–	–	–	100
Jan Risberg	150[2]	–	–	–	–	150
Katherine H. Støvring[3]	–	–	–	–	–	–
Staffan Knafve[3]	–	–	–	–	–	–
Total, board members	**350**	**–**	**–**	**–**	**–**	**350**
Senior Managements						
Magnus Nordin	1,220	–	10	–	–	1,230
Vincent Hamilton	2,542	–	–	–	–	2,542
Morgan Sadarangani	826	–	10	30	–	866
Other senior management	–	–	–	–	–	–
Total, senior management	**4 588**	**–**	**20**	**30**	**–**	**4,638**

1 Vincent Hamilton was chief operating officer up to and including November 2012, but is since then solely chairman of the board and not active in the company. A severance payment of 12 months' salary, in accordance with the employment agreement, is included in the remuneration for Vincent Hamilton during 2012.

2 The remuneration to Jan Risberg includes remuneration for work as the chairman of the audit committee and the compensation committee, respectively.

3 Katherine H. Støvring and Staffan Knafve were elected to the board of directors at the annual general meeting on 16 May 2012.

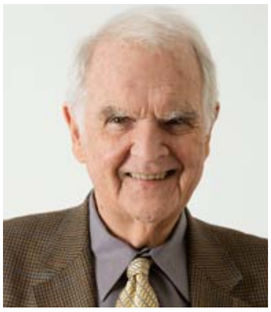
Board of directors, management

Board of directors

Vincent Hamilton,
born in 1963. Chairman and Member of the Board since 2001 and Chief Operating Officer since 2004 until November 2012. 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

Magnus Nordin,
born in 1956. Managing Director since 2004 and Member of the Board since 2001. Education: Bachelor of Arts, Lund University and Master of Arts, University of California in Los Angeles, California. Managing Director of Sands Petroleum, 1993–1998. Deputy Managing Director Lundin Oil 1998–2000, Information director 2001–2004, (acting Managing Director) Vostok Oil Ltd. October 2002–2003, Managing Director of Sodra Petroleum 1998–2000. Board member of Minotaurus AB, Minotaurus Energi AS and Cassandra Oil AB.
Number of shares in Tethys Oil: 1,459,127

Håkan Ehrenblad,
born in 1939. Member of the board since 2003. Education: Mechanical engineer HTLS, Chemical/Paper manufacturing Royal Institute of Technology, Stockholm, PED from the Institute for Management Development (IMD), Lausanne, Switzerland. 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 published several books. Mr. Ehrenblad is active in publishing and media and is also an active investor. Board member of Tanganyika Oil Company Ltd. until 2008.
Number of shares in Tethys Oil: 334,511



John Hoey,
born in 1939. Member of the board since 2001. 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: 821,393

Staffan Knafve,
born in 1958. Member of the board since 2012. Mr. Knafve holds a Bachelor of Laws degree from Stockholm Law School. He is a private investor and independent financial consultant. Mr. Knafve was head of Equities at Swedbank Robur from 2007 to 2008. Between 2005 and 2007 he was Head of Swedish and Nordic Equities at Nordea Investment Management. From 1998 to 2005 he held various senior positions at Carnegie Asset Management and from 1991 to 1998 he worked as analyst at Carnegie Securities. Mr Knafve's current assignments include Chairman Investment Committee at Coeli Asset Management and Member Finance Committee at Royal Swedish Automobile Club.
Number of shares in Tethys Oil: 60,000

and auditors

Jan Risberg,
born in 1964. Member of the board since 2004. Mr. Risberg has several years of experience from the financial sector. Various positions within Aros Securities department of Corporate Finance, at Enskilda Securities department of Corporate Finance, and as Manager of Ledstiernan AB's London branch. Mr. Risberg is today acting independently in the financial sector.
Number of shares in Tethys Oil: 838,419

Katherine H. Støvring,
born in 1965. Member of the board since 2012. Ms. Støvring holds a Masters in Law degree from Oslo University and a MSc in Business Management degree from London Business School (Sloane Programme). She has more than 20 years' experience from the energy and shipping industries. She was previously VP Major Subsea Projects at Aker Solutions. Between 2007 to 2008 she was CEO at Fred Olsen Renewables AS. From 2002 to 2007 Ms. Støvring was VP International E&P, Statoil with responsibility for business development and acquisitions in the areas of North Africa, Middle East, international LNG and unconventional gas. From 1997 to 2002 she held various management positions for BP in London, including planning and performance manager. Ms. Støvring has served as a non-executive director at Aladdin Oil & Gas Company ASA, Panoro Energy ASA and Norse Energy ASA. Ms Støvring is a member of the Norwegian Bar and a Solicitor Admitted to the Rolls of England and Wales.
Number of shares in Tethys Oil: –

Management

Magnus Nordin,
Managing Director

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: 139,200

Auditors

Klas Brand,
born in 1956.
Authorized Public Accountant, Lead partner. Company's auditor since 2012. Pricewaterhouse-Coopers AB, Gothenburg

Johan Malmqvist,
born in 1975,
Authorized Public Accountant. Company's auditor since 2010. PricewaterhouseCoopers AB, Gothenburg

The Tethys Oil share

Tethys Oil's shares are listed on First North, which is operated by NASDAQ OMX. First North is a sponsor based marketplace, which means that each company 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 Öhman Fondkommission AB 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 2012 amounts to SEK 5,923,958 represented by 35,543,750 shares with a quota value of SEK 0.17.

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 2012 the Board of Directors had remaining outstanding authorization from the AGM to issue up to 10 percent of the shares up until the next AGM.

As per 1 January 2012, Tethys Oil had 32,543,750 shares. In 2012, Tethys Oil conducted two private placements in May and June 2012 which regarded 3,000,000 shares in total. The private placements were made at SEK 40 per share, which corresponded to approximately 7 percent discount to the volume weighted average share price the last trading day before the private placements. Proceeds from the share issue amounted to MSEK 120 before issue costs.

Share capital development

Since the company's inception in September 2001 and up to 31 December 2012 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	Non-cash issue	0.50	400,000	4,784,800	200,000	2,392,400
2006	Share 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
2010	Exercise of warrants	0.17	482,528	30,176,070	80,421	5,029,345
2010	Exercise of warrants	0.17	185,795	30,361,865	30,966	5,060,311
2010	Exercise of warrants	0.17	84,971	30,446,836	14,162	5,074,473
2010	Exercise of warrants	0.17	2,057,653	32,504,489	342,942	5,417,415
2011	Non-cash issue	0.17	39,261	32,543,750	6,544	5,423,958
2012	Share issue	0.17	3,000,000	35,543,750	501,667	5,925,625

Dividend policy

Tethys Oil aims to offer high return on capital through investments and growth in oil and gas projects and does therefore not expect to pay any dividends during the coming years. Possible future dividend policy will be determined by the company's financial position and an assessment of future growth potential.

Share ownership structure

The 20 largest shareholders in Tethys Oil as per 28 February 2013.

Name	Number of shares	Capital and votes
UBS AG Clients account	3,952,205	11.1%
SIX SIS AG	3,367,775	9.5%
Vincent Hamilton*	2,326,955	6.5%
Pictet & Cie	1,533,092	4.3%
Magnus Nordin*,**	1,459,127	4.1%
NORDEA Life & Pensions	1,215,000	3.4%
Nordnet Pensionsförsäkring AB	1,111,658	3.1%
Försäkringsaktiebolaget Avanza Pension	1,076,621	3.0%
Jan Risberg	838,419	2.4%
John Hoey*	821,393	2.3%
Handelsbanken Fonder AB	725,000	2.0%
BNY Mellon SA/NV (former BNY)	653,542	1.8%
ML, Pierce, Fenner & Smith Inc.	646,990	1.8%
Julius Bear & Co	602,300	1.7%
BNP Paribas (suisse) S.A.	545,392	1.5%
Friends Provident International	535,000	1.5%
Robur Försäkring	454,149	1.3%
Svenska Handelsbanken SA	419,450	1.2%
Grebbeshult Holding AB	406,800	1.1%
Bo-Axel Johnson	405,300	1.1%
Total, 20 largest shareholders	**23,096,168**	**65.0%**
Other, approx. 2,630 shareholders	12,447,582	35.0%
Total	**35,543,750**	**100.0%**

Source: Euroclear Sweden AB and Tethys Oil AB

* Through company
** Incl 60,000 shares lent to Öhman Fondkommission AB

Distribution of shareholdings

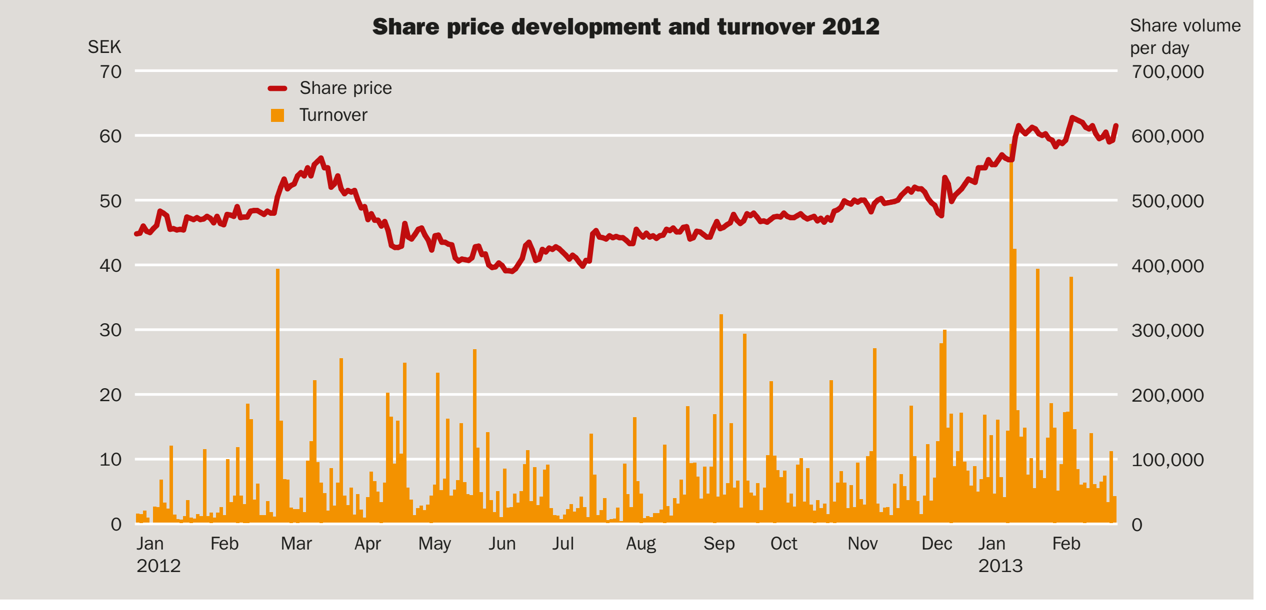
Distribution of shareholdings in Tethys Oil as per 28 February 2013.

Size categories as of 28 February 2013	Number of shares	Percentage of shares, %	Number of shareholders	Percentage of shareholders, %
1 – 1,500	820,619	2.31%	1,906	71.92%
1,501 – 30,000	4,160,115	11.70%	647	24.42%
30,001 – 150,000	4,212,788	11.85%	64	2.42%
150,001 – 300,000	1,996,247	5.62%	9	0.34%
300,001 –	24,354,981	68.52%	23	0.87%
Total	**32,543,750**	**100.0%**	**2,650**	**100.0%**

Source: Euroclear Sweden AB and Tethys Oil AB

Share statistics 2012

The final transaction price in 2012 was SEK 52.75 corresponding to a total market capitalization of SEK 2,159,282,813. During the year the price of Tethys' share rose by 22 percent. During the same period, NASDAQ OMX Stockholm rose by 12 percent. The highest transaction price in 2012 was SEK 57.25 on March 16 and the lowest was SEK 37.90 on June 14. In the year Tethys' shares were traded for almost SEK 769 million on First North. The trading in the share averaged approximately SEK 3,076,881 per day and the turnover velocity was 48 percent.



Key financial data

Group	2012	2011	2010	2009	2008
Items regarding the income statement and balance sheet					
Operating result, TSEK	336,300	83,057	100,661	-28,985	-31,748
Operating margin, %	57.59%	80.22%	n.a.	n.a.	n.a.
Result before tax, TSEK	314,175	69,114	80,144	-42,446	-16,395
Net result, TSEK	313,962	68,991	80,069	-42,503	-16,426
Net margin, %	53.76%	66.63%	n.a.	n.a.	n.a.
Shareholders' equity, TSEK	860,122	455,559	380,055	202,770	177,077
Balance sheet total, TSEK	1,374,237	464,862	384,069	222,680	179,909
Capital structure					
Equity ratio, %	62.59%	98.00%	98.95%	91.06%	98.43%
Leverage ratio, %	45.31%	n.a.	n.a.	n.a.	n.a.
Adjusted equity ratio, %	62.59%	98.00%	98.95%	91.06%	98.43%
Interest coverage ratio, %	23.02	n.a.	n.a.	n.a.	n.a.
Investments, TSEK	875,301	208,392	-115,282	81,681	72,512
Profitability					
Return on shareholders' equity, %	47.73%	15.14%	21.07%	neg.	neg.
Return on capital employed, %	41.16%	16.25%	20.85%	neg.	neg.
Employees					
Average number of employees	19	12	9	10	10
Number of shares					
Dividend per share, SEK	n.a.	n.a.	n.a.	n.a.	n.a.
Cash flow from operations per share, SEK	15.37	3.49	5.97	neg.	neg.
Number of shares at year end, thousands	35,544	32,544	32,504	28,049	23,980
Shareholders' equity per share, SEK	24.20	14.00	11.69	7.23	7.38
Weighted number of shares for the year, thousands	34,465	32,521	30,849	26,274	22,669
Earnings per share before and after dilution, SEK	9.11	2.12	2.60	-1.62	-0.72

Definitions of key ratios

Margins

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
Earnings before interest, taxes, depreciation, depletion and amortisation (EBITDA) divided by net financial result.

Investments
Total investments during the year.

Parent	2012	2011	2010	2009	2008
Items regarding the income statement and balance sheet					
Operating result, TSEK	39,880	-7,318	-5,366	-5,366	-6,853
Operating margin, %	neg.	n.a	n.a.	n.a.	n.a.
Result before tax, TSEK	-82,793	-14,669	-18,717	-30,327	-12,389
Net result, TSEK	-82,793	-14,669	-31,903	-30,327	-12,389
Net margin, %	neg.	n.a	n.a.	n.a.	n.a.
Shareholders' equity, TSEK	281,397	249,960	262,901	226,005	187,035
Balance sheet total, TSEK	752,411	302,657	314,746	226,800	188,409
Capital structure					
Equity ratio, %	37.40%	82.59%	83.53%	99.65%	99.27%
Leverage ratio, %	138.19%	n.a.	n.a.	n.a.	n.a.
Adjusted equity ratio, %	37.40%	82.59%	83.53%	99.65%	99.27%
Interest coverage ratio, %	n.a.	n.a.	n.a.	n.a.	n.a.
Investments, TSEK	535,260	47,888	71,982	62,999	82,755
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	6	6	6	5
Number of shares					
Dividend per share, SEK	n.a.	n.a.	n.a.	n.a.	n.a.
Cash flow from operations per share, SEK	neg.	neg.	0.11	neg.	neg.
Number of shares at year end, thousands	35,544	32,544	32,504	28,049	23,980
Shareholders' equity per share, SEK	7,92	7.68	8.09	8.06	7.80
Weighted number of shares for the year, thousands	34,465	32,521	30,849	26,274	22,669
Earnings per share before and after dilution, SEK	-2.40	-0.45	-1.03	-1.15	-0.55

Profitability

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

Return on capital employed
Net result plus financial costs 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.

