

# TETHYS OIL

Report for the period  
1 January 2009 – 31 December 2009



# Highlights

- Several successful well tests firm up Tethys Omani projects
- Large heavy oil column confirmed, flow potential as yet inconclusive
- Tethys Oil has during the full year 2009 received proceeds of TSEK 70,687 before issue costs from two private placements of 3,300,000 shares conducted in February and June and through 768,186 exercised warrants
- As at 31 December 2009 there have been no sales of oil and gas in Tethys Oil, nor for the equivalent period of last year
- Result for the full year 2009 amounted to TSEK -42,503 (TSEK -16,426 for the corresponding period last year) and TSEK 10,109 (TSEK -12,666) for the fourth quarter 2009. The result for the full year 2009 has been significantly impacted by net foreign exchange losses amounting to TSEK 13,528 due to a weaker US dollar. The majority of these exchange rate losses are translation differences and are therefore non cash related items. Furthermore, write downs of TSEK 15,872, mainly regarding Morocco, have negatively affected the result of the full year 2009
- Earnings per share amounted to SEK -1.62 (SEK -0.72) for the full year 2009 and SEK 0.36 (SEK -0.53) for the fourth quarter 2009
- Cash and cash equivalents as per 31 December 2009 amounted to TSEK 13,620 (TSEK 29,886). Oil and gas investments amounted to TSEK 81,480 mainly related to Oman, Blocks 3 and 4

## **Tethys Oil AB (publ)**

Tethys Oil is a Swedish energy company focused on identification and development for production of oil and natural gas assets. Tethys' core area is Oman, where the company is the second largest onshore oil and gas concession-holder with licence interests in three onshore blocks. Tethys' strategy is to invest in projects in areas with known oil and natural gas discoveries that have not been properly appraised using modern technology. In this way, high returns can be achieved with limited risk.

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

# *Dear friends and investors,*

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

## **The Farha South oil discovery on Block 3**

Our first well in 2009, the Farha South-3 well on Block 3, was drilled in early spring last year. After

completion in April, the well tested 754 barrels of oil per day from the horizontal reservoir section in the Lower Al Bashir layer. In addition, the Barik Layer, a previously unmapped and untested oil bearing layer was discovered. This layer was tested later in 2009, and flowed 379 barrels of oil per day from the vertical section of the well. When returning to the well in January this year, the Barik layer produced on a test using a pump (ESP) 1,010 barrels of oil per day, almost three times the original rate. The oil in both producing layers is of high quality, with a density of 40–42 deg API and a low gas-oil-ratio.

With the successful work during the year, the Farha South oil discovery has been proved, and is now likely to have a resource base of ten to 20 million barrels of light sweet crude. The production testing suggested productivities per well of more than 1,000 bopd. Not



surprisingly, Farha South is a prime candidate for an Early Production Programme in 2010.

#### **The East Saiwan oil discovery on Block 4**

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

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

#### **Outlook 2010**

Our major plan for 2010 is to launch an early production program and become an oil producing company. The Barik formation on Block 3 is a prime candidate for this, and we believe we can look forward to significant production rates.

The work programme for the spring has in time of writing not been finalized, but we have so far decided that the nearly completed 3D seismic survey over the East Saiwan structure on Block 4 will be extended to cover the Farha trend on Block 3 following the positive oil tests from the Farha South-3 well.

We have also contracted Gaffney, Cline & Associates, a leading independent international petroleum consultancy, for the third party audit of the Farha South

and East Saiwan oil discoveries. Gaffney Cline will also act as our engineering advisor on these future development projects.

In 2009, Tethys successfully funded ongoing work programmes through private placements of equity from the mandate given to the board of directors by the AGM. We raised MSEK 53 in 2009 and received additional funding through early exercise of warrants. We believe the private placement market to still be available. As the ongoing work programme will require additional funding, one of the options we are evaluating is to place the remaining shares of the board's mandate from the AGM. Additional funds should be received from the outstanding warrants at the latest by the time the subscription period ends on June 30, provided that the share price stays above the strike price of SEK 23.

Our future plans include the development of one or more of our projects into full scale oil producing fields. Such development related expenditures can also be financed through bank or bond debt, or through an industry farm out deal. Which road we will follow will partly depend on the results of the ongoing 3D seismic studies as well as the information provided by the third party report being compiled by Gaffney Cline and expected in April. And also of course on what kind of deal can be struck. After all Tethys is in the business of creating shareholder value and we will remain acutely aware of this as operations move on.

