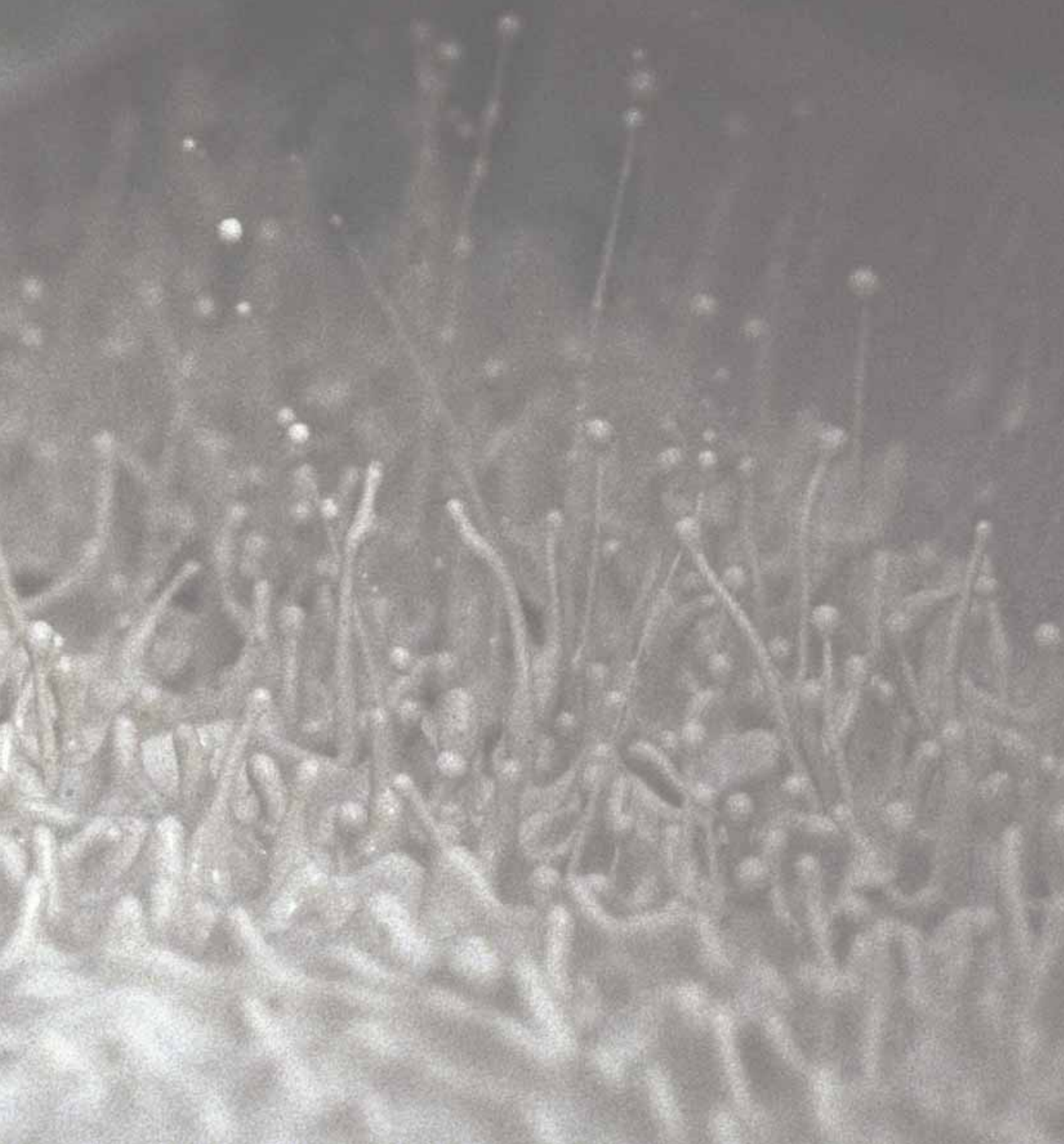


Tethys Oil AB (publ)
Annual report 2006



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Annual Meeting

The Annual Meeting will be held at Van der Nootska Palatset, S:t Paulsgatan 21, Stockholm, at 4 p.m. on Wednesday, 16 May 2007. Shareholders intending to participate in the Annual Meeting must be entered as shareholders in the share register as per 10 May 2007. In addition to the requirements listed above, shareholders shall provide notice of attendance, not later than 4.00 p.m. 10 May 2007, to:

Tethys Oil AB

Corporate Legal Telephone: +46 8 679 49 90
Blasieholmsgatan 2A Fax: +46 8 678 89 01
SE-111 48 Stockholm E-mail: agm@tethysoil.com
Sweden

Proxy

In order to attend and vote as proxy on behalf of a shareholder at the Meeting, a power of attorney must be presented to the company, preferably at the above address not later than 10 May 2007.

Financial information

The company plans to publish the following financial reports:

Three month report (January–March 2007) on 16 May 2007
Annual meeting on 16 May 2007 in Stockholm
Six month report (January–June 2007) on 23 August 2007
Nine month report (January–September 2007) on 13 November 2007
Year end report 2007 (January–December 2007) on 15 February 2008

Cover: Artist's impression of droplets in the drilling mud from the drilling of Karlebo-1

Tethys Oil in brief

Tethys Oil is a Swedish company focused on exploration for and production of oil and natural gas. Tethys 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 has interests in licences in Oman, Denmark, Morocco, Spain, Turkey and France. The shares are listed on First North (TETY) in Stockholm.