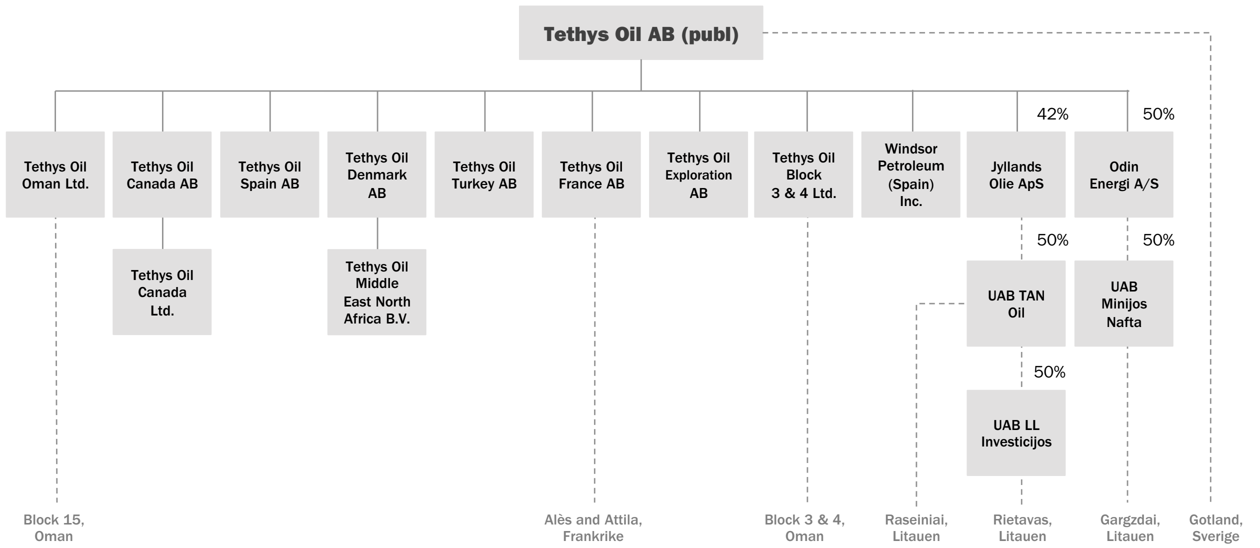
Weighted numbers of shares
Weighted number of shares during the year.

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)



Ownership in subsidiary companies is 100% unless otherwise stated.

The administration report of the Tethys Oil Group (hereafter referred to as "Tethys Oil" or the "Group"), where Tethys Oil AB (publ) (the "Company") with organisational number 556615-8266 is the parent company, is hereby presented for the twelve months period ended 31 December 2012. The amounts relating to the comparative period (equivalent period of last year) are shown in parenthesis after the amount for the current period. Segments of the Group are geographical markets.

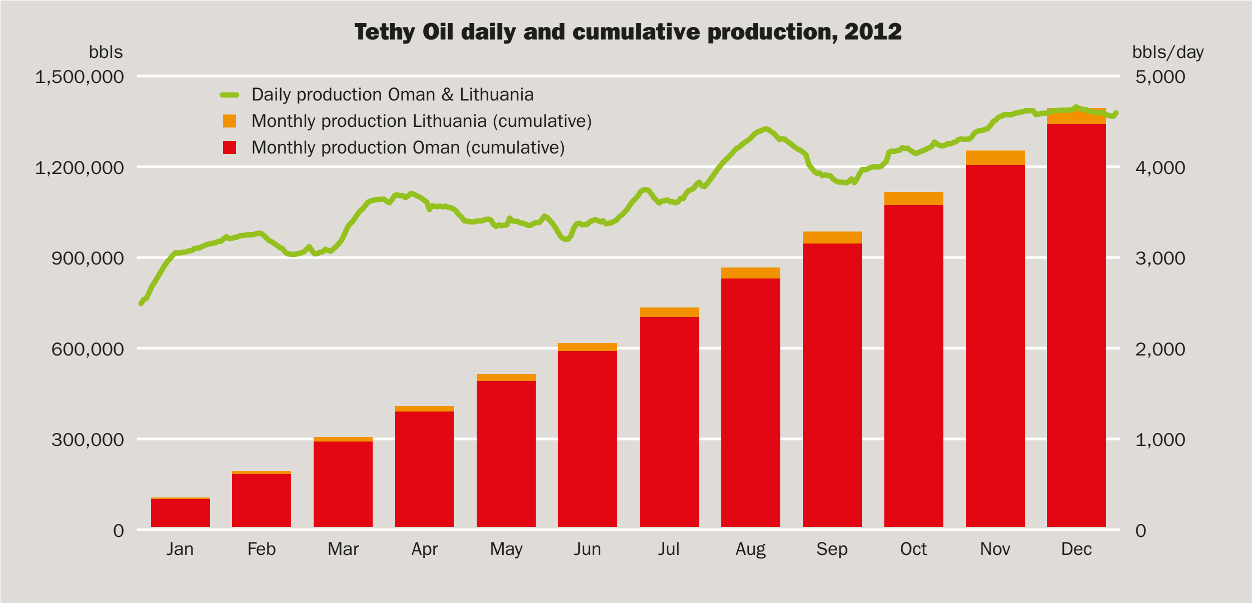
OPERATIONS

Tethys Oil is a Swedish company, which together with subsidiaries 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 2012 the company had interests in licences in Oman, France, Sweden and Lithuania.

Production

Production from Blocks 3 & 4 onshore Oman comes from two fields – the Farha South and Saiwan East oil fields. Production from these fields has continuously increased during the period utilizing the Early Production System ("EPS") and the Permanent Production System ("PPS"), where the latter has been gradually com-

Quarterly volumes, before government take	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Tethys' share of quarterly production, (bbl)				
Oman, Blocks 3 & 4				
Production	400,324	358,968	302,081	284,481
Average daily production	4,351	3,902	3,320	3,126
Lithuania, Gargzdai				
Production	13,233	12,737	13,052	14,642
Average daily production	144	138	143	161
Total production	**413,557**	**371,705**	**315,133**	**299,123**
Total average daily production	**4,495**	**4,040**	**3,463**	**3,287**



missioned during the year with on-going fine tuning. Production rates have varied, driven mainly by the test programme, transport and facility capacity of the Early Production System as well as work to finalise and integrate the production facility and export pipeline. Production from Oman accounts for 97% of total production.

The terms of the Exploration and Production Sharing Agreement ("EPSA") on Blocks 3 & 4 in Oman allows the joint venture partners to recover their costs up to 40 percent of the value of total oil production, this is referred to as cost oil. After deducting any allowance for cost oil, the remaining production is split 80/20 between the government and the joint venture partners. If there is no cost oil to be recovered the joint venture partners receive after government take 20 percent of the oil produced. The terms of the EPSA thus result in the Joint venture partners' share of production after government take in the interval 20–52 percent, depending on available recoverable cost. So far on Blocks 3 & 4, the joint venture share of production after government take has been in the high end of the interval, 52 percent, as commercial production relatively recently commenced and large investments have been made. The estimated recoverable costs as per 31 December 2012, net to Tethys Oil, amounts to MUSD 89.

Production from Gargzdai licence in western Lithuania has gradually decreased during the period. Tethys Oil's interest in Gargzdai is held indirectly through Odin Energi A/S, an associated Danish company.

Net sales

During 2012, Tethys Oil sold 776,248 (147,228 for same period last year) barrels of oil after government take from Blocks 3 & 4 in Oman. This resulted in net sales during 2012 of MSEK 584 (MSEK 104). The average selling price per barrel during the year amounted to USD 110 per barrel (USD 107 per barrel).

Net sales have gradually increased since production and selling oil commenced on Blocks 3 & 4 in 2010 (see table below). Investments in production wells and capacity and infrastructure on Blocks 3 & 4 have created this growth in production and sales.

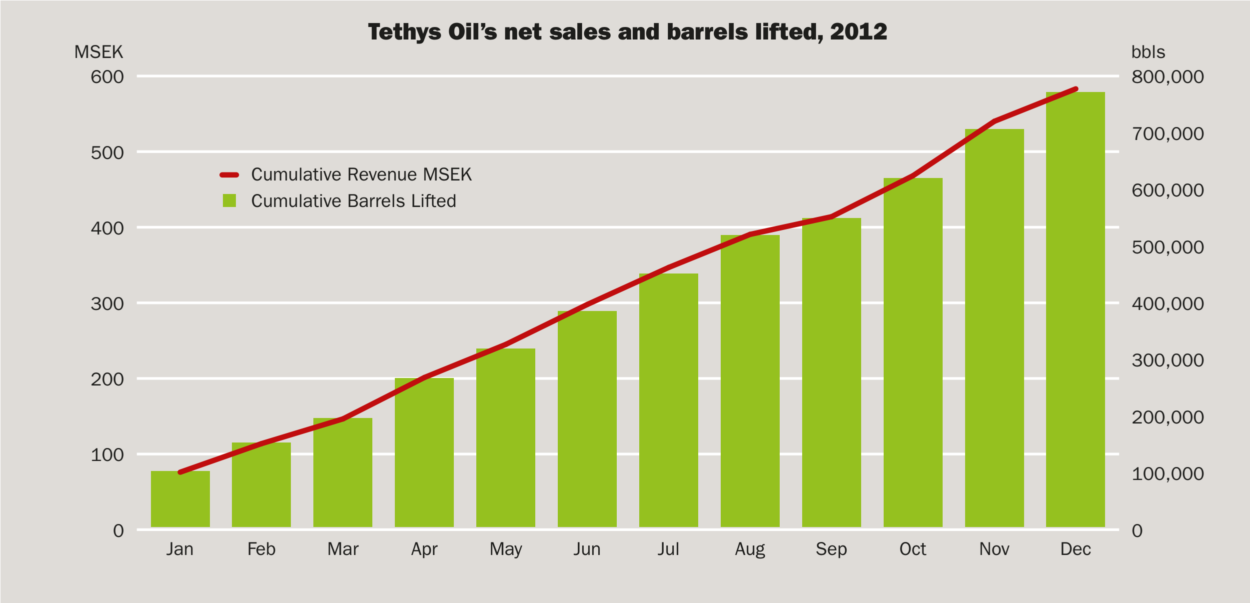
The selling price received by Tethys Oil is determined for each calendar month based on the monthly average prices of the two month future price of Omani blend (see chart below). The Omani blend and hence Tethys Oil's achieved oil price is therefore typically priced with a two month lag to spot prices. During 2012, prices have been trading between high levels of USD 125 per barrel and low levels of USD 90 per barrel.

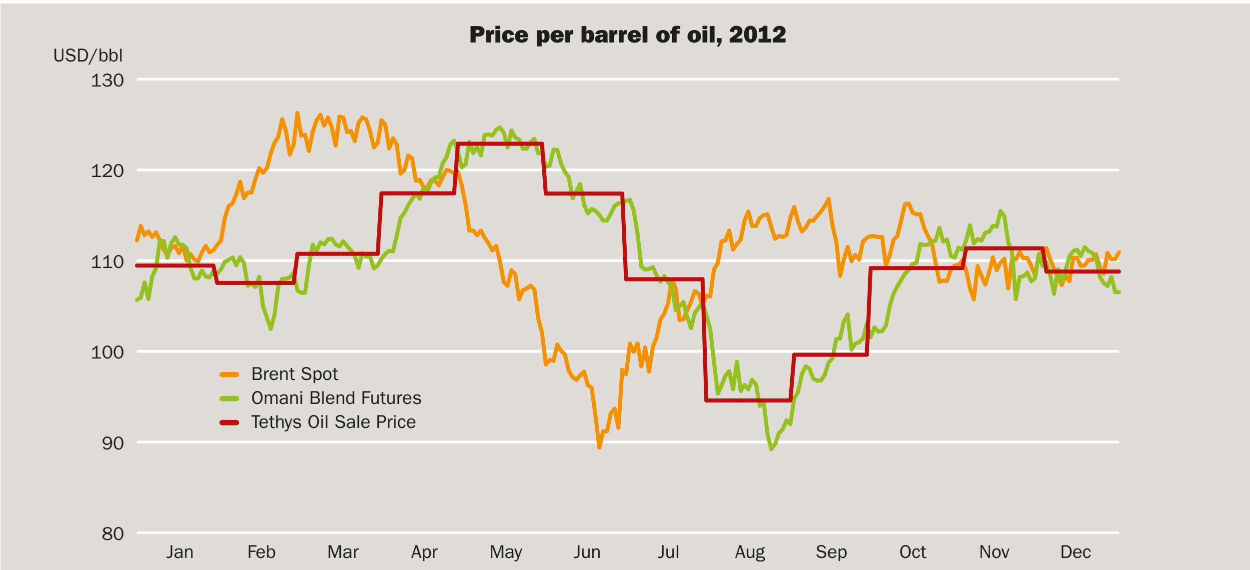
Result

Tethys Oil reports a net result after tax for the year 2012 of MSEK 314 (MSEK 69), representing earnings per share of SEK 9.11 (SEK 2.12) for the year. Compared with last year the financial development fundamentally reflects the underlying growth in production and sales. The result for the year has significantly been impacted by:

- exploration costs of oil and gas properties of MSEK 118 mainly regarding JAS-2 related expenditures on Block 15 in Oman and unconventional hydrocarbon projects in France.
- an additional lifting, originally scheduled for December 2011 (which regarded production from December 2011) but conducted in early January 2012, giving the full year 2012 a one-off additional sales amounting to MSEK 38.

The exploration costs relating to Block 15 in Oman, amounting to MSEK 98, were a consequence of the production test of JAS-2 conducted in the first quarter 2012 and evaluations following the results of the test. The evaluation concluded that the JAS-2 well most likely cannot be put in production and therefore Tethys Oil has elected to expense all costs related to this well. Expenditures related to the well JAS-1 remains capitalised pending a long term production test expected to commence in 2013. Production tests previously made indicated





Source: Platts, Dubai Merchantile Exchange

that JAS-1 can be economically developed. Exploration costs related to oil and gas projects in France, amount to MSEK 18. The reason to expense these costs relate to uncertainty as to when Tethys Oil's projects in France can be undertaken and conducted.

The January 2012 agreement relating to the acquisition of interests in Lithuania entailed a transfer of shares to Tethys Oil. This share transfer was executed in December 2012, and the accounting impact of this transfer is that Tethys Oil's investment in the Lithuanian producing asset Gargzdai was converted from a long term receivable to shares in associated company Odin Energi. Odin Energi holds shares in the Lithuanian company Minijos Nafta. The conversion furthermore entails that in December 2012, Tethys Oil will reflect its share in the results from Lithuanian production licence (including production and reserves) effective from 1 January 2012. Furthermore, in May 2012 Tethys Oil received MSEK 17 as return from the Lithuanian producing asset Gargzdai. The return on investments was received as dividend from the Lithuanian company Minijos Nafta for the 2011 financial year. Tethys Oil furthermore holds indirect interest in the Lithuanian licences Rietavas and Raseiniai. Chevron Corporation farmed in to the Rietavas licence during October 2012. Tethys Oil holds a share in these licences through the associated company Jylland Olie. Total result from Tethys Oil's shares in associated companies Odin Energi and Jylland Olie amounted to MSEK 49.

The result for the full year 2012 has been impacted by net foreign exchange losses and interest on long term debt. The currency exchange effect of the group amounts to MSEK -9 and most of the effect relates to the weaker US dollar in relation to the Swedish krona. Currency translation differences between the parent

Summary of oil and gas interests (MSEK)

Tethys Oil has interests in licences in Oman, Lithuania, France and Sweden.