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

So stay with us...

Stockholm in February 2010

Magnus Nordin  
*Managing Director*

Vince Hamilton  
*Chairman*

# Result and cash flow

The consolidated financial statements of the Tethys Oil Group (Tethys Oil), where Tethys Oil AB (publ) with organisational number 556615-8266 is the parent company, are hereby presented for the twelve month period ended 31 December 2009. The amounts relating to the comparative period (equivalent period of last year) are shown in parenthesis after the amount for the current period. The primary segment of the group is geographical markets. Within the group there are only assets and write downs for these geographical markets which are presented below.

## Result for the period and sales

Tethys Oil reports a result for the full year 2009 of TSEK -42,503 (TSEK -16,426 for last year) and TSEK 10,109 (TSEK -12,666) for the fourth quarter, representing earnings per share of SEK -1.62 (SEK -0.72) for the full year 2009 and SEK 0.36 (SEK -0.53) for the fourth quarter. The result for the full year 2009 has been significantly impacted by net foreign exchange losses. The currency exchange effect of the group amounts to TSEK -13,528 and almost all of the effect relates to the weaker US dollar in relation to the Swedish krona. The background to this is that the majority of Tethys Oil's assets relate to Block 15 and Blocks 3 and 4 in Oman which are held through two foreign subsidiaries and financed through intercompany loans from the parent company denominated in US dollar. These currency translation differences between the parent company and subsidiaries are non cash related items. The currency exchange loss effect is part of net financial result amounting to TSEK -13,461 for the full year 2009 and TSEK 13,619 for the fourth quarter 2009. Apart from net currency exchange gains/losses, net financial result consist of net interest received and return on short term investments of TSEK 66 for the full year 2009 and TSEK 4 for the fourth quarter 2009.

Write downs of oil and gas properties of TSEK 15,872 has negatively affected the result of the full year 2009. The write downs mainly regard previously made investments regarding the Bouanane project in Morocco and the Ispandika project in Turkey. The write down of the Bouanane project is a consequence of the exploration well made during the second quar-

ter 2009 which did not prove commercial quantities of natural gas. The write down of the Ispandika assets in Turkey is made in the light of the group's increased focus on Oman, whereby Tethys Oil decided not to continue with the licence which expired during the first quarter 2009. Cash flow from operations before changes in working capital during the full year 2009 amounted to TSEK -12,856 (TSEK -9,195).

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

## Other income, administrative expenses

Administrative expenses amounted to TSEK -15,343 (TSEK -13,818) for the full year 2009 and TSEK -3,888 (TSEK -3,628) for the fourth quarter 2009. Depreciation amounted to TSEK 284 (TSEK 175) during 2009 and TSEK 84 (TSEK 88) during the fourth quarter. Administrative expenses are mainly salaries, rents, listing costs and outside services. These costs are corporate costs and are accordingly not capitalised. Depreciation is referable to office equipment. The administrative expenditures during the full year 2009 are in line with the equivalent period last year. Part of the administrative expenses in Tethys Oman Ltd is charged to the joint venture in Block 15 in Oman where the expenditures are capitalised and, in line with the Production Sharing Agreement, recoverable. These administrative expenditures are, through the above, also funded by the partner in Block 15 in Oman by 60 per cent. The chargeout to the joint venture is presented in the income statement as Other income. Part of the remaining administrative expenses are capitalised in the subsidiaries and if Tethys is the operator these expenses are funded by partners. In the consolidated income statement these internal transactions are eliminated.

## Movement in oil and gas properties

Tethys Oil has interests in licences in Oman, France and Sweden. Tethys Oil has decided to withdraw from its licenses in Morocco, Spain and Turkey.

Country	Licence name	Tethys Oil	Total area, km2	Partners (operator in bold)	Book value 31 Dec 2009	Book value 31 Dec 2008	Investments Jan-Dec 2009
Oman	Block 15	40%	1,389	<b>Tethys Oil</b> , Odin Energy	99,064	98,729	11,480
Oman	Block 3,4	50%	33,125	<b>CCED</b> , Tethys Oil	102,212	34,867	56,401
France	Attila	40%	1,986	<b>Galli Coz</b> , Tethys Oil	3,628	3,589	38
Morocco	Bouanane	12.5%	2,100	<b>Dana Petroleum</b> , Tethys Oil, Eastern Petroleum	–	1,858	11,623
Turkey	Ispandika project	–	–	<b>Aladdin Middle East</b> , Tethys Oil	–	1,289	75
Sweden	Gotland Större	100%	540	<b>Tethys Oil</b>	1,142	429	712
<b>New ventures</b>					174	52	122
<b>Total</b>			<b>39,140</b>		<b>205,623</b>	<b>140,811</b>	<b>81,480</b>