Country	Licence name	Tethys Oil, %	Total area, km²	Partners (operator in bold)	Book value 31 Dec 2012	Book value 31 Dec 2011	Investments Jan–Dec 2012
Oman	Block 15	40%	1,389	**Odin Energy,** Tethys Oil	27	114	11
Oman	Block 3,4	30%	34,610	**CCED,** Mitsui, Tethys Oil	890	74	861
France	Attila	40%	1,986	**Galli Coz,** Tethys Oil	–	10	0
France	Alès	37.5%	215	**Tethys Oil,** MouvOil	–	6	2
Sweden	Gotland Större (incl. Gotland Mindre)	100%	581	**Tethys Oil**	2	2	0
Lithuania	Gargzdai[4]	25%	884	Odin Energi, GeoNafta, Tethys Oil	–	–	–
Lithuania	Rietavas[4]	14%	1,594	Chevron, Odin, Tethys Oil, private investors	–	–	–
Lithuania	Raseiniai[4]	26%	1,535	Odin, Tethys Oil, private investors	–	–	–
New ventures					0	1	1
Total			**42,794**		**919**	**207**	**875**

4 The interest in the three Lithuanian licences are indirectly held through a shareholding in two Danish private companies, which in turn hold shares in Lithuanian companies holding 100 percent of the licences. The two Danish companies, Odin Energi and Jylland Olie, are not consolidated in Tethys Oils financial statements due to the ownership structure, which is why there are no oil and gas properties related to the licences. The ownership of Jylland Olie and Odin Energi are presented in the balance sheet under Shares in associated companies.
Regarding licences Rietavas and Raseiniai, the two Lithuanian holding companies are undergoing reconstruction. Presented in the table is the indirect ownership expected after the reconstruction. As per 31 December 2012 the indirect ownership was 11 percent and 21 percent in Rietavas and Raseiniai respectively.

company and subsidiaries are non-cash related items. Interest on long term debt amounted to MSEK 12. The currency exchange effect and interest on long term debt is part of net financial result amounting to MSEK -22 during 2012.

Cash flow from operations before changes in working capital during 2012 amounted to MSEK 467 (MSEK 91).

Depletion, depreciation and amortisation during 2012 amounted to MSEK 55 (–). The company considers the conditions for applying depletion on Blocks 3 & 4 oil and gas properties under the accounting principles to have been met as of 1 January 2012.

Operating expenses (OPEX) amounted during 2012 to MSEK 96 (–). Operating expenses are directly related to oil and gas production on Blocks 3 & 4 in Oman, for example expenses for trucking, tariffs, supervision and administration etc. Due to an overlift position as per 31 December 2012 amounting to 609 barrels, the Operating expenses during 2012 have been increased by MSEK 0.5. The company considers the conditions for presenting Operating expenses in the Income statement, as opposed to capitalizing OPEX as oil and gas properties in the balance sheet, under the accounting principles to have been met as of 1 January 2012. Operating expenditures per barrel has decreased during the year. The decrease is a consequence of higher production as well as moving from the Early production system to the Permanent production system.

Administrative expenses amounted to MSEK 28 (MSEK 20) in 2012. Administrative expenses are mainly salaries, rents, listing costs and outside services. The administrative expenditures during 2012 are higher compared with same period last year due to increased activity and more employees. Part of the administrative expenses are capitalised in the subsidiaries and if Tethys is the operator these expenses are funded by partners. In the consolidated income statement these internal transactions are eliminated.

Oil and gas properties

Oil and gas properties as per 31 December 2012 amounted to MSEK 919 (MSEK 207). Investments in oil and gas properties of MSEK 875 (MSEK 44) were incurred during 2012.

Currency exchange effects

The book value of oil and gas properties includes currency exchange effects of MSEK 13 during 2012, which are not cash related items and therefore not included in investments. For more information please see above under Result.

Reserves and resources

Tethys Oil's net working interest reserves in Oman as per December 31, 2012, amounts to 14.3 million barrels of oil ("mmbo") of proven and probable reserves. The reserves have been audited by independent petroleum consultant DeGolyer and MacNaughton. Tethys Oil's reserves amounted on this date to 5.3 million barrels of oil of proven reserves 1P, 14.3 million barrels 2P and 18.7 million barrels 3P.

Reserves, million barrels of oil (December 31, 2012)

	1P	2P	3P
Farha South	4.2	12.5	15.7
Saiwan East	0.9	1.4	2.5
B4EW3 discovery	0.2	0.4	0.5
Total	**5.3**	**14.3**	**18.7**

Review of operations

Oman

Blocks 3 & 4

During 2012, investments amounting to MSEK 861 were made in Blocks 3 & 4.

Of the total investment amount, MSEK 480 consists of new investments in the blocks and the remaining MSEK 381 (MUSD 58) emanate from that part of investments previously made by Mitsui on Tethys Oil's behalf under the Carry agreement (see below) and was recovered by Mitsui during the twelve month period from Tethys Oil's share of cost recovery oil entitlement.

Tethys Oil's share of the Blocks 3 & 4 joint venture 2012 budget originally amounted to MSEK 430 and was revised during the fourth quarter 2012 to MSEK 550. The increase was primarily due to additional seismic acquisitions and production facilities. Note that the budget regards both OPEX and CAPEX. During the twelve month period MSEK 575 has been spent of Tethys Oil's share of the budget, of which MSEK 480 is attributable to CAPEX and MSEK 96 is attributable to OPEX. Actual expenditures have been higher than budget due to higher OPEX than anticipated mainly due to a longer period of overlapping productions systems (both EPS and PPS).

Of the CAPEX investments of MSEK 480 made by Tethys Oil during the twelve months period, around two thirds has been spent on production facilities and infrastructure and around one third of the remaining CAPEX has been spent on production/water injection wells. Work related to the production facilities and infrastructure has been completed during 2012 and has led to a permanent production system which is to fully replace the early production system that has been in use since 2010. Towards the end of 2012, both the newly commissioned permanent facilities as well as parts of the early production system have been utilized. The use of both systems is expected to continue during the fine tuning of the permanent facilities. In total, 37 wells were completed on the Blocks in 2012. 35 of these were drilled on Block 3 and two were drilled on Block 4. At the Farha South oil field on Block 3, 10 wells were drilled into the reservoir of a previously undrilled fault block resulting in the discovery of eight new oil bearing blocks. 19 production wells were drilled and completed in previously drilled blocks to increase production and six water injection wells was drilled and completed. As at 31 December 2012, a total of 15 fault blocks are in production on the Farha South Field. On Block 4, one production well and one exploration well were drilled.

In December 2012, the Ministry of Oil and Gas of the Sultanate of Oman approved the Field Development Plan for Blocks 3 & 4, and consequently the declaration of commerciality where the Exploration and Production (EPSA) term of Blocks 3 & 4 is extended for a period of 30 years from the deemed discovery date of July 20, 2010.

Block 15

The field work on Block 15 will be intensified in 2013, with the main focus to put the JAS-1 well in an extended production test during the first half of the year. JAS-1 flowed gas and condensate when tested in 2007. An extension of the previous 3D seismic survey on the license is also planned. The survey has been postponed until JAS-1 is in production.

Lithuania

In January 2012, Tethys announced the acquisition of indirect interests in Lithuania. Part of the transaction was completed directly and part of the transaction was completed in December 2012 following a restructuring process. Tethys' interests in three Lithuanian licences, as per 31 December 2012 directly owned by three different Lithuanian companies, are held indirectly through shareholdings in two Danish companies, which are part of the Odin group. The two Danish companies, where Tethys Oil's interest is 50 percent and 40 percent[5] of the shares respectively, are not consolidated in Tethys Oil's financial accounts but treated as associated companies.

Tethys indirect interest in the three Lithuanian companies holding the three licences are:

- 25 percent in UAB Minijos Nafta ("MN") holding the Gargzdai licence
- 14 percent in UAB LL Investicos ("LLI") holding the Rietavas licence[6]
- 26 percent in UAB TAN Oil ("TAN") holding the Raseiniai licence[6]

Gargzdai licence

The Skomantai-1 exploration well on the Gargzdai licence was drilled in the summer 2012 with the objectives to explore a previously undrilled oil prospect in the Cambrian sandstone and to evaluate the thick shale section for unconventional hydrocarbon potential. Oil was present in the Cambrian prospect, but porosity was found to be insufficient to produce commercial quantities of oil. An extensive data gathering was carried out on the shale section. Electric logs were recorded. Seven cores with a total combined length of 63 metres were taken and have been analysed. The analysis confirms sufficiently high energy content to warrant continued shale gas investigations also on the Gargzdai licence. The well has been suspended to allow for future work on the shale section.

The 2013 work programme on Gargzdai licence aims at stabilizing production, and additional exploration may be carried out in the second half of the year.

Rietavas licence

In October 2012, Tethys Oil's affiliate Jylland Olie Aps, part of the Danish Odin Group participated in a farmout to Chevron Corporation relating to the Rietavas license. Following the transaction, Tethys Oil's indirect interest in the license will be reduced from 20 percent to 14 percent in exchange for a cash consideration and a comprehensive work programme. Chevron has further obtained an option to acquire additional

5 Tethys Oil's interest in Jylland Olie is as per 31 December 2012 amounting to 42 percent but will after a reconstruction of Jylland Olie amount to 40 percent.

6 Tethys Oil's interest in Rietavas and Raseiniai licences are undergoing a reconstruction. Indirect interests of 14 and 26 percent respectively are expected after the reconstruction has been effectuated. The indirect interests as per 31 December 2012 are 11 and 21 percent respectively in Rietavas and Raseiniai licences.

interest in the Rietavas license at a predetermined price, to be exercised within three years. Should the option be exercised, Tethys Oil's indirect interest in the Rietavas license will be reduced to 5.6 percent.

The 2013 work programme on the Rietavas license is expected to commence by mid-year. The work programme, to be fully funded by Chevron, is primarily designed to evaluate the license for shale gas/oil potential.

Raseiniai licences

On the Raseiniai license, the work with compiling old data, mainly from the Soviet era, continues. An old discovery, made in the 80s, is planned to be re-drilled later in the second quarter 2013.

France

On the French licences, the work programmes have been delayed at the request of the government. It is unclear when the work programme could be resumed.

Sweden

Gotland

A soil sampling survey was performed on some known reefal prospects that have been identified on existing seismic lines within our license area. The results of the survey were encouraging. Tethys is investigating the possibility to conduct exploratory drilling operations on 10 potential locations. Tethys has contracted an external consultant to survey and produce an Environmental Impact Assessment for the 10 potential locations.

Liquidity and financing

Cash and cash equivalents as at 31 December 2012 amounted to MSEK 248 (MSEK 93).

The increase in liquidity is largely due to external financing. During the twelve month period ended 31 December 2012 Tethys Oil has finalised both a share issue and a bond issue.

- The share issue was conducted as two private placements in May and June 2012 and regarded 3,000,000 shares in total. The private placements were made at SEK 40 per share, which corresponded to approximately 7 percent discount to the volume weighted average share price the last trading day before the private placements. Proceeds from the share issue amounted to MSEK 120 before issue costs.
- The bond issue, raising MSEK 400 before issue costs, was conducted in September 2012 and is a three year senior secured loan with a fixed interest rate of 9.50 percent per year. The maturity date of the bonds is 7 September 2015. The bonds are listed on NASDAQ OMX Stockholm (ISIN number SE0004808129).

The need for external financing has been driven by the development program of Blocks 3 & 4 in Oman. In parallel to an Early Production System, which commenced in 2010, Tethys Oil and partners have invested in further appraisal and development of Blocks 3 & 4. The development programme, by which the Early Production System is replaced by a Permanent Production System, has included the drilling of production wells as well as building and commissioning infrastructure and facilities.

Tethys Oil's total investments in oil and gas assets during twelve months 2012 amounted to MSEK 875, where Blocks 3 & 4 accounted for 98 percent.

During 2010 and 2011, Tethys Oil's share of investments in Blocks 3 & 4 were paid by Mitsui under the carry agreement and did not affect Tethys Oil's cash position. The agreement with Mitsui was made in 2010, whereby Mitsui acquired 20 percentage points in Blocks 3 & 4 onshore Oman. Apart from a cash consideration, Mitsui undertook to pay Tethys Oil's share of non-exploration related capital expenditure up to MUSD 60 on Blocks 3 & 4 effectively from 1 January 2010. As per 31 December 2011, Mitsui had fulfilled the undertaking and additional investments relating to Tethys Oil's share in Blocks 3 & 4 must be paid by Tethys Oil directly.

Also pursuant to the carry agreement, Mitsui has since the first quarter 2012 started to recover the MUSD 60 paid on behalf of Tethys Oil from the proceeds of Tethys Oil's share of cost recovery oil entitlement. Under the carry agreement, Tethys Oil will allocate its entire share of cost recovery entitlement to Mitsui until the full MUSD 60 has been recovered by Mitsui. The allocated cost recovery to Mitsui will be treated as investments in oil and gas properties, thereby creating a result effect over a longer period of time through depletion. During the full year 2012, the amount received by Mitsui from Tethys Oil's cost recovery entitlement amounted to MUSD 58. The remaining cost recovery entitlement to be allocated to Mitsui (MUSD 2 as of 31 December 2012) is presented as a contingent liability. In January 2013 the final balance of MUSD 2 was allocated to Mitsui.

Further under the carry agreement, Mitsui would pay to Tethys Oil a bonus amounting to MUSD 10 when commercial production commenced and exceeded 10,000 bopd for 30 consecutive days. Following the approval of the Field Development Plan ("FDP") and declaration of commerciality in December 2012 and 30 consecutive days of production above the threshold rate, Tethys Oil received the bonus payment in February 2013 after the reporting period.

The high level of investments on Blocks 3 & 4 will continue, with a main focus on exploration and a water injection programme to enhance production. Tethys Oil's share of the total Joint Venture investment budget for 2013 on Blocks 3 & 4 amounts to around MSEK 300. The investment budget is expected to be fully financed by cash flow from operations once Tethys Oil starts receiving cost oil (i.e. the full amount of MUSD 60 has been recovered by Mitsui), which happened after the reporting period, in January 2013.

Tethys Oil's operations in Lithuania is expected to continue to be self-financed from oil production on the Gargzdai licence and financed by Chevron on the Rietavas licence.

A large part of cash and cash equivalents are kept in USD which has depreciated against SEK during the reporting period. The currency exchange effect on cash and cash equivalents amounted during 2012 to MSEK -1.

Financial assets

Tethys Oil's interests in three Lithuanian licences are held through two private Danish companies. For more information regarding the ownership structure, please refer to page 36 above and note 6. As per 31 December 2012 the shareholding in the two associated Danish companies, Odin Energi and Jylland Olie, amounted to MSEK 188.

Tethys Oil's share of net profit during the full year 2012 from Odin Energi, which indirectly holds the production licence Gargzdai, amounted to MSEK 23, which also include the dividend relating to the financial year 2011 of MSEK 17 received in May 2012. During 2012 53,664 barrels were sold (Tethys Oil's indirect share) at an average price of USD 109 per barrel. Tethys Oil expects part of the cash flow from Gargzdai to be distributed to Odin Energi and thereafter to Tethys Oil in form of a dividend.

Tethys Oil's share of net profit during the full year 2012 from Jylland Olie, indirectly holding the licences Rietavas and Raseiniai, amounted to MSEK 26. Almost all of the result from Jylland Olie is financial income and was generated through the farmout of the Rietavas licence to Chevron Corporation. Tethys Oil expects that all cash flow from Rietavas and Raseiniai be reinvested in the licences and not distributed to Jylland Olie and Tethys Oil.

Parent company

The Parent company reports a net result after tax for 2012 amounting to MSEK -83 (MSEK -15). The result for the year has been significantly impacted by write downs of shares in subsidiaries. The write downs amounted to MSEK 157 and are a consequence of the write downs of oil and gas properties made in the group during the reporting period. The write downs of oil and gas properties regard Block 15 and expenditures relating to the well JAS-2 in particular and all projects in France. Administrative expenses amounted to MSEK 12 (MSEK 11) during 2012. Net financial result amounted to MSEK -123 (MSEK -7) during 2012. Write downs of shares in subsidiaries are part of net financial result. The weaker US dollar has had a negative impact on net financial result during 2012. The exchange rate losses regard translation differences and are non-cash related. Investments during 2012 amounted to MSEK 535 (MSEK 48). 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.

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 or PSA). 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 and Blocks 3 & 4 in Oman for the current period. 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.

Subsequent events

- In January 2013 Mitsui made the final recovery of carry of MUSD 2 from Tethys Oil's share of cost oil and in February 2013 paid Tethys Oil a bonus payment of MUSD 10
- In February 2013 Tethys Oil announced its first reserves in Oman and the company's net working interest reserves in Oman as per 31 December 2012, amounting to 14.3 million barrels of oil of proven and probable reserves. The reserves were audited by independent petroleum consultant DeGolyer and MacNaughton

Derivative financial instruments

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

Board of Directors

At the Annual General Meeting of shareholders on 16 May 2012 Håkan Ehrenblad, Vincent Hamilton, John Hoey, Magnus Nordin and Jan Risberg were re-elected members of the Board. Katherine Støvring and Staffan Knafve were elected as new directors. 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 thirteen meetings during 2012. Most importantly the Board has adopted the interim reports of the year as well as the budget of 2013. Following Vincent Hamilton's resignation as Chief Operating Officer, the seven board members consist of one executive and six non-executive directors. Since November 2012, Vincent Hamilton has acted only as Chairman of the Board. The other five non-executive directors are also members of the Audit committee which had 5 meetings during 2012. Chairman of the Audit committee is Jan Risberg. Furthermore, the five non-executive directors are also members of the Remuneration committee, where Jan Risberg also is Chairman.

Remuneration to executive management

The intention of the Board of Directors is to propose to the 2013 AGM the adoption of a Policy on Remuneration for 2013. The

Remuneration Committee has adopted a policy that fundamentally will be the proposition to the 2013 AGM, containing the following elements of remuneration for the executive management; basic salary; pension arrangements; yearly variable salary; non-financial benefits.

For a detailed description on Remuneration applied in 2012 and Policy on Remuneration as adopted by the Remuneration Committee, refer to page 24 of the Corporate Governance report and note 14 of the consolidated financial statements.

Organisation

At the end of the year, Tethys Oil had a total of 19 (12) employees. Of these, 5 (4) were women. In addition, contractors and consultants are engaged in Tethys Oil's operations.

Tethys grows and develops, and is making organizational changes accordingly. Vincent Hamilton will concentrate on his duties as chairman of the board, and has resigned as Chief Operating Officer. The technical team in Oman will be strengthened, and Fredrik Robelius will assume the position of Technical manager.

The environment

All oil and gas related operations impact the environment and therefore entail risk. Directly or indirectly through joint venture operations, the Group complies with the environmental legislation and regulations applicable in each country. Areas which are normally regulated include air pollution, discharges to watercourses, water use, handling of hazardous substances and waste, land and groundwater contamination, and restoration of the environment around the facilities after operations have ceased. Directly and indirectly through joint venture partnerships, Tethys Oil strives to minimise the environmental impact and avoid the occurrence of accidents.

For more information, see the section Corporate Social Responsibility.

Group structure

Tethys Oil AB (publ), with organizational number 556615-8266, is the parent company in the Tethys Oil Group. The wholly owned subsidiaries Tethys Oil Oman Limited, Tethys Oil Blocks 3 & 4 Limited, 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., Tethys Oil Exploration AB, Tethys Oil Canada Ltd and Tethys Oil Middle East North Africa BV are part of the group. The Tethys Oil Group was established 1 October 2003.

Share data

As per 31 December 2012, the number of outstanding shares in Tethys Oil amount to 35,543,750 (32,543,750), 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 for employees.

As described above, Tethys Oil conducted in May 2012 two private placements of 3,000,000 shares in total. The shares from the private placements were registered in May and June 2012. The two private placements were made based on an authorization from the AGM 2012.

Risk and uncertainties

A statement of risks and uncertainties are presented in note 1, page 54.

Dividend

The 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 204,402,132 of which the loss for the year, SEK 82,793,469, be brought forward.

Financial statements

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, statement of changes in equityand related notes. Balance sheet and income statement will be resolved at the Annual General Meeting, 22 May 2013.

Consolidated statement of comprehensive income

TSEK	Note	2012	2011
Net sales of oil and gas	3, 4	583,990	103,538
Depreciation, depletion and amortisation	3, 9	-55,385	-693
Exploration costs	3, 9	-117,521	–
Other income	3, 5	56	13
Operating expenditures	10	-95,518	–
Net profit/loss from associates	6	49,043	–
Other losses/gains, net	3, 11	-42	-52
Administrative expenses	12–14	-28,323	-19,750
Operating result		**336,300**	**83,057**
Financial income and similar items	15	14,673	2,339
Financial expenses and similar items	16	-36,798	-16,281
Net financial result		**-22,125**	**-13,943**
Result before tax		**314,175**	**69,114**
Income tax	17	-213	-123
Result for the year		**313,962**	**68,991**
Other comprehensive income			
Currency translation differences		-23,630	4,785
Other comprehensive income for the year		**-23,630**	**4,785**
Total comprehensive income for the year		**290,332**	**73,776**
Number of shares outstanding	20	35,543,750	32,543,750
Number of shares outstanding (after dilution)	20	35,543,750	32,543,750
Weighted number of shares	20	34,464,515	32,520,596
Earnings per share, SEK	20	9.11	2.12
Earnings per share (after dilution), SEK	20	9.11	2.12

Consolidated balance sheet

TSEK	Note	31 Dec 2012	31 Dec 2011
ASSETS			
Non current assets			
Oil and gas properties	9	919,523	206,651
Office equipment	18	2,086	2,298
Other long term receivables	7	–	136,278
Investment in associates	6	188,161	23,951
		1,109,770	**369,178**
Current assets			
Other receivables	19	14,618	1,971
Prepaid expenses		1,812	608
Cash and cash equivalents		248,038	93,105
		264,467	**95,685**
TOTAL ASSETS		**1,374,237**	**464,862**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	20		
Share capital		5,924	5,424
Additional paid in capital		552,060	438,329
Other reserves		-26,585	-2,955
Retained earnings		328,723	14,761
Total shareholders' equity		**860,122**	**455,559**
Non current liabilities			
Debt	21	388,862	–
Provisions	8	28,279	1,705
		417,141	**1,705**
Current liabilities			
Accounts payable		684	2,226
Other current liabilities		12,762	4,114
Accrued expenses	22	83,529	1,258
		96,975	**7,598**
Total liabilities		**514,116**	**9,303**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**1,374,237**	**464,862**
Pledged assets	25	625,683	500
Contingent liabilities	26	15,648	–

Consolidated statement of changes in equity

TSEK	Share capital	Paid in capital	Other reserves	Retained earnings	Total equity
Opening balance 1 January 2011	**5,417**	**436,608**	**-7,739**	**-54,231**	**380,055**
Comprehensive income					
Result for the year	–	–	–	68,991	**68,991**
Result for the year	**–**	**–**	**–**	**68,991**	**68,991**
Other Comprehensive income					
Currency translation differences 2011	–	–	4,785	–	**4,785**
Total other comprehensive income	**–**	**–**	**4,785**	**–**	**4,785**
Total comprehensive income	**–**	**–**	**4,785**	**68,991**	**73,776**
Transactions with owners					
Share issue in kind June	7	1,721	–	–	**1,728**
Total transactions with owners	**7**	**1,721**	**–**	**–**	**1,728**
Closing balance 31 December 2011	**5,424**	**438,329**	**-2,955**	**14,761**	**455,559**
Opening balance 1 January 2012	**5,424**	**438,329**	**-2,955**	**14,761**	**455,559**
Comprehensive income					
Result for the year	–	–	–	313,962	**313,962**
Result for the year	**–**	**–**	**–**	**313,962**	**313,962**
Other Comprehensive income					
Currency translation differences 2012	–	–	-23,630	–	**-23,630**
Total other comprehensive income	**–**	**–**	**-23,630**	**–**	**-23,630**
Total comprehensive income	**–**	**–**	**-23,630**	**313,962**	**290,332**
Transactions with owners					
Share issue in June	500	119,500	–	–	**120,000**
Issue costs	–	-5,769	–	–	**-5,769**
Total transactions with owners	**500**	**113,819**	**–**	**–**	**114,319**
Closing balance 31 December 2012	**5,924**	**552,060**	**-26,585**	**328,723**	**860,122**

Consolidated cash flow statement

TSEK	Note	1 Jan 2012 – 31 Dec 2012	1 Jan 2011 – 31 Dec 2011
Cash flow from operations			
Operating result		336,300	83,057
Interest received	15	550	62
Income tax	17	-213	-123
Adjustment for exploration costs	9	117,521	–
Adjustment for depletion, depreciation and amortisation and other non cash related items	9, 18	12,830	8,281
Total cash flow from operations before change in working capital		**466,988**	**91,277**
Change in receivables		-13,850	18,743
Change in liabilities		76,710	3,584
Cash flow from operations		**529,847**	**113,604**
Investment activity			
Investment in oil and gas properties	9	-493,364	-44,375
Oil and gas properties from cost oil repayment	27	-381,240	–
Investment in associated companies		–	-23,951
Investment in long term receivables		–	-139,175
Investment in other fixed assets	18	-697	-891
Cash flow from investment activity		**-875,301**	**-208,392**
Financing activity			
Share issue, net after issue costs	20	114,231	1,727
Bond issue, net after issue costs		387,553	–
Cash flow from financing activity		**501,784**	**1,727**
Cash flow for the year		**156,330**	**-93,061**
Cash and cash equivalents at the beginning of the year		93,105	190,512
Exchange gains/losses on cash and cash equivalents		-1,398	-4,344
Cash and cash equivalents at the end of the year		248,038	93,105

Parent Company income statement

TSEK	Note	1 Jan 2012 – 31 Dec 2012	1 Jan 2011 – 31 Dec 2011
Depreciation and amortisation	18	-110	-169
Other income		2,781	3,236
Net profit/loss from associates		49,043	0
Other losses/gains, net	11	-42	-52
Administrative expenses	12–14	-11,792	-10,333
Operating result		**39,880**	**-7,318**
Financial income and similar items	15	70,362	9,148
Financial expenses and similar items	16	-36,363	-16,270
Write down of shares in group company	23	-156,673	-229
Net financial result		**-122,673**	**-7,351**
Result before tax		**-82,793**	**-14,669**
Income tax	17	–	–
Result for the year *		**-82,793**	**-14,669**
Number of shares outstanding	20	35,543,750	32,543,750
Number of shares outstanding (after dilution)	20	35,543,750	32,543,750
Weighted number of shares	20	34,464,515	32,520,596

* As there are no items in the parent company's other comprehensive income, no separate report on total comprehensive income is presented.

Parent Company balance sheet

TSEK	Note	31 Dec 2012	31 Dec 2011
ASSETS			
Non-current assets			
Other fixed assets	18	104	169
Shares in subsidiaries	23	1,538	26,456
Long term receivables to group companies		372,960	110,423
Investment in associates	6	188,161	23,951
Other long term receivables	7	–	136,278
		562,763	**297,277**
Current assets			
Other receivables	19	519	546
Prepaid expenses		1,866	892
Cash and cash equivalents		187,263	3,943
		189,648	**5,380**
TOTAL ASSETS		**752,411**	**302,657**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	20		
Restricted equity:			
Share capital		5,924	5,424
Statutory reserve		71,071	71,071
Unrestricted equity:			
Share premium reserve		480,989	367,258
Retained earnings		-193,794	-179,124
Result for the year		-82,793	-14,669
Total shareholders' equity		**281,397**	**249,960**
Non current liabilities			
Debt	21	388,862	–
		388,862	**–**
Current liabilities			
Accounts payable		684	2,005
Other current liabilities to group companies		836	50,692
Accrued expenses	22	80,632	–
		82,152	**52,697**
Total liabilities		**471,014**	**52,697**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**752,411**	**302,657**
Pledged assets	25	625,683	500
Contingent liabilities	26	–	–

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 1 January 2011	**5,417**	**71,071**	**365,537**	**-147,221**	**-31,903**	**262,901**
Transfer of prior year net result	–	–	–	-31,903	31,903	**–**
Comprehensive income						
Result for the year 2011	–	–	–	–	-14,669	**-14,669**
Result for the year	**–**	**–**	**–**	**–**	**-14,669**	**-14,669**
Total comprehensive income	**–**	**–**	**–**	**–**	**-14,669**	**-14,669**
Transactions with owners						
Share issue in kind	7	–	1,721	–	–	**1,728**
Total transactions with owners	**7**	**–**	**1,721**	**–**	**–**	**1,728**
Closing balance 31 December 2011	**5,424**	**71,071**	**367,258**	**-179,124**	**-14,669**	**249,960**
Opening balance 1 January 2012	**5,424**	**71,071**	**367,258**	**-179,124**	**-14,669**	**249,960**
Transfer of prior year net result	–	–	–	-14,669	14,669	**–**
Comprehensive income						
Result for the year 2012	–	–	–	–	-82,793	**-82,793**
Result for the year					**-82,793**	**-82,793**
Total comprehensive income	**–**	**–**	**–**	**–**	**-82,793**	**-82,793**
Transactions with owners						
Share issue in June	500	–	119,500	–	–	**120,000**
Issue costs	–	–	-5,769	–	–	**-5,769**
Total transactions with owners	**500**	**–**	**113,819**	**–**	**–**	**114,319**
Closing balance 31 December 2012	**5,924**	**71,071**	**480,989**	**-193,794**	**-82,793**	**281,397**

Parent Company cash flow statement

TSEK	Note	2012	2011
Cash flow from operations			
Operating result		39,880	-7,318
Interest received	15	6,103	7,105
Interest paid	16	0	0
Adjustment for non cash related items	18	22,293	3,067
Total cash flow from operations before change in working capital		**68,276**	**2,854**
Change in receivables		130,859	135,472
Change in liabilities		16,788	852
Cash flow from in operations		**215,923**	**139,178**
Investment activity			
Investment in associates	6	–	23,951
Investment in long term liabilities	7	-535,215	-208,042
Investment in other fixed assets	18	-45	-74
Cash flow from investment activity		**-535,260**	**-184,166**
Financing activity			
Share issue, net after issue costs	20	114,231	1,727
Bond issue, net after issue costs		387,553	–
Cash flow from financing activity		**501,784**	**1,727**
Cash flow for the year		**182,447**	**-43,261**
Cash and cash equivalents at the beginning of the year		3,943	51,517
Exchange gains on cash and cash equivalents		873	-4,313
Cash and cash equivalents at the end of the year		187,263	3,943

Notes

General information

Tethys Oil AB (publ) ("the Company"), corporate identity number 556615-8266, and its subsidiaries (together "the Group" or "Tethys Oil") are focused on exploration for and production of oil and natural gas. The Group has interests in exploration licences in Oman, France, Lithuania 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 16 April 2013.

Accounting principles

The accounting principles applied in the preparation of these consolidated financial statements are set out below. The same accounting principles were used in the Annual report 2011 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 "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 "Accounting for legal entities". RFR 2 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, except in the cases specified below in the section entitled "Parent Company accounting principles".