Oil and gas properties as at 31 December 2009 amounted to TSEK 205,623 (TSEK 140,811). Investments in oil and gas properties of TSEK 81,480 (TSEK 71,506) were incurred for the twelve month period ending 31 December 2009. Investments in oil and gas properties in Block 15 Oman of TSEK 11,480 have mainly been related to the completion and interpretation of the 3D seismic acquisition which was conducted during the last part of 2008. Investments related to Blocks 3 and 4 amounted during the period to TSEK 56,401 and accounts for most of the oil and gas investments during the full year 2009. Investments on Blocks 3 and 4 relate to Tethys Oil's share of the Farha South 3 (FS3) well and Tethys Oil's share of the East Saiwan 2 (ES2) well. In April 2009, Tethys Oil announced that FS3 flowed 754 barrels per day during production test. Furthermore, ES2 proved the presence of heavy oil and the presence of lighter oil which produced 280 barrels per day during production test. During the last quarter of 2009 Tethys Oil and partner also conducted several production tests of the FS3 and ES2 wells.

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

Investments in other licence areas have during the full year 2009 amounted to TSEK 1,381 and mainly regard licence administration and geological work on Gotland. The book value of oil and gas properties include currency exchange effects of TSEK -16,123 during the full year 2009, which are not cash related items and therefore not included in investments. Furthermore, the book value of oil and gas properties includes other non cash related items of TSEK 15,327. For more information please see above *Result for the period and sales*.

### Liquidity and financing

Cash and bank as at 31 December 2009 amounted to TSEK 13,620 (TSEK 29,886).

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

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

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

### Current receivables

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

### **Current liabilities**

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

### **Parent company**

The parent company reports a result for the full year 2009 amounting to TSEK -30,327 (TSEK -12,389) and TSEK -4,037 (TSEK -13,961) for the fourth quarter 2009. Administrative expenses amounted to TSEK -7,934 (TSEK -8,503) for the full year 2009 and TSEK -2,023 (TSEK -2,338) for the fourth quarter. Net financial result amounted to TSEK -24,961 (TSEK -5,536) during the full year 2009 and TSEK -2,662 (TSEK -12,131) for the fourth quarter 2009. Write down of shares in subsidiaries are included in net financial result. The weaker US dollar has had a negative impact on net financial result. The exchange rate losses regard translation differences and are non cash related. Investments during the full year 2009 amounted to TSEK 98,400 (TSEK 59,961). Financial investments are financial loans to subsidiaries for their oil and gas operations. The turnover in the parent company relates to chargeouts of services to subsidiaries.

### **Board of Directors**

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

### **Share data**

As per 31 December 2009, the number of outstanding shares in Tethys Oil amount to 28,049,091 (23,980,086), with a quota value of SEK 0.17 (SEK 0.17). All shares represent one vote each. Tethys Oil does not have any incentive program.

As per 1 January 2009, Tethys Oil had 23,980,086 shares. In March 2009, Tethys Oil conducted a share

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

The warrants from the rights issue conducted 2008 amounted as per 31 December 2009 to 4,024,844 with an exercise price of SEK 23 and where one warrant gives the right to purchase one new share. The warrants can be exercised continuously up until 30 June 2010. The average share price during 2009 was above the exercise price for both the twelve month period and the fourth quarter 2009. The fully diluted number of shares therefore amounts to 32,073,935.

### **Risks and uncertainties**

A statement of risk and uncertainties are presented in note 1, page 14.

### **Dividend**

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

### **Subsequent events**

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

In January and February 2010, after the reporting period, 272,219 warrants have been exercised and an equivalent number of shares have been issued. This has resulted in proceeds of TSEK 6,273 before issue costs.