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.

In preparing the annual report 2012 there have been changes with reference to the labelling and categorisation of items in the financial report. These changes have had an impact on previous annual reports with reference to labelling and categorisation of items. The following changes have been made:

- The previously used item "Write off of oil and gas properties" in the Income statement is name changed to "Exploration costs"
- "Administrative expenditures" in the Income statement previously included depreciation of office equipment. Depreciation of office equipment has been moved to the item "Depreciation, depletion and amortisation" in the Income statement
- Depletion of oil and gas properties is now labelled "Depreciation, depletion and amortisation" in the Income statement
- In the Balance sheet, there were previously three asset categories; Fixed assets, Financial assets and Current assets. These categories is in the Annual report 2012 presented as two categories; Non current assets and current assets. Fixed and financial assets are included in the category Non current assets

The above changes have had no impact on the financial result of the Company.

New accounting principles for 2012

New and amended standards adopted by the Group 2012

None of the new accounting principles or interpretations that came into effect as of January 1, 2012 has had any significant impact on the Group's financial statements.

New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the group, except the following set out below:

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. An analysis of the effects of IFRS 13 is ongoing.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015. The group will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.

IFRS 10, Consolidated financial statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2014.

IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its share of assets, liabilities, revenue and expenses. Joint ventures arise where the joint venture has rights to the net assets of the arrangement and therefore equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The group has made a preliminary assessment of IFRS 11 and the assessment has tentatively showed that the accounting of the group's current joint arrangements will not be affected. IFRS 11 is to be adopted no later than the accounting period beginning on or after 1 January 2014.

IFRS 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2014. There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the group.

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 group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Jointly controlled companies

As stated above, a subsidiary that is controlled by the Group will be fully consolidated within the results of Tethys Oil. Joint control exists when the Group does not have the control to determine the strategic operating, investing and financing policies of a partially owned entity without the co-operations of others. When this is the case the entity is proportionally consolidated.

Jointly controlled assets

Oil and gas operations are conducted by the Group as co-licencees in un-incorporated joint ventures with other companies. The Group's financial statements reflect the relevant proportions of production, capital costs, operating costs and current assets and liabilities of the joint venture applicable to the Group's interests.

Associated companies

An investment in an Associated company is an investment in an undertaking where the Group exercises significant influence but not control, generally accompanying a shareholding of at least 20 percent but not more than 50 percent of the voting rights. Such investments are accounted for in the consolidated financial statements in accordance with the equity method and are initially recognized at cost. The difference between the acquisition cost of shares in an associated company and the net fair value of the assets, liabilities and contingent liabilities of the associated company recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. The Group's share in the post-acquisition results of the associated company is recognised in the income statement and the Group's share in post-acquisition movements in other comprehensive income of the associated company is recognised directly in other comprehensive income of the Group. When the Group's accumulated share of losses in an associated company equals or exceeds its interest in the associated company, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's percentage in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

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 ('functional currency'). The consolidated financial statements are presented in Swedish Kronors (SEK) which is the currency the Group has elected to use as the presentation currency.

Transactions and balances
Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at the balance sheet date and foreign exchange currency differences are recognised in the income statement. Transactions in foreign currencies are translated at exchange rates prevailing at the transaction date. Exchange differences are included in financial income/expenses in the income statement. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the balance sheet rate of exchange.

Presentation currency
The balance sheets and income statements of foreign Group companies are translated for consolidation purposes using the current rate method. All assets and liabilities of the subsidiary companies are translated at the balance sheet date rates of exchange, whereas the income statements are translated at average rates of exchange for the year, except for transactions where it is more relevant to use the rate of the day of the transaction. The translation differences which arise are recorded directly in the foreign currency translation reserve within other comprehensive income. Upon disposal of a foreign operation the translation differences relating to that operation will be transferred from equity to the income statement and included in the result on sale. Translation differences arising from net investments in subsidiaries, used for financing exploration activities, are recorded directly in other comprehensive income.

For the preparation of the financial statements for the reporting period, the following exchange rates have been used.

Currency	2012 Average	2012 Period end	2011 Average	2011 Period end
SEK/CHF	7.38	7.23	7.57	7.36
SEK/DKK	1.18	1.21	–	–
SEK/EUR	8.78	8.75	9.05	8.98
SEK/LTL	2.56	2.62	–	–
SEK/USD	6.82	6.61	6.55	6.84

Segment reporting
Operating segments are based on geographic perspective and reported in a manner consistent with the internal reporting provided to the Executive Management. Information for segments is only disclosed when applicable.

Classification of assets and liabilities
Non-current assets, long-term liabilities and provisions consist for the most part solely of amounts that are expected to be recovered or paid more than twelve months after the balance sheet date. Current assets and current liabilities consist solely of amounts that are expected to be recovered or paid within twelve months after the balance sheet date.

Oil and gas properties Oil and gas properties are initially recorded at historical cost, where it is probable that they will generate future economic benefits. All costs for acquiring concessions, licences or interests in production sharing contracts and for the survey, drilling and development of such interests are capitalised on a field area cost centre basis. This includes capitalisation of decommissioning and restoration costs associated with provisions for asset retirement (see "Provisions"). Oil and gas properties are subsequently carried at cost less accumulated depreciation, depletion and amortisation (including any impairment). Gains and losses on disposals are determined by comparing the proceeds with the carrying amounts of assets sold and are recognised in income.

Routine maintenance and repair costs for producing assets are expensed to the income statement when they occur.

Proceeds from the sale or farm-out of oil and gas concessions in the exploration stage are off set against the related capitalised costs of each cost centre with any excess of net proceeds over all costs capitalised included in the income statement. In the event of a sale in the exploration stage any deficit is included in the income statement.

Oil and gas properties are categorised as either producing or non-producing.

Depreciation, depletion and amortisation
Producing oil and gas properties are depleted on a unit-of-production basis over the proved and probable reserves of the field concerned, except in the case of assets whose useful lives differ from the lifetime of the field, in which case the straight-line method is applied.

In accordance with the unit of production method, net capitalised costs to reporting date, together with anticipated future capital costs for the development of the proved and probable reserves determined at the balance sheet date price levels, are depleted based on the year's production in relation to estimated total proved and probable reserves of oil and gas. Depletion of a field area is charged to the income statement once commercial production commences.

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 categorised as developed or undeveloped. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimates.

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

Exploration costs
Exploration costs relate to non-producing oil and gas properties and are recognised in the income statement when a decision is made not to proceed with an oil and gas project, or when expected future economic benefits of an oil and gas project are less than capitalised costs. No depletion is charged to non-producing oil and gas properties.

Costs related to non-producing oil and gas properties and directly associated with an exploration well are capitalised until the determination of reserves is evaluated. If it is determined that a commercial discovery has not been achieved, these exploration costs are charged to the income statement as exploration costs.

The field will be transferred from the non-production cost pool to the production cost pool within oil and gas properties once commercial production commences, and accounted for as a producing asset.

Impairment

Tethys Oil continuously assesses its producing oil and gas properties for any need for impairment. This is performed in conjunction with each balance sheet date or if there are events or changes in circumstances that indicate that carrying values of assets may not be recoverable. Such indicators include changes in the Group's business plans, relinquished licences, changes in raw materials prices leading to lower revenues and, for oil and gas properties, downward revisions of estimated reserve quantities.

Testing for impairment losses is performed for each cash generating unit, which corresponds to licence right, production sharing agreement or equivalent owned by Tethys Oil. A cash generating unit thus usually corresponds to each acquired asset in each country in which Tethys Oil carries on oil and gas operations. Impairment testing means that the balance sheet item amount for each cash generating unit is compared to the recoverable amount for the assets, which is the higher of the fair value of the assets less sales expenses and the value in use. The value in use of the assets is based on the present value of future cash flows discounted by a discount rate; see also Note 9 under the section Impairment testing. An impairment loss is recorded when an asset's or a cash generating unit's recorded value exceeds the value in use. Impairment losses are charged to the income statement.

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.

Valuation principles financial items

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

Tethys Oil reports a financial asset or a financial liability in the balance sheet when the company becomes a party to the instrument's contractual terms. The company derecognises a financial liability or part thereof when the obligation stated in the relevant contract is fulfilled or otherwise terminated.

Tethys Oil bases the fair value of financial instruments depending on available market data at time of valuation. Data are categorised into three categories; Level 1: quoted prices in active markets. Level 2: valuation based on observable market data. Level 3: valuation techniques incorporating information other than observable market data. The reported value – after any impairment – of accounts receivable and accounts payable is assumed to equate to their fair value, since these entries are short-term in nature.

a) Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss are financial assets held for trading. A financial asset and liabilities are classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets and liabilities in this category are classified as current assets or liabilities if expected to be settled within 12 months; otherwise, they are classified as non-current. Currently the Group does not hold any assets in this category.

Financial assets and liabilities carried at fair value through profit or loss are both initially and subsequently recognised at fair value, and transaction costs are expensed in the income statement.

b) Receivables and other receivables

Receivables and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The group's receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet. Receivables and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Assets are also measured less provision for impairment.

c) Other liabilities

Other liabilities are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. They are included in current liabilities, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current liabilities. Other liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

d) Impairment of financial assets

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement

Fixed assets other than oil and gas

Other tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is based on cost and is calculated on a straight line basis over the estimated economic life of 3 to 5 years for office equipment and other assets.

Additional costs to existing assets are included in the assets' net book value or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

The net book value of any replaced parts is written off. Other additional expenses are deemed to be repair and maintenance costs and are charged to the income statement when they are incurred. The net book value is written down immediately to its recoverable amount when the net book value is higher. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, including offsetting bank overdrafts, short-term deposits, money market funds and commercial paper that have a maturity of three months or less at the date of acquisition.

Equity

Share capital consists of the registered share capital for the Parent Company. Share issue costs associated with the issuance of new equity are treated as a direct reduction of proceeds. Excess contribution in relation to the issuance of shares is accounted for in the item additional paid-in-capital.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until these shares are cancelled or sold. Where these shares are subsequently sold, any consideration received, net of any directly attributable incremental transaction costs and related income tax effects, is included in equity attributable to the Company's equity holders.

The change in fair value of other shares and participations is accounted for in the fair value reserve. Upon the realisation of a change in value, the change in fair value recorded will be transferred to the income statement. The change in fair value of hedging instruments is accounted for in the hedge reserve. Upon settlement of the hedge instrument, the change in fair value remains in other comprehensive income until the hedged item effects the income statement.

The currency translation reserve contains unrealised translation differences due to the conversion of the functional currencies into the presentation currency.

Retained earnings contain the accumulated results attributable to the shareholders of the Parent Company.

Provisions

A provision is reported when the Company has a legal or constructive obligation as a consequence of an event and when it is more likely than not that an outflow of resources is required to settle the obligation and a reliable estimate can be made of the amount. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as financial expense.

On fields where the Group is required to contribute to site restoration costs, a provision is recorded to recognise the future commitment. An asset is created, as part of the oil and gas property, 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 recognises 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. Changes in site restoration costs and reserves are treated prospectively and consistent with the treatment applied upon initial recognition.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised costs using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or a shorter period where appropriate.

Revenue

Revenues from the sale of oil and gas are recognised in the income statement net of royalties in kind or in cash (government take). Sales of oil and gas are recognised upon delivery of products and customer acceptance or on performance of services. Incidental revenues from the production of oil and gas are offset against capitalised costs of the related cost centre until quantities of proven and probable reserves are determined or commercial production has commenced. Service income, generated by providing technical and management services to joint ventures, is recognised as other income. The fiscal regime in the area of operations defines whether royalties are payable in cash or in kind. Royalties payable in cash are accrued in the accounting period in which the liability arises. Royalties taken in kind are subtracted from production for the period to which they relate.

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.

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively. Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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.

Related party transactions

Tethys Oil recognises the following related parties: associated companies, jointly controlled entities, members or the family of the key management personnel or other parties that are partly, directly or indirectly, controlled by key management personnel or of its family or of any individual that controls, or has joint control or significant influence over the entity.

Parent Company accounting principles

The Parent Company has prepared its Annual Report in compliance with Swedish Annual Accounts Act and recommendation RFR 2, Accounting for Legal Entities of the Swedish Financial Reporting Board.

Subsidiaries

Holdings in subsidiaries are recognized in the Parent Company financial statements according to the cost method of accounting. The values of subsidiaries are tested for impairment when there is an indication of a decline in the value.

Taxes

The Parent Company's financial statements recognize untaxed reserves including deferred tax. The consolidated financial statements, however, reclassify untaxed reserves to deferred tax liability and equity.

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

At its current stage of development Tethys Oil is partly commercially producing oil and partly exploring for and appraising undeveloped known oil and/or natural gas accumulations. 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 2012 the group held interest, directly and indirectly, in 8 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 and for how long 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 price

The oil price is of significant importance to Tethys Oil as income and profitability is and will be dependent on prices prevailing from time to time. Significantly lower oil prices will reduce current and expected profitability in projects and can make projects sub economic. 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's has a flexible approach towards oil price hedging, based on an assessment of the benefits of the hedge contract in specific circumstances. Based on analysis of the circumstances Tethys Oil will assess the benefits of forward hedging sales contracts for the purpose of establishing a secured cash flow. If Tethys Oil believes that the hedging contract will provide an enhanced cash flow or if the risk of not being able to meet investment commitments is high, then Tethys Oil may choose to enter into an oil price hedge. For the year ended 31 December 2012, the Group did not enter into oil price hedging contracts.

Net result in financial statements (MSEK)	314	314
Shift in oil price (USD/barrel)	+5	-5
Total effect on net result (MSEK)	**26**	**-26**

Access to equipment

An operational risk factor is access to equipment in Tethys Oil's project. Especially in the drilling/development 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.

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.

Licenses

Tethys Oils direct interests are held through agreements with host countries, for example licenses or production sharing agreements. These agreements are often limited in time and there are no guarantees that the agreements can be extended when a time limit is reached.

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.

Foreign currency risk

The Group is exposed to fluctuations in the foreign exchange markets as fluctuations in exchange rates can negatively affect the operating profit, cash flow and equity. The major proportion of the Group's assets relate to international oil and gas discoveries valued in USD and which generate revenues in USD. During 2012, all of Tethys Oil's oil sales and operative expenditures were denominated in USD. The exchange risk effect the Group by transaction risk and translation risk.

Transaction risk

Transaction exposure arises in the cash flow when invoicing or the costs of invoiced goods and services are not in the local currency. By operating in several countries, Tethys Oil is exposed to fluctuations in a number of currencies. Presented below is the exposure to currencies with reference to items in the financial statements:

Net sales 2012	100 percent in USD
Investments 2012	99 percent in USD
External financing 2012	100 percent in SEK

Tethys Oil does not currently hedge exchange rates. The Group's policy is to hold a large portion of liquidity in USD to reduce the exchange rate risk.

Translation risk

Exchange-rate changes affect the Group in conjunction with the translation of the income statements of foreign subsidiaries to SEK as the Group's operating profit is affected and when net assets in foreign subsidiaries are translated into SEK which can negatively affect the Group's operating profit and statement of financial position. The Group does not hedge its translation exposure and fluctuating currency rates might negatively affect the operating profit and financial position of the Group.

Net result in financial statements (MSEK)	314	314
Shift in SEK/USD	+10%	-10%
Total effect on net result (MSEK)	**39**	**-39**

Equity in financial statements (MSEK)	860	860
Shift in SEK/USD	+10%	-10%
Total effect on equity (MSEK)	**98**	**-98**

Liquidity risks and capital risk

By operating in several countries, Tethys Oil is exposed to fluctuations in a number of currencies. Income is and will also most likely be denominated in foreign currencies, US dollars in particular. Furthermore, Tethys Oil has since inception been equity and debt financed through share and bond issues and also financed by asset divestment. Additional capital could be needed to finance Tethys Oil's future operations and/or for acquisition of additional licences. The main risk is that this need could occur during less favourable market conditions.

In September 2012, Tethys Oil issued a secured three-year bond loan of TSEK 400,000, which run with a fixed interest rate of 9.50 percent per year and the maturity date of the bonds is 7 September 2015. As per the terms and conditions of the bond, the Company shall make semi-annual interest payments, in March and September every year, until the maturity of the bond.

Credit risk

Tethys Oil's policy is to limit credit risk by limiting the counter-parties to major banks and oil trading companies. Tethys Oil is selling all of its oil through Mitsui Energy Trading Singapore which is part of Mitsui & C.o Ltd. As at 31 December 2012 the Group's receivables on oil sales amounted to TSEK 12,589 (TSEK –), this also represent the maximal exposure on accounts receivable. There is no history of default. Cash and cash equivalents are maintained with banks having strong long-term credit ratings. Maximal exposure regarding other financial assets are those presented in the balance sheet.

It is the responsibility of the Board of Directors to overview the Group's capital structure and financial management, approve certain business regarding acquisition, investments, possible lending as well as on-going monitoring exposure to financial risks.

Fall due profile on Tethys Oil's financial liabilities	31 December 2012		31 December 2011	
TSEK	<1 year	1-3 year	<1 year	1-3 year
Interest bearing loans	–	388,862	–	–
Accounts payables and other liabilities	13,446	–	6,340	–
Total	**13,446**	**388,862**	**6,340**	**–**

Fair value

The nominal value of accounts payables, cash and bank and accounts receivables is a fair approximation of those line items. The nominal amount of the bond loan was TSEK 400,000 and issued at a fixed annual interest rate of 9.50 percent and it was trading at 7.97 percent as per 31 December 2012.

IAS 39 valuation categories and related balance sheet items

	2012		
TSEK	Financial assets and liabilities at fair value through profit or loss	Receivables and other receivables	Other liabilities
Other long term receivables	–	–	–
Other receivables	–	14,618	–
Cash and bank	–	248,038	–
Debt	–	–	388,862
Accounts payables	–	–	684
Other current liabilities	–	–	12,762

	2011		
TSEK	Financial assets and liabilities at fair value through profit or loss	Receivables and other receivables	Other liabilities
Other long term receivables	–	136,278	–
Other receivables	–	1,971	–
Cash and bank	–	93,105	–
Debt	–	–	–
Accounts payables	–	–	2,226
Other current liabilities	–	–	4,114

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.

Estimates in oil and gas reserves

The business of the Group is the exploration for, development of and production of oil and gas reserves. Estimates of oil and gas reserves are used in the calculations for impairment tests and accounting for depletion and site restoration. Changes in estimates in oil and gas reserves, resulting in different future production profiles, will affect the discounted cash flows used in impairment testing, the anticipated date of site decommissioning and restoration and the depletion charges in accordance with the unit of production method.

Investments in associated companies

The Group determines if the carrying value for investments in associated companies has suffered any impairment where any objective evidence of impairment exists. This assessment is performed to identify where the carrying value exceeds its recoverable amount. The recoverable amounts have been determined based on value in use calculations. Assessments used in these calculations include judgement of the future cash flows, discount rates and exchange rates.

Site restoration provision

Amounts used in recording a provision for site restoration are estimates based on current legal and constructive requirements and current technology and price levels for the removal of facilities and plugging and abandoning of wells. Due to changes in relation to these items, the future actual cash outflows in relation to the site decommissioning and restoration can be different. To reflect the effects due to changes in legislation, requirements and technology and price levels, the carrying amounts of site restoration provisions are reviewed on a regular basis. The effects of changes in estimates do not give rise to prior year adjustments and are treated prospectively over the estimated remaining commercial reserves of each field. While the Group uses its best estimates and judgement, actual results could differ from these estimates.

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 (note 9). The Group will use its judgement and make assumptions to perform these tests.

Tax

The company has not recorded a deferred tax asset in relation to the tax losses carried forward as there is uncertainty as to if the tax losses may be utilised (note 15)

Events after the balance sheet date

All events up to the date when the financial statements were authorised for issue and which have a material effect in the financial statements have been disclosed.

Note 3, Segment information

The Group's accounting principle for segment describes that operating segments are based on geographic perspective and reported in a manner consistent with the internal reporting provided to the executive management, which is considered to be the chief operating decision maker. Previous years, the company's chief operating decision maker has been considered to be the Board of Directors. There have been no changes to the operating segments due to the change of operating decision maker. The operating result for each segment is presented below.

				Group income statement Jan–Dec 2012				
TSEK	**Dubai**	**France**	**Lithuania**	**Oman**	**Sweden**	**Switzerland**	**Other**	**Total**
Net sales	–	–	–	583,990	–	–	–	**583,990**
Depreciation, depletion and amortisation	–	–	–	-54,508	-110	-580	–	**-55,385**
Exploration costs	–	-17,664	–	-98,223	–	-840	-793	**-117,521**
Other income	56	–	–	–	–	–	–	**56**
Operating expenses	–	–	–	-95,518	–	–	–	**-95,518**
Net profit/loss from associates	–	–	49,043	–	–	–	–	**49,043**
Other losses/gains, net	–	–	–	–	-42	–	–	**-42**
Administrative expenses	-5,004	-1	–	-2,909	-11,792	-8,205	-600	**-28,323**
Operating result	**-4,948**	**-17,665**	**49,043**	**332,832**	**-11,944**	**-9,625**	**-1,393**	**336,300**
Total financial items								**-22,125**
Result before tax								**314,175**
Income tax								**-213**
Result for the year								**313,962**

				Group income statement Jan–Dec 2011				
TSEK	**Dubai**	**France**	**Lithuania**	**Oman**	**Sweden**	**Switzerland**	**Other**	**Total**
Net sales	–	–	–	103,538	–	–	–	103,538
Depreciation, depletion and amortisation	–	–	–	–	-169	-524	–	-693
Exploration costs	–	–	–	–	–	–	–	–
Other income	–	–	–	13	–	–	–	13
Operating expenses	–	–	–	–	–	–	–	–
Net profit/loss from associates	–	–	–	–	–	–	–	–
Other losses/gains, net	–	–	–	–	-52	–	–	-52
Administrative expenses	–	-1	–	-2,909	-10,333	-6,399	-321	-19,750
Operating result	**–**	**-1**	**–**	**101,055**	**-10,754**	**-6,923**	**-321**	**83,057**
Total financial items								**-13,943**
Result before tax								**69,114**
Income tax								**-123**
Result for the year								**68,991**

As per 31 December 2012 (and comparative periods) in Tethys Oil, the only oil producing area is Oman, from which net sales are recorded. Net sales, operating expenses and depletion, which is presented in notes 4, 9 and 10, therefore only relate to Oman and Blocks 3 & 4 in particular.

Regarding Oil and gas properties and Office equipment, segment reporting is provided in note 9 and 18. Please refer to note 3 regarding Credit risk exposure on accounts receivables.

Note 4, Net sales of oil and gas

During 2012, Tethys Oil sold 776,248 (147,228) barrels of oil after government take from the Early Production System and the Permanent Production System on Blocks 3 & 4 in Oman. This resulted in net sales during 2012 of TSEK 583,990 (TSEK 103,538). The average selling price per barrel amounted to USD 110.35 per barrel during 2012 (USD 107.37).

Tethys Oil is selling all of its oil through Mitsui Energy Trading Singapore, which is part of Mitsui & Co Ltd. All oil sales is from Blocks 3 & 4 Oman and are made on a monthly basis.

Note 5, Other income

Parts of the administrative expenses in Tethys Oil are charged to oil and gas projects where the expenditures are capitalised. In case of Tethys Oil being the operator, these administrative expenditures are, through the above, also funded by the partners. The chargeout to the projects where Tethys Oil is operator is presented in the consolidated income statement as Other income. All other internal chargeouts are eliminated in the consolidated financial statements.

Note 6, Associated companies

Tethys Oil holds an indirect interest of three Lithuanian companies holding three licences; Gargzdai, Rietavas and Raseiniai licences. The interest is held through two Danish private companies which are part of the Odin Group of companies, Odin Energi and Jylland Olie. The table below presents the ownership and the result from associates for the full year 2012. During 2011, Tethys Oil did not have any ownership in associated companies.

Tethys Oil AB		**Ownership**		**Ownership**		**Ownership**
					Jylland Olie	42%
	Odin Energi	50%	Jylland Olie	42%[8]	UAB TAN Oil	50%
	UAB Minijos Nafta	50%	UAB TAN Oil	50%	UAB LL Investicos	50%
	Gargzdai licence	**100%**	**Raseiniai licence**	**100%**	**Rietavas licence**	**100%**
Tethys Oil's indirect interest		**25%**		**21%[7]**		**11%[7]**

Tethys Oil's share of profit loss from associates

TSEK	**1 Jan–31 Dec 2012**	**1 Jan–31 Dec 2012**	**1 Jan–31 Dec 2012**
Gross revenue	43,066	–	153
Royalty	-3,553	–	-16
Net revenue	**39,513**	**–**	**137**
Depreciation	-7,117	–	-110
Appraisal/development costs	-8,132	–	–
Operating expenditures	-13,801	–	-919
Administrative expenditures in Lithuanian company	-2,967	-606	-207
Estimated administrative expenditures in Danish company	-206	-87	-87
Operating result	**7,291**	**-693**	**-386**
Financial income	143	30,911	1,132
Financial expenditures	-417	–	-481
Profit before tax	**7,016**	**30,218**	**265**
Tax	-545	-4,530	–
Tethys share of net profit from associates	**6,472**	**25,687**	**265**
Total share of net profit from associates	32,424		
Tethys Oil's share of dividend paid from Minijos Nafta	16,618		
Total adjusted share of net profit from associates	**49,043**		

Note 7, Other long term receivables

Tethys Oil and private Danish oil company Odin Energi signed an Investment Agreement with the aim to enter mutual strategic investments in areas where each of the respective companies has expertise and enjoys a comparative advantage. During 2011, as part of this agreement, Tethys lent MEUR 15.2, equivalent of TSEK 136,278, to Odin. The loan was during 2012 converted into shares in Odin Energi, which is presented in note 6.

Note 8, Provisions

Tethys Oil estimates that Tethys Oil's share of site restoration regarding Blocks 3 & 4 amounts to TSEK 28,279 (TSEK 1,705). As a consequence of this provision, oil and gas properties have increased with an equal amount. The increase in provision mainly reflects site restoration of investments made during 2012 in infrastructure and development.

Note 9, Oil and gas properties

Country	Licence name	Phase	Expiration date	Remaining licence commitments	Tethys Oil, %	Partners (operator in bold)
Oman	Block 15	Exploration	Oct 2014	None	40%	**Odin Energy**, Tethys Oil
Oman	Block 3,4	Production	Jul 2040	None	30%	**CCED**, Mitsui, Tethys Oil
France	Attila	Exploration	2015[8]	None	40%	**Galli Coz**, Tethys Oil
France	Alès	Exploration	2015	MUSD 1.5[9]	37.5%	**Tethys Oil**, MouvOil
Sweden	Gotland Större, Mindre	Exploration	Dec 2013	None	100%	**Tethys Oil**
Lithuania	Gargzdai[10]	Production	No expiration date	None	25%	Odin, GeoNafta, Tethys Oil
Lithuania	Rietavas[10]	Exploration	Sep 2017	MLTL 6.2	14%	Chevron, Odin, Tethys Oil, private investors
Lithuania	Raseiniai[10]	Exploration	Sep 2017	MLTL 6.6	26%	Odin, Tethys Oil, private investors

TSEK	31 Dec 2012	31 Dec 2011
Producing cost pools	889,970	–
Non-producing cost pools	29,553	206,651
Total	**919,523**	**206,651**

Impairment

In Tethys Oil's impairment testing, the company use an oil price of USD 80 per barrel (USD 80) and a discount rate of 10 percent (10 percent). There have been no impairment of assets during the financial year that ended 31 December 2012.

7 Tethys Oil's interest in Jylland Olie amounts as per 31 December 2012 to 42 percent but will after a reconstruction of Jylland Olie amount to 40 percent.
Tethys Oil's interest in Rietavas and Raseiniai licences are undergoing a reconstruction. Indirect interests of 14 respectively 26 percent are expected after the reconstruction has been effectuated. The indirect interests as per 31 December 2012 are 11 respectively 21 percent in Rietavas and Raseiniai licences.

8 In accordance with the licence terms, Tethys Oil has in connection with the licence extension filed a mandatory application of relinquishment of part of the licence which is still pending approval from French authorities.

9 Tethys Oil has a commitment towards the partner MouvOil and the French authorities to pay for seismic and drilling. The work is estimated to amount to MUSD 1.5.

10 The interest in the three Lithuanian licences are indirectly held through a shareholding in two Danish private companies, which in turn hold shares in Lithuanian companies holding 100 percent of the licences. The two Danish companies, Odin Energi and Jylland Olie, are not consolidated in Tethys Oils financial statements due to the ownership structure, which is why there are no oil and gas properties related to the licences. The ownership of Jylland Olie and Odin Energi are presented in the balance sheet under Shares in associated companies. Regarding licences Rietavas and Raseiniai, the two Lithuanian holding companies are undergoing reconstruction. Presented in the table is the indirect ownership expected after the reconstruction. As per 31 December 2012 the indirect ownership was 11 percent and 21 percent in Rietavas and Raseiniai respectively.

TSEK Country	Asset type	Book value 31 Dec 2012	Other non-cash adjustments 1 Jan–31 Dec 2012	Currency exchange diff 1 Jan–31 Dec	DD&A[11] 1 Jan–31 Dec 2012	Exploration costs 1 Jan–31 Dec 2012	Investments 1 Jan–31 Dec 2012	Book value 1 Jan 2012
Oman Blocks 3 & 4	Producing	889,970	26,428[12]	-17,062	-54,508	–	860,646	74,466
Oman Block 15	Non-producing	26,943	–	930	–	-98,223	10,565	113,671
France Attila	Non-producing	–	–	–	–	-10,118	401	9,717
France Alès	Non-producing	–	–	–	–	-7,546	1,620	5,764
Sweden Gotland	Non-producing	2,397	–	–	–	–	197	2,200
New ventures	Non-producing	290	–	–	–	-1,633	1,249	833
Total		**919,523**	**26,428**	**-16,132**	**-54,508**	**-117,521**	**874,604**	**206,651**

TSEK Country	Asset type	Book value 31 Dec 2011	Other non-cash adjustments 1 Jan–31 Dec 2011	Currency exchange diff 1 Jan–31 Dec	DD&A[11] 1 Jan–31 Dec 2011	Exploration costs 1 Jan–31 Dec 2011	Investments 1 Jan–31 Dec 2011	Book value 1 Jan 2011
Oman Blocks 3 & 4	Producing	74,466	1,705[12]	-10,703	–	–	16,890	66,573
Oman Block 15	Non-producing	113,671	–	1,182	–	–	19,807	92,682
France Attila	Non-producing	9,717	–	–	–	–	479	9,238
France Alés	Non-producing	5,764	–	–	–	–	5,764	–
Sweden Gotland	Non-producing	2,200	–	-43	–	–	615	1,628
New ventures	Non-producing	835	–	–	–	–	819	16
Total		**206,651**	**1,705**	**-9,564**	**–**	**–**	**44,375**	**170,135**

Note 10, Operating expenditures

TSEK	Group		Parent	
Operating expenditures	**2012**	**2011**	**2012**	**2011**
General & Administrative	-14,641	–	–	–
Production cost Early Production Facilities	-44,869	–	–	–
Production cost Permanent Production Facilities	-11,409	–	–	–
Well workovers	-1,690	–	–	–
Over- / Underlift	-452	–	–	–
Other	-10,165	–	–	–
Accruals	-12,292	–	–	–
Total	**-95,518**	**–**	**–**	**–**

Note 11, Other losses/gains, net

TSEK	Group		Parent	
Other losses/gains, net	**2012**	**2011**	**2012**	**2011**
Foreign exchange gains	47	33	47	33
Foreign exchange losses	-89	-85	-89	-85
Total	**-42**	**-52**	**-42**	**-52**

Other losses/gains, net are losses and gains relate to payment of receivables and payment invoices and are categorized as operational.