# Statement of comprehensive income

TSEK	1 Jan 2009 – 31 Dec 2009 12 months	1 Oct 2009 – 31 Dec 2009 3 months	1 Jan 2008 – 31 Dec 2008 12 months	1 Oct 2008 – 31 Dec 2008 3 months
Net sales of oil and gas	–	–	–	–
Depreciation of oil and gas properties	–	–	–	–
Write off of oil and gas properties	-15,872	-94	-21,088	-20,988
Other income	2,287	495	3,450	628
Other losses/gains, net	-56	-8	-293	-9
Administrative expenses	-15,343	-3,888	-13,818	-3,628
<b>Operating result</b>	<b>-28,985</b>	<b>-3,496</b>	<b>-31,748</b>	<b>-23,997</b>
Financial income and similar items	2,234	1,401	15,565	11,451
Financial expenses and similar items	-15,696	12,218	-212	-97
<b>Net financial income</b>	<b>-13,461</b>	<b>13,619</b>	<b>15,353</b>	<b>11,354</b>
<b>Result before tax</b>	<b>-42,446</b>	<b>10,123</b>	<b>-16,395</b>	<b>-12,643</b>
Income tax	-57	-15	-30	-23
<b>Result for the period</b>	<b>-42,503</b>	<b>10,109</b>	<b>-16,426</b>	<b>-12,666</b>
<b>Other comprehensive result</b>				
Currency translation differences	-1,103	1,312	4,079	3,376
<b>Other comprehensive result for the period</b>	<b>-1,103</b>	<b>1,312</b>	<b>4,079</b>	<b>3,376</b>
<b>Total comprehensive result for the period</b>	<b>-43,607</b>	<b>11,421</b>	<b>-12,347</b>	<b>-9,290</b>
Number of shares outstanding	28,049,091	28,049,091	23,980,086	23,980,086
Number of shares outstanding (after dilution)	32,073,935	32,073,935	23,980,086	23,980,086
Weighted number of shares	26,274,023	27,881,555	22,668,770	23,978,086
Earnings per share, SEK	-1.62	0.36	-0.72	-0.53
Earnings per share (after dilution), SEK	-1.33	0.32	-0.72	-0.53



# Consolidated balance sheet

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

# Consolidated statement of changes in equity

<b>TSEK</b>	<b>Share Capital</b>	<b>Paid in Capital</b>	<b>Other reserves</b>	<b>Retained Earnings</b>	<b>Total Equity</b>
<b>Opening balance 1 January 2008</b>	<b>3,196</b>	<b>177,555</b>	<b>-2,182</b>	<b>-75,374</b>	<b>103,196</b>
Total comprehensive loss for the first quarter 2008	-	-	-1,777	-5,458	-7,235
Total comprehensive loss for the second quarter 2008	-	-	138	-3,173	-3,035
Total comprehensive result for the third quarter 2008	-	-	2,342	4,872	7,214
Total comprehensive loss for the fourth quarter 2008	-	-	3,376	-12,666	-9,290
Issue costs set off issue	-	-107	-	-	-107
Private placement	801	90,441	-	-	91,242
Issue costs private placement	-	-4,585	-	-	-4,585
Issue costs warrant issue	-	-322	-	-	-322
<b>Closing balance at 31 December 2008</b>	<b>3,997</b>	<b>262,982</b>	<b>1,897</b>	<b>-91,799</b>	<b>177,077</b>
<b>Opening balance 1 January 2009</b>	<b>3,997</b>	<b>262,982</b>	<b>1,897</b>	<b>-91,799</b>	<b>177,077</b>
Total comprehensive result for the first quarter 2009	-	-	1,682	1,568	3,250
Total comprehensive loss for the second quarter 2009	-	-	-1,618	-29,740	-31,358
Total comprehensive loss for the third quarter 2009	-	-	-2,479	-24,442	-26,921
Total comprehensive result for the fourth quarter 2009	-	-	1,312	10,109	11,421
Private placement February	217	12,783	-	-	13,000
Issue costs	-	-83	-	-	-83
Private placement June	333	39,667	-	-	40,000
Issue costs warrant issue	-	-1,307	-	-	-1,307
Warrant exercise July	29	4,023	-	-	4,052
Warrant exercise October	99	13,536	-	-	13,536
<b>Closing balance 31 December 2009</b>	<b>4,675</b>	<b>331,601</b>	<b>794</b>	<b>-134,300</b>	<b>202,770</b>

# Consolidated cash flow statement

TSEK	1 Jan 2009 – 31 Dec 2009 12 months	1 Oct 2009 – 31 Dec 2009 3 months	1 Jan 2008 – 31 Dec 2008 12 months	1 Oct 2008 – 31 Dec 2008 3 months
<b>Cash flow from operations</b>				
Operating result	-28,985	-3,496	-31,748	-23,997
Interest received	67	9	1,233	229
Interest paid	-5	-5	-1	-
Income tax	-57	-15	-30	-23
Adjustment for write down of oil and gas properties	15,872	94	21,088	20,988
Adjustment for depreciation and other non cash related items	251	70	263	239
<b>Total cash flow used in operations before change in working capital</b>	<b>-12,856</b>	<b>-3,342</b>	<b>-9,195</b>	<b>-2,564</b>
Decrease/increase in receivables	5,691	532	-4,646	-4,345
Decrease/increase in liabilities	1,752	-908	442	-4,716
<b>Cash flow used in/from operations</b>	<b>-5,413</b>	<b>-3,719</b>	<b>-13,399</b>	<b>-11,625</b>
<b>Investment activity</b>				
Investment in oil and gas properties	-81,480	-7,768	-71,506	-28,732
Investment in other fixed assets	-200	-86	-1,007	-972
<b>Cash flow used for investment activity</b>	<b>-81,681</b>	<b>-7,854</b>	<b>-72,512</b>	<b>-29,703</b>
<b>Financing activity</b>				
Share issue, net after issue costs	69,297	10,295	98,884	11
Return on short term investments	4	-	417	340
<b>Cash flow from financing activity</b>	<b>69,301</b>	<b>10,295</b>	<b>99,301</b>	<b>352</b>
<b>Period cash flow</b>	<b>-17,793</b>	<b>-1,277</b>	<b>13,390</b>	<b>-40,977</b>
Cash and cash equivalents at the beginning of the period	29,886	13,864	12,252	66,991
Exchange gains/losses on cash and cash equivalents	1,524	1,032	4,245	3,866
Cash and cash equivalents at the end of the period	13,620	13,620	29,886	29,886

## Parent company income statement condensed

TSEK	1 Jan 2009 – 31 Dec 2009 12 months	1 Oct 2009 – 31 Dec 2009 3 months	1 Jan 2008 – 31 Dec 2008 12 months	1 Oct 2008 – 31 Dec 2008 3 months
Net sales of oil and gas	–	–	–	–
Depreciation of oil and gas properties	–	–	–	–
Write off of oil and gas properties	–	–	–	–
Other income	2,625	656	1,881	565
Other losses/gains, net	-56	-8	-231	-57
Administrative expenses	-7,934	-2,023	-8,503	-2,338
<b>Operating result</b>	<b>-5,366</b>	<b>-1,375</b>	<b>-6,853</b>	<b>-1,829</b>
Financial income and similar items	7,962	2,372	19,457	12,825
Financial expenses and similar items	-15,641	12,248	-134	-98
Write down of shares in group company	-17,282	-17,282	-24,859	-24,859
<b>Net financial income</b>	<b>-24,961</b>	<b>-2,662</b>	<b>-5,536</b>	<b>-12,131</b>
<b>Result before tax</b>	<b>-30,327</b>	<b>-4,037</b>	<b>-12,389</b>	<b>-13,961</b>
Income tax	–	–	–	–
<b>Loss for the period</b>	<b>-30,327</b>	<b>-4,037</b>	<b>-12,389</b>	<b>-13,961</b>
Number of shares outstanding	28,049,091	28,049,091	23,980,086	23,980,086
Number of shares outstanding (after dilution)	32,073,935	32,073,935	23,980,086	23,980,086
Weighted number of shares	26,274,023	27,881,555	22,668,770	23,980,086

## Parent company balance sheet condensed

TSEK	31 Dec 2009	31 Dec 2008
<b>ASSETS</b>		
Total fixed assets	225	35,767
Total financial fixed assets	213,782	123,545
Total current assets	12,793	29,097
<b>TOTAL ASSETS</b>	<b>226,800</b>	<b>188,409</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>		
Shareholders' equity	226,005	187,035
Total non interest bearing current liabilities	795	1,374
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>226,800</b>	<b>188,409</b>
Pledged assets	500	500
Contingent liabilities	25,804	43,230