11 Depletion, depreciation and amortisation

12 Other non cash related items regard provision for site restoration.

Note 12, Remuneration to company auditor

TSEK	Group		Parent	
Remuneration to company auditor include:	**2012**	**2011**	**2012**	**2011**
PwC:				
Audit fee	804	650	761	570
Audit-related fees	287	190	287	120
Tax consultation	–	–	–	–
Other	71	–	71	–
Total	**1,162**	**840**	**1,119**	**690**

Note 13, Administrative expenses

TSEK	Group		Parent	
Administrative expenses	**2012**	**2011**	**2012**	**2011**
Personell costs	-15,590	-10,189	-4,282	-4,300
Rent	-2,183	-1,859	-743	-731
Other office costs	-2,073	-2,061	-545	-483
Listing costs	-1,275	-865	-1,275	-865
Costs of external relations	-1,734	-2,218	-1,632	-1,799
Other costs	-5,468	-2,357	-3,315	-2,156
Total	**-28,323**	**-19,750**	**-11,792**	**-10,333**

Note 14, Employees

	2012		2011	
Average number of employees per country	**Total**	**Total men**	**Total**	**Total men**
Parent company				
Sweden	6	3	5	4
Total parent company	**6**	**3**	**5**	**4**
Subsidiary companies in Sweden	**–**	**–**	**–**	**–**
Subsidiary companies foreign				
Oman	4	3	4	3
Switzerland	4	3	3	2
United Arab Emirates	4	3	3	2
Total subsidiary companies foreign	**12**	**9**	**7**	**4**
Total group	**18**	**12**	**12**	**8**

TSEK	2012		2011	
Salaries, other remuneration and social costs	**Salaries, other remuneration**	**Social costs**	**Salaries, other remuneration**	**Social costs**
Parent company				
Sweden	3,321	961	3,320	980
Total parent company	**3,321**	**961**	**3,320**	**980**
Subsidiary companies in Sweden	**–**	**–**	**–**	**–**
Subsidiary companies foreign				
Oman	1,842	–	-1,348	–
Switzerland	5,156	1,215	3,672	862
United Arab Emirates	3,096	–	–	–
Total subsidiary companies foreign	**10,094**	**1,215**	**5,020**	**862**
Total group	**13,415**	**2,176**	**8,340**	**1,842**

TSEK	**2012**		**2011**	
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				
Sweden	1,230	2,091	1,320	1,870
Total parent company	**1,230**	**2,091**	**1,320**	**1,870**
Subsidiary companies in Sweden	**–**	**–**	**–**	**–**
Subsidiary companies foreign				
Oman	–	1,842	–	1,348
Switzerland	2,542	2,614	1,417	2,375
United Arab Emirates	–	3,096	–	–
Total subsidiary companies foreign	**2,542**	**7,552**	**1,417**	**3,723**
Total group	**3,772**	**9,643**	**2,747**	**5,593**

The group currently has 14 full time employees. In November 2012, Vincent Hamilton resigned as Chief Operating Officer to concentrate on his duties as chairman of the board. As per agreement Vincent Hamilton received twelve months payment which is included in the remuneration 2012.

Magnus Nordin as Managing Director and Morgan Sadarangani as Chief Financial Officer are entitled to twelve months payment and nine months payment respectively if the Company terminates their employment. There have furthermore during 2012 been no agreements regarding bonus or variable remuneration for the Managing Director or for the Chief Financial Officer.

In 2012, there are seven members of the Board of directors and two members of the executive management. One woman is a member of the Board of directors and no women is member of the executive management. In 2011, no woman was member of the Board of directors or member of the executive management.

Salaries and other remuneration to management	**Salaries**	**Bonus**	**Benefits**	**Pensions**	**Total 2012**
Vincent Hamilton	2,542	–	–	–	2,542
Magnus Nordin	1,220	–	10	–	1,230
Morgan Sadarangani	826	–	10	30	866
Total	**4,588**	**–**	**20**	**30**	**-4,638**

Salaries and other remuneration to management	Salaries	Bonus	Benefits	Pensions	Total 2011
Vincent Hamilton	1,308	109	–	–	1,417
Magnus Nordin	1,220	100	10	–	1,330
Morgan Sadarangani	826	70	10	30	936
Total	**3,354**	**279**	**20**	**30**	**3,683**

All employees received a one month bonus for performances regarding the financial year 2011.

TSEK **Salaries and other remuneration to board members (in their capacity as board members)**	**Salaries**	**Remuneration**	**Total 2012**	**Total 2011**	**Attendance 2012**
Håkan Ehrenblad	–	100	100	100	13/13
Vincent Hamilton	–	–	–	–	13/13
John Hoey	–	100	100	100	12/13
Staffan Knafve	–	–	–	–	7/7
Magnus Nordin	–	–	–	–	13/13
Jan Risberg	–	150	150	150	13/13
Katherine Støvring	–	–	–	–	7/7
Total	**–**	**350**	**350**	**350**	

At the Annual General Meeting of shareholders on 16 May 2012 Håkan Ehrenblad, Vincent Hamilton, John Hoey, Magnus Nordin and Jan Risberg were re-elected members of the Board. Katherine Støvring and Staffan Knafve were elected as new directors. 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. For the Managing director and for the CFO, the pension costs follow a defined contribution plan.

Principles for remuneration and other terms of employment for management 2013

It is the aim of Tethys Oil to recruit, motivate and retain executives capable of achieving the objectives of the Group, and to encourage and appropriately reward superior performance in a manner that enhances shareholder value. Accordingly, the Group operates a Policy on Remuneration which ensures that there is a clear link to business strategy and a close alignment with shareholder interests, and aims to ensure that executives are rewarded fairly for their contribution to the Group's performance.

The Company's Policy on Remuneration for executives, has been approved by the Remuneration Committee and is described here below. The term "executives" refers to the Managing Director and Chief Financial Officer (CFO).

Remuneration Committee

The Remuneration Committee is to receive information on, and to determine matters regarding the remuneration of Group management. The Committee is responsible for reviewing the Policy on Remuneration and the compensation of executives and for making recommendations thereon to the Board of Directors. The proposed compensation level, criteria for variable salary and other employment terms for the Managing director are submitted by the Remuneration Committee to the Board for approval. For other executives, the Managing director is responsible for proposing appropriate terms of compensation for approval to the Remuneration Committee and for reporting to the Board.

Elements of Remuneration

There are four key elements to the remuneration package of executives in the Group:
1) basic salary;
2) pension arrangements;
3) yearly variable salary;
4) non-financial benefits.

The Remuneration committee is evaluating long term share price incentive programme as a fifth element to the remuneration package to executives and other employees.

Basic Salary

The basic salary shall be in line with market conditions, be competitive, and shall take into account the scope and responsibilities associated with the position, as well as the skills, experience and performance of the executive. The basic salary shall be reviewed annually to ensure that it remains competitive. In order to assess the competitiveness of the salary and benefit packages offered by the Group, comparisons may be made to those offered by similar companies. In such circumstances, the comparator group is chosen with regard to:

a) Swedish companies in the same industry;
b) the size of the company (turnover, profits and employee numbers);
c) the diversity and complexity of their businesses;
d) the geographical spread of their businesses; and
e) their growth, expansion and change profile.

Periodic benchmarking activities may also be undertaken to ensure that remuneration packages remain in line with local market conditions.

Yearly Variable Salary

The Company considers that a yearly variable salary is an important part of the remuneration package where associated performance targets reflect the key drivers for value creation and growth in shareholder value. At the end of each year, the Managing director will make a recommendation to the Remuneration Committee regarding the payment of the yearly variable salary to employees based upon their individual contribution to the Company's performance. After consideration of the Managing director's recommendations, the Remuneration Committee will recommend to the Board of Directors for approval the level of the yearly variable salary of the Managing director, and the CFO and other employees, to the extent that such award is in excess of USD 10,000 per employee. The yearly variable salary for executives shall normally be within the range of 1–4 monthly salaries.

Pension Arrangements
The pension benefits comprise a defined contribution scheme with premiums calculated on the full basic salary. The pension contributions shall be in relation to the basic salary and is set on an individual basis but shall not be higher than what is tax deductible.

Non-Financial Benefits
Non-financial benefits shall be based on market terms and shall facilitate the discharge of each executive's duties.

Severance Arrangements
A mutual termination period of twelve months applies between the Company and managing director and nine months between the company and the CFO. In addition, severance terms are incorporated into the employment contracts for the executives that give rise to compensation in the event the Company terminates their employment or in the event of change of control of the Company. The Managing director and the CFO are entitled to 12 months payments if the Company terminates their contracts.

Note 15, Financial income and similar items

TSEK	Group		Parent	
	2012	**2011**	**2012**	**2011**
Interest income	550	62	6,102	7,105
Gain on currency exchange rates	14,123	2,277	14,123	2,043
Dividend from group companies	–	–	50,137[13]	–
Total	**14,673**	**2,339**	**70,362**	**9,148**

Note 16, Financial expenses and similar items

TSEK	Group		Parent	
	2012	**2011**	**2012**	**2011**
Interest expenses	-12,667	–	-12,667	–
Currency exchange losses	-22,626	-16,281	-22,387	-16,270
Other financial expenses	-1,505	–	-1,309	–
Total	**-36,798**	**-16,281**	**-36,363**	**-16,270**

Note 17, Tax

The group's income tax charge of TSEK 213 (TSEK 123) relate to a tax negotiated in Switzerland by the Swiss subsidiary Tethys Oil Suisse S.A. The company has not recorded a deferred tax asset in relation to the tax losses carried forward since there is uncertainty as to if the tax losses may be utilised. The tax losses are in another jurisdiction than where main profits are generated. Tax losses carried forward amounted to TSEK 139,245 (TSEK 92,032). There are no time limits to the utilization of the tax losses.

In Oman, Tethys Oil's oil and gas operations is subject to an Exploration and Production Sharing Agreement (EPSA). Under the EPSA, Tethys Oil receives its share of oil after government take (i.e net after royalties taken in kind). Omani income taxes are paid on behalf of Tethys Oil by the government and from the government take. As Omani income tax is not paid directly by Tethys Oil and are taken in kind before net sales, these taxes are not presented in the income statement. Based on this, taxes presented in the income statement are expected to be low in the future.

13 Dividend from group companies was received from Tethys Oil Denmark AB and Tethys Oil Exploraiton AB.

Note 18, Office equipment

TSEK	Group		Parent	
Office equipment	**2012**	**2011**	**2012**	**2011**
Assets				
1 January	4,048	3,157	1,000	926
Additions	842	891	45	74
Disposals	–	–	–	–
31 December	4,890	4,048	1,045	1,000
Depreciations				
1 January	-1,750	-1,057	-831	-662
Depreciation charges of the year	-1,054	-693	-110	-169
Disposals	–	–	–	–
31 December	-2,804	-1,750	-941	-831
Net book value	**2,086**	**2,298**	**104**	**169**

TSEK	Net book value, office equipment	
	2012	**2011**
Dubai	459	185
France	–	–
Lithuania	–	–
Oman	24	30
Sweden	104	169
Switzerland	1,499	1,914
Other	–	–
	2,086	**2,298**

Note 19, Other receivables

TSEK	Group		Parent	
Other receivables	**2012**	**2011**	**2012**	**2011**
VAT	1,062	1,785	357	540
Receivables Oil sales	12,589	–	–	–
Other	967	186	162	6
Total	**14,618**	**1,971**	**519**	**546**

Note 20, Shareholders' equity

As per 31 December 2012, the number of outstanding shares in Tethys Oil amounts to 35,543,750 (32,543,750), 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 for employees.

In May 2012, Tethys Oil conducted two private placements of 3,000,000 shares in total. The two private placements were made at SEK 40 per share, which corresponded to approximately 7 percent discount to the volume weighted average share price the last trading day before the private placements. Proceeds from the share issues amounted to TSEK 120,000 before issue costs. The shares from the private placements were registered in May and June.

Other reserves within Shareholders' equity relate only to currency translation reserves.

Earnings per share

Earnings per share before dilution are calculated by dividing profit for the year attributable to ordinary shareholders of the Parent Company by weighted average number of ordinary shares outstanding during the year. There are no dilution effects for 2011 and 2012.

Note 21, Long term liabilities

In September 2012, Tethys Oil issued a secured three-year bond loan of TSEK 400,000. The bonds were issued at 100 percent of the nominal value and run with a fixed interest rate of 9.50 percent per year. The maturity date of the bonds is 7 September 2015. The bonds are listed on NASDAQ OMX Stockholm. The transaction costs amounted to TSEK 12,447 and have decreased long term liabilities with an equal amount. Long term liabilities amounted at 31 December 2012 to TSEK 388,862 (–).

Note 22, Accrued expenses

TSEK	Group		Parent	
Accrued expenses	**2012**	**2011**	**2012**	**2011**
Accrued interest	12,667	–	12,667	–
Accrued investments in oil and gas properties	67,961	–	67,961	–
Other accrued expenses	2,901	1,258	5	–
Total	**83,529**	**1,258**	**80,632**	**–**

Note 23, Shares in subsidiaries

Company	Reg. Number	Reg. office	Number of shares	Percen-tage	Nominal value per share	Parent company book amount 31 December 2012, TSEK	Parent company book amount 31 December 2011, 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	100
Tethys Oil Oman Ltd	95212	Gibraltar	100	100%	GBP 1	362	25,280
Tethys Oil Block 3 & 4 Ltd	101981	Gibraltar	1000	100%	USD 1	9	9
Tethys Oil Suisse SA	660-1139007-2	Switzerland	100	100%	CHF 1,000	567	567
Windsor Petroleum (Spain) Inc.	549 282	British Virgin Islands	1	100%	USD 1	–	–
Total						**1,538**	**26,456**

TSEK	Parent	Parent
Shares in subsidiaries	**31 December 2012**	**31 December 2011**
1 January	26,456	26,456
Acquisitions	–	–
Shareholder's contribution	131,755	229
Write down of shares in group companies	-156,673	-229
31 December	**1,538**	**26,456**

Regarding write down of shares in group companies, this is further described in Management discussion and analysis.

Note 24, Acquisition

As per 31 December 2011, Tethys Oil Denmark AB acquired 100 percent of the shares in Lundin Data Services BV, subsequently name changed to Tethys Oil Middle East North Africa BV ("TOMENA"), from Lundin Petroleum BV located in the Netherlands. TOMENA owns and maintains a substantial oil and gas database located in Dubai. As consideration, Tethys Oil paid EUR 1 in cash. The acquisition is effective as per 31 December 2011, from which date TOMENA is consolidated. TOMENA did not contribute to the result 2011, but has in full been part of the result 2012 where the contribution to the result has been TSEK -4,948.