# Parent company statement of changes in equity

TSEK	Restricted equity		Non restricted equity			Total Equity
	Share capital	Statutory Reserve	Share premium Reserve	Retained Earnings	Net result	
<b>Opening balance at 1 January 2008</b>	<b>3,196</b>	<b>71,071</b>	<b>106,484</b>	<b>-44,997</b>	<b>-22,558</b>	<b>113,197</b>
Transfer of prior year net result	-	-	-	-22,558	22,558	-
Loss for the first quarter 2008	-	-	-	-	-3,503	-3,503
Loss for the second quarter 2008	-	-	-	-	-1,310	-1,310
Result for the third quarter 2008	-	-	-	-	6,384	6,384
Loss for the fourth quarter 2008	-	-	-	-	-13,961	-13,961
	<b>3,196</b>	<b>71,071</b>	<b>106,484</b>	<b>-67,555</b>	<b>-12,389</b>	<b>100,807</b>
Issue costs set off issue	-	-	-107	-	-	-107
Private placement	801	-	90,441	-	-	91,242
Issue costs	-	-	-4,585	-	-	-4,585
Issue costs warrants issue	-	-	-322	-	-	-322
<b>Closing balance at 31 December 2008</b>	<b>3,997</b>	<b>71,071</b>	<b>191,911</b>	<b>-67,555</b>	<b>-12,389</b>	<b>187,035</b>
Transfer of prior year net result	-	-	-	-12,389	12,389	-
Result for the first quarter 2009	-	-	-	-	5,927	5,927
Loss for the second quarter 2009	-	-	-	-	-12,151	-12,151
Loss for the third quarter 2009	-	-	-	-	-20,065	-20,065
Loss for the fourth quarter 2009	-	-	-	-	-4,037	-4,037
Private placement March	217	-	12,783	-	-	13,000
Issue costs	-	-	-83	-	-	-83
Private placement June	333	-	39,667	-	-	40,000
Issue costs warrant exercise	-	-	-1,307	-	-	-1,307
Warrant exercise July	29	-	4,023	-	-	4,052
Warrant exercise October	99	-	13,536	-	-	13,635
<b>Closing balance at 31 December 2009</b>	<b>4,675</b>	<b>71,071</b>	<b>260,530</b>	<b>-79,944</b>	<b>-30,327</b>	<b>226,005</b>

# Notes

## **General information**

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

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

## **Accounting principles**

The twelve month report 2009 of the Tethys Oil Group has been prepared in accordance with IAS 34 and the Annual Accounts Act. The twelve month report 2009 of the parent company has been prepared in accordance with the Annual Accounts Act and the Recommendation RFR 2.2 – Accounting for legal entities, issued by the Swedish Financial Accounting Standards Council. The same accounting principles were used in the annual report 2008.

## **Financial instruments**

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

## **Note 1) Risks and uncertainties**

The Group's activities expose it to a number of risks and uncertainties which are continuously monitored and reviewed. The main risks and uncertainties are operational and financial risk described below.

### **Operational risk**

The main operational risk is of technical and geological nature. At its current stage of development the group is exploring for oil and gas and appraising

undeveloped known oil and/or gas accumulations. The main risk is that the interest the Group has in oil and gas assets will not evolve into commercial reserves of oil and gas. Tethys Oil is furthermore exposed to oil price risk as income and profitability will depend on prevailing oil prices from time to time. As the Group currently does not produce oil and gas the direct effect is limited. Significantly lower oil prices would reduce expected profitability and could make projects sub economic even if discoveries are made. Another operational risk is access to equipment in Tethys Oil's projects. Especially in the drilling phase of a project the Group is dependent on advanced equipment such as rigs, casing, pipes etc. A shortage of these supplies can present difficulties for Tethys Oil to fulfil its projects. Through its operations Tethys Oil is furthermore subject to political risk, environment risk and the risk of not being able to retain key personnel.

### **Financial risk**

By operating in several countries, Tethys Oil is exposed to fluctuations in a number of currencies. Possible future income will also most likely be denominated in foreign currencies, most likely US dollars. Furthermore, Tethys Oil has since inception been entirely equity financed and as the Group has not presented any revenues the financing of the Group has been through share issues. Additional capital will be needed to finance Tethys Oil's future operations and/or for acquisition of additional licences. The main risk is that this need may occur during less favourable market conditions.

A more detailed analysis of the Group's risks and uncertainties and how the Group addresses these risks, are given in the Annual report for 2008.

## Note 2) Oil and gas properties

Country	Book value 31 Dec 2009, TSEK	Write downs 2009, TSEK	Investments 1 Jan – 31 Dec, TSEK	Book value 1 Jan 2009, TSEK	Book value 31 Dec 2008, TSEK	Write downs 2008, TSEK	Investments 2008, TSEK	Book value 1 Jan 2008, TSEK
<b>Oman Block 15</b>	99,064 <sup>1</sup>	–	11,480	98,729	98,729	–	37,282	47,984
<b>Oman Blocks 3,4</b>	102,212 <sup>1</sup>	–	56,401	34,867	34,867	–	22,085	12,782
<b>France Attila</b>	3,628	–	38	3,589	3,589	-9,813	4,558	8,844
<b>Morocco Bouanane</b>	–	-14,076	11,623	1,858	1,858	–	887	971
<b>Turkey Ispandika</b>	–	-1,364	75	1,289	1,289	–	–	1,289
<b>Turkey Thrace</b>	–	–	–	–	–	-7,108	3,783	3,325
<b>Spain Sedano</b>	–	–	–	–	–	-3,702	2,505	1,197
<b>Spain Cameros</b>	–	-433	433	–	–	-466	208	258
<b>Sweden Gotland</b>								
<b>Större</b>	1,142	–	712	429	429	–	170	259
<b>New ventures</b>	174	–	122	52	52	–	29	23
<b>Total</b>	<b>205,623</b>	<b>-15,872</b>	<b>81,480</b>	<b>140,811</b>	<b>140,811</b>	<b>-21,088</b>	<b>71,506</b>	<b>76,932</b>

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

Oil and gas properties	Group			Parent		
	1 Jan 2009 – 31 Dec 2009 12 months	1 Oct 2009 – 31 Dec 2009 3 months	1 Jan 2008 – 31 Dec 2008 12 months	1 Jan 2009 – 31 Dec 2009 12 months	1 Oct 2009 – 31 Dec 2009 3 months	1 Jan 2008 – 31 Dec 2008 12 months
<b>Investments in oil and gas properties</b>						
Opening balance	209,485	283,093	124,518	34,867	–	12,782
Investments in France	38	–	4,558	–	–	–
Investments in Morocco	11,623	–	887	–	–	–
Investments in Oman	67,881	6,760	59,366	-34,867 <sup>2</sup>	–	22,085
Investments in Spain	433	-108	2,713	–	–	–
Investments in Turkey	75	–	3,783	–	–	–
Investments in Sweden	712	272	170	–	–	–
Other investments in oil and gas properties	122	46	29	–	–	–
Closing balance	306,293	306,293	196,024	–	–	34,867
Adjustment	-796	-796	13,461	–	–	–
<b>Depletion</b>						
Depletion	–	–	–	–	–	–
<b>Write down</b>						
Opening balance	68,674	84,452	47,586	–	–	–
Write down	15,872	94	21,088	–	–	–
Closing balance	84,546	84,546	68,674	–	–	–
<b>Net book value</b>	<b>205,623</b>	<b>205,623</b>	<b>140,811</b>	<b>–</b>	<b>–</b>	<b>34,867</b>

<sup>2</sup> Oil and gas properties were transferred from the parent company to a wholly owned subsidiary during the year.

### **Note 3) Other income**

Part of the administrative expenses in Tethys Oman Ltd is charged to the joint venture in Block 15 Oman where the expenditures are capitalised and, in line with the Production Sharing Agreement, recoverable. These administrative expenditures are, through the above, also funded by the partner in Oman by 60 per cent. The chargeout to the joint venture is presented in the consolidated income statement as Other income.

### **Note 4) Shareholders' equity**

As per 31 December 2009, the number of outstanding shares in Tethys Oil amount to 28,049,091 (23,980,086), with a quota value of SEK 0.17 (SEK 0.17). All shares represent one vote each. Tethys Oil does not have any incentive program.

As per 1 January 2009, Tethys Oil had 23,980,086 shares. In March 2009, Tethys Oil conducted a share issue which increased the number of shares with 1,300,000 to 25,280,086. The shares from the share issue are included as per registration dated 10 March 2009. In June 2009, Tethys Oil conducted a second share issue of 2,000,000 which increased the number of shares to 27,280,086. Furthermore in July 2009, 176,186 warrants were exercised and accordingly an equivalent number of shares were issued by Tethys

Oil. Tethys Oil received proceeds of TSEK 4,052 before issue costs. The shares were registered 10 July 2009 and the total number of outstanding shares increased to 27,456,272. In October 2009 592,819 warrants were exercised and an equivalent number of shares were issued. Tethys Oil received proceeds of TSEK 13,616 and the total number of shares thereafter amounted to 28,049,091.