The fair value of the net assets acquired in 2011 amount to TSEK 232 and consists of cash and cash equivalents and computers less account payables. The acquisition price of EUR 1 with no additional acquisition costs less the fair value of the net assets acquired gives a negative value of TSEK 232. The book value in Tethys Oil Denmark AB has been revalued and the write up of TSEK 232 is included in the result of the group as per 31 December 2011.

Note 25, Pledged assets

As per 31 December 2012, pledged assets amounted to TSEK 625,683 (TSEK 500). Of pledged assets, TSEK 500 regard a pledge in relation to office rental and the remainder TSEK 625,183 is a continuing security with regard to the bonds where Tethys Oil has entered into a pledge agreement. In the latter pledge all shares in the subsidiary Tethys Oil Block 3 & 4 Ltd are pledged for the benefit of the bond holders and the value of the pledge is equal to the shareholders' equity value in Tethys Oil Block 3 & 4 Ltd.

Note 26, Contingent liabilities

As per an agreement between Tethys Oil and Mitsui from 2010, Mitsui undertook to fund Tethys Oil's share of non exploration related capital expenditure up to MUSD 60 on Blocks 3 & 4 effectively from 1 January 2010. As per 31 December 2011, Mitsui had fulfilled the undertaking. As per the same agreement, Mitsui holds the right to and has started during the first quarter 2012 to recover the MUSD 60 paid on behalf of Tethys Oil from the proceeds of Tethys Oil's share of cost recovery production entitlement. During the full year 2012, Mitsui received MUSD 58 from Tethys Oil's cost recovery. Remaining contingent liability as per 31 December 2012 amounts to MUSD 2 equivalent of TSEK 15,648 (TSEK –).

Note 27, Oil and gas properties from cost oil repayment

In 2010, Mitsui acquired 20 percentage point in Blocks 3 & 4 Oman. Apart from a cash consideration, Mitsui undertook to pay Tethys Oil's share of non-exploration related capital expenditure up to MUSD 60 on Blocks 3 & 4 effectively from 1 January 2010. As per 31 December 2011, Mitsui had fulfilled the undertaking and additional investments relating to Tethys Oil's share in Blocks 3 & 4 must be paid by Tethys Oil directly.

As per a carry agreement between Tethys Oil and Mitsui, Mitsui has up until has since the first quarter 2012 started to recover the MUSD 60 paid on behalf of Tethys Oil from the proceeds of Tethys Oil's share of cost recovery oil entitlement. Under the carry agreement, Tethys Oil will allocate its entire share of cost recovery entitlement to Mitsui until the full MUSD 60 has been recovered by Mitsui. The allocated cost recovery to Mitsui ia treated as investments in oil and gas properties, thereby creating a result effect over a longer period of time through depletion. During the full year 2012, the amount received by Mitsui from Tethys Oil's cost recovery entitlement amounted to TSEK 381,240 (MUSD 58). The remaining cost recovery entitlement to be allocated to Mitsui (MUSD 2 as at 31 December 2012) is presented as a contingent liability. In January 2013 the final balance of MUSD 2 was allocated to Mitsui.

Note 28, Related party transactions

The Group receives income from the joint venture of Block 15 in Oman where it also holds 40 percent interest. Tethys Oil charges some administrative expenditure from the subsidiary Tethys Oil Oman Ltd to the joint venture of Block 15. These administrative expenditures are, through the above, also funded by the partner in Oman by 60 percent. The chargeout to the joint venture is presented in the income statement as "Other income". During the 2011 and 2012, Tethys Oil Suisse S.A., a wholly owned subsidiary of Tethys Oil AB, has paid rent to Mrs Mona Hamilton amounting to CHF 96,000. Mrs. Mona Hamilton is the wife of Vincent Hamilton, the Chairman and Chief Operating Officer of Tethys Oil. The rent of office space is a commercially based agreement between Tethys Oil Suisse S.A. and Mrs. Mona Hamilton. During 2013, the subsidiary will be closed. The office rental agreement was cancelled as 31 December 2012.

Note 29, Subsequent events

- In January 2013 Mitsui made the final recovery of the carry of MUSD 2 from Tethys Oil's share of cost oil and in February 2013 Mitsui paid Tethys Oil a bonus payment of MUSD 10

- Tethys Oil booked its first reserves in Oman and the company's net working interest reserves in Oman as per 31 December 2012, amounted to 14.3 million barrels of oil of proven and probable reserves. The reserves were audited by independent petroleum consultant DeGolyer and MacNaughton

Assurance

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, 16 April 2013

Vincent Hamilton, *Chairman of the Board*

Håkan Ehrenblad, *Director*

John Hoey, *Director*

Staffan Knafve, *Director*

Katherine Stovring, *Director*

Jan Risberg, *Director*

Magnus Nordin, *Managing Director*

Auditor's report

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

Corporate identity number 556615-8266

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of Tethys Oil AB (publ) for the year 2012. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 33–68.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts and consolidated accounts in accordance with International Financial Reporting Standards , as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2012 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2012 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of Tethys Oil AB (publ) for the year 2012.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinions

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Göteborg, 16 April 2013

PricewaterhouseCoopers AB

Klas Brand	Johan Malmqvist
Authorized Public Accountant	*Authorized Public Accountant*
Lead Partner	

Definitions and Abbreviations

USD	US dollar
SEK	Swedish krona
CHF	Swiss franc
EUR	Euro
LTL	Lithuanian litas

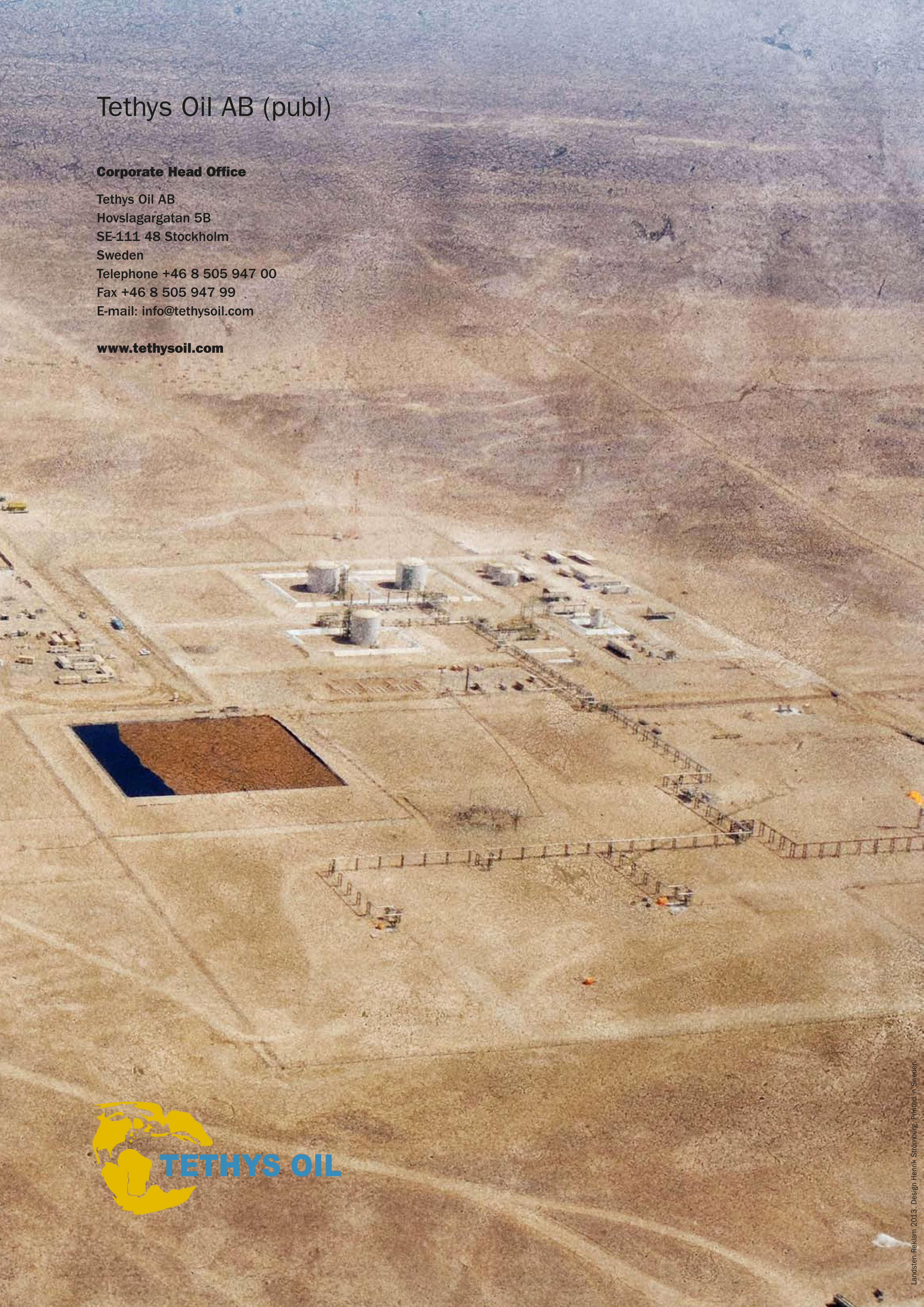
Capex	Capital expenditure, costs for investments and development
Opex	Operating expenditure, running costs for maintenance

Oil related terms and measurements

BBL	Barrel of oil. A unit of volume for crude oil and petroleum products. Oil production is often given in numbers of barrels per day. One barrel of oil = 159 litres
BOE	Barrel of oil equivalent. A unit of energy based on the approximate energy released when burning a single barrel of crude oil. The BOE is used by oil and gas companies as a way of combining oil and natural gas reserves and production into a single measure. Roughly equivalent to 5,800 cubic feet of natural gas or 1,700 kWh.
BOPD	Barrels of Oil per Day
MBO	Thousand Barrels
MBOE	Thousand Barrels of Oil Equivalents
MBOEPD	Thousand Barrels of Oil Equivalents per Day
MBOPD	Thousand Barrels of Oil per Day
MMBO	Million Barrels
MMBOE	Million Barrels of Oil Equivalent

API gravity	A measure developed by the American Petroleum Institute (API) of how heavy or light a petroleum liquid is compared to water. If its API gravity is greater than 10, it is lighter and floats on water, if less than 10, it is heavier and sinks. The measure was designed so that most values would fall between 10° and 70° API gravity. As an example Brent is a light crude and has a gravity of 38,06° API.
Appraisal well	A well drilled as a part of an appraisal drilling program which is carried out to determine the physical extent, reserves and likely production rate of a field.
Block	A country's exploration and production area is divided into different geographical blocks. An agreement is entered into with a host country granting the company the right to explore and produce oil and gas in the designated area, in return for paying to the government licence fees and royalties on production. (Also referred to as Concession(s) or Licence(s)).
Blowout	Uncontrolled release of oil, gas or water from an oil well.
Brent	A reference oil for the various types of oil in the North Sea, used as a basis for pricing. API gravity of around 38°. West Texas Intermediate (WTI) and Dubai are other reference oils.
Concession	Agreement entered into with a host country granting the company the right to explore and produce oil and gas in a designated area, in return for paying to the government license fees and royalties on production. (Also referred to as Block(s) or Licence(s)).
Condensate	A low-density mixture of hydrocarbon liquids that are present as gaseous components in the raw natural gas produced from many natural gas fields. Its presence as a liquid depends on temperature and pressure conditions in the reservoir allowing condensation of liquid from vapor.
Cost oil	A share of oil produced used to cover ongoing operations costs and to recover past exploration, appraisal and development expenditures.
Crude oil	The oil produced from a reservoir, after the gas is removed in separation. Crude oil is a fossil fuel formed by plant and animal matter several million years ago.
Development well	A well drilled in a proven producing area for the production of oil or gas.
Downstream	The part of oil industry that include refining and distribution of oil as fuel, heating oil or as raw material for the petrochemical industy.
Dry hole	Any exploratory or development well that does not find commercial quantities of hydrocarbons.
EPSA	Exploration and Production Sharing Agreement
Exploration well	Drilling carried out to determine whether hydrocarbons are present in a particular area or structure.
Fault	A fracture within rock structures where relative motion has occurred across the fracture surface.

Farm out/ farm in	The holder of shares in an oil licence may transfer (farm out) shares to another company in exchange for this company taking over some of the work commitments in the licence, such as paying for a drilling or a seismic investigation within a certain period. In return, the company brought in receives a share in any future revenues. If the conditions are met the company may retain the licence shares if not the shares are taken back by the original holder. This is known as ”farm-in” and ”farm-out”.
Fracturing	Propagation of fractures in a rock layer by a pumping fluid at very high pressure.
Heavy oil	Heavy crude oil is any type of crude oil which does not flow easily. It is referred to as "heavy" because its density or specific gravity is higher than that of light crude oil. Heavy crude oil has been defined as any liquid petroleum with an API gravity less than 20°. It is therefore more difficult to produce than lighter oil and its combustion is more polluting.
Hydrocarbons	Naturally occurring organic substances composed of hydrogen (H) and carbon (C). If an occurrence primarily contains light hydrocarbons, they are most often in gas form in the reservoir, and are then called a gas field. If it is primarily heavy hydrocarbons, they are in liquid form in the reservoir, and called an oil field. Under certain conditions both can exist in the reservoir where a gas cap lies above the oil. Oil always contains a certain element of light hydrocarbons that are freed in production, also known as associated gas.
HSE	Health, Safety and Environment
Injection wells	Wells to be used for injection of fluids into reservoir for enhancement of hydrocarbon recovery. By injecting gas or water (or both) the degree of recovery can be increased.
Leads	Leads are possible accumulations of hydrocarbons where more geological data needs to be gathered and evaluations need to be performed before they can be called prospects, where drilling is considered to be feasible.
License	A permit to search for and produce oil and gas. Oil and natural gas assets are usually owned by the country in which the accumulation is discovered. The oil companies obtain permission from the respective country’s government to explore for and extract oil and natural gas. These permits can be called concessions, permits, production sharing agreements or licenses depending on the country in question. A license usually consists of two parts: an exploration permit and a production license
Logs	The result of surveys which gather information from the wellbore and surrounding formations which typically consist of traces and curves. These can be interpreted to give information about oil, gas and water.
Onshore	Designation for operations on land.
Offshore	Designation for operations at sea.
Operator	The member of a joint venture, designated to lead the work on an oil or gas license or field. The company needs approval from the authorities in the country.
Porosity	The porosity of a rock is determined by measuring the amount of cavities inside, and determining what percentage of the total volume that consists of cavities.
Profit oil	The remaining share of oil produced after royalties have been paid and cost recovery has been deducted. The profit oil is shared according to the production sharing agreement and working interests.
Prospect	A geographical area which exploration has shown contains sedimentary rocks and structures that may be favourable for the presence of oil or gas.
PSA	Production Sharing Agreement
Reserves and resources	See Calculation of reserves, page 15.
Reservoir	An accumulation of oil or gas in a porous type of rock with good porosity, such as sandstone or limestone.
Seismic data	Seismic investigations are made to be able to describe geological structures in the bedrock. A source, such as a vibrator, unit, dynamite, shot or an air gun generates acoustic or elastic vibrations that are transmitted from the ocean surface or the surface of the ground. The echoes are captured by special measurement instruments and analysed to localise occurrences of hydrocarbons.
Spud	To initiate drilling.
Sandstone	Sandstone is a sedimentary rock composed mainly of sand-sized minerals or rock grains. Most sandstone is composed of quartz, but also often consists of feldspar, rock fragments, mica and numerous other mineral grains held together with silica or another type of cement. The relatively high porosity and permeability of sandstone makes it to a valuable rock in reservoirs.
Upstream	Operations in the oil industry which includes exploration and production of crude oil and natural gas.
WTI	West Texas Intermediate – the primary reference oil used as a basis for pricing of oil in North America. API gravity of around 39.6°



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