The warrants from the rights issue conducted 2008 amounted as per 31 December 2009 to 4,024,844 with an exercise price of SEK 23 and where one warrant gives the right to purchase one new share. The warrants can be exercised continuously up until 30 June 2010. The average share price during 2009 was above the exercise price for both the twelve month period and the fourth quarter 2009. The fully diluted number of shares therefore amounts to 32,073,935.

### **Note 5) Contingent liabilities**

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



# Key ratios

## Group

	1 Jan 2009 – 31 Dec 2009 12 months	1 Oct 2009 – 31 Dec 2009 3 months	1 Jan 2008 – 31 Dec 2008 12 months	1 Oct 2008 – 31 Dec 2008 3 months
<b>Items regarding the income statement and balance sheet</b>				
Gross margin before extraordinary items, TSEK	n.a.	n.a.	n.a.	n.a.
Operating result, TSEK	-28,985	-3,496	-31,748	-23,997
Operating margin, %	neg.	neg.	neg.	neg.
Result before tax, TSEK	-42,446	10,123	-16,395	-12,643
Net result, TSEK	-42,503	10,109	-16,426	-12,666
Net margin, %	neg.	neg.	neg.	neg.
Shareholders' equity, TSEK	202,770	202,770	177,077	177,077
Balance sheet total, TSEK	222,679	222,679	179,909	179,909
<b>Capital structure</b>				
Solvency, %	91.06%	91.06%	98.43%	98.43%
Leverage ratio, %	n.a.	n.a.	n.a.	n.a.
Adjusted equity ratio, %	91.06%	91.06%	98.43%	98.43%
Interest coverage ratio, %	n.a.	n.a.	n.a.	n.a.
Investments, TSEK	81,681	7,854	72,512	29,703
<b>Profitability</b>				
Return on shareholders' equity, %	neg.	neg.	neg.	neg.
Return on capital employed, %	neg.	neg.	neg.	neg.
<b>Key figures per employee</b>				
Average number of employees	10	10	10	10
<b>Number of shares</b>				
Dividend per share, SEK	n.a.	n.a.	n.a.	n.a.
Cash flow used in operations per share, SEK	neg.	neg.	neg.	neg.
Number of shares on balance day, thousands	28,049	28,049	23,980	23,980
Shareholders' equity per share, SEK	7.23	7.23	7.38	7.38
Weighted number of shares on balance day, thousands	26,274	27,882	22,669	23,978
Earnings per share, SEK	-1.62	0.36	-0.72	-0.53
Earnings per share after dilution, SEK	-1.33	0.32	-0.68	-0.53

*For definitions of key ratios please refer to the 2008 Annual Report.  
The abbreviation n.a. means not available*

# *Financial information*

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

The annual report is expected to be available at Tethys Oil's office in April  
Three month report 2010 (January – March 2010) on 12 May 2010  
Annual General Meeting 2010 is planned to be held in Stockholm 19 May 2010  
Six month report 2010 (January – June 2010) on 20 August 2010  
Nine month report 2010 (January – September 2010) on 12 November 2010

Stockholm, 16 February 2010

**Tethys Oil AB (publ)**

Org. No. 556615-8266

Magnus Nordin

*Managing Director*

## **Tethys Oil AB (publ)**

### **Corporate Head Office**

Tethys Oil AB  
Hovslagargatan 5B  
SE-111 48 Stockholm  
Sweden  
Tel. +46 8 679 4990  
Fax +46 8 678 8901  
E-mail: [info@tethysoil.com](mailto:info@tethysoil.com)

### **Muscat Office**

Tethys Oil Oman Ltd  
Hatat House, Unit 116  
Wadi Adai, Muscat  
Oman  
Tel. +968 245 714 62  
Fax +968 245 714 63  
E-mail: [info@tethysoil.com](mailto:info@tethysoil.com)

### **Technical Office**

Tethys Oil Suisse SA  
78 Rue Ancienne  
CH-1227 Carouge, Geneva  
Switzerland  
Tel. +41 22 304 1990  
Fax +41 22 304 1995  
E-mail: [info@tethysoil.com](mailto:info@tethysoil.com)

### **Internet information**

Follow the development of Tethys Oil during the year by visiting the corporate website [www.tethysoil.com](http://www.tethysoil.com).

The website contains inter alia press releases, published reports, photos from operations, description of operations and general corporate information.