2006 in brief

Highlights

- Planning, construction and drilling of Karlebo-1 exploration well onshore Zealand, north of Copenhagen in Denmark.
- Acquisition of 40 per cent in Block 15 onshore Oman
- Issue of units raised MSEK 53
- Farmout of 20 per cent interest in Danish licences for 40 per cent of well cost
- French government awarded Tethys a 40 per cent interest in an exploration permit in Paris basin
- Gravimetrical field work concluded on the Bouanane licence in Morocco

Subsequent events

- The drilling of the Jebel Aswad re-entry well in Oman commenced
- Drilling operations commenced and completed on Huermececes licence onshore Spain

Letter to the shareholders

Dear friends and investors,

The year 2006 has been the year Tethys Oil AB came of age as an oil company and became an able actor and operator on the oil scene. We proved our ability as operator, acquirer of assets through corporate deals and our ability to attract partners to share the risk and opportunity of our projects through farmouts. We have successfully negotiated licences with host governments and we have developed a number of important partner relationships with industry colleagues.

None of these achievements could have happened without dedicated professional and responsible people who in different ways have contributed to our operations. Let us before we continue express our gratitude to all those people, partners, suppliers, advisers, host governments and, in the Karlebo case, neighbours who have put up with us and shared our journey with its ups and downs. And without whose assistance help and support we would not be where we are today.

The main achievement of the year remains the drilling of the Karlebo-1 exploration well. After almost five years of preparatory work, Karlebo-1 on licence 1/02 onshore Zealand north of Copenhagen in Denmark spudded in late September with an official inauguration on September 27. The well was drilled to a total depth of 2,489 metres and on November 17, it was clear that no hydrocarbons had been found.

Despite having known that the odds on this high risk/high reward well were stacked way against us, a dry well is always a disappointment. Despite the result of the well, the accomplishment in itself has firmly put Tethys on the map as an operator capable of conducting a complicated operation in one of the technically and environmentally most demanding jurisdictions in the world – the European Union. This fact will be a major asset going forward in forming our relations to host governments and other oil companies. We have gained invaluable experience that will enable Tethys to grow and develop.

We would here like to express our deep gratitude specifically to the people we have met and worked with in Denmark. We have met with great interest and respect and enjoyed a very good working relationship with the Danish Energy Authority, Karlebo community and 'our' neighbours. Karlebo and Danish Licence 1/02 will always remain as the cornerstone for Tethys, this was our first licence and our first well as operator and without it there would not have been a Tethys Oil AB.

Our second major achievement during 2006 was the acquisition of a 40% interest in Block 15 onshore Oman through a corporate deal. The deal was completed in May and Tethys immediately assumed operatorship. Block 15 is an appraisal opportunity where





we know that oil is present, but we do not know if quantities and flow rates will be commercial. The point of the Omani operations is to prove that sufficient quantities of oil can be produced economically from the two wells that were drilled in the 1990's. We are hopeful that horizontal, under-balanced drilling will indeed produce healthy flow rates, but we must of course wait for the results of the re-entry operations before we know.

The Jebel Aswad well was re-entered in early April 2007 and operation will last for some forty days during which two zones will be investigated by horizontal legs measuring several hundred metres. The deeper of the zones is as yet untested and carries a higher risk while the higher zone is proved to hold good quality oil. In addition some ten similar structures, as yet undrilled, have been identified on Block 15 from seismic data. Undoubtedly Block 15 has the potential to be a 'company maker'.

In late 2006 the operator of the Huermeces-license onshore Spain, where Tethys holds a 50 per cent interest, had completed all preparatory work to drill the Hontomin-4 well. The well was spudded in mid-March to target an extension a of small known oil accumulation. The well was completed just over a month later without encountering any oil. Another disappointment with the drill bit but in this case the risk-reward was rather limited.

After the completion of the Karlebo and Hontomin wells, Tethys has actually fulfilled the original work programme as laid out at the time of the Company's IPO almost exactly three year ago. Three years during which Tethys has proved its ability in the upstream oil industry.

So stay with us. We are maturing quickly and the odds have never been better for Tethys to be successful than they are in Oman. We may be just at the threshold of graduating from having become a technically competent company to also become an oil producer and a significant value creator for our shareholders.

Stockholm in April 2007

Vincent Hamilton
*Chairman and
 Chief Operating Officer*

Magnus Nordin
Managing Director

Oil and natural gas exploration

The oil industry is divided into two main categories, upstream and downstream. Upstream includes such operations as exploration and production of crude oil and natural gas. Downstream operations include refining and distribution of oil as fuel, heating oil or as raw material for the petrochemical industry. Oil companies can operate in both segments, or in parts of these segments. Tethys Oil operates in the upstream side of the business.

Property rights to oil and natural gas discoveries

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

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

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

Co-operation and partners

Because exploration costs are high, oil companies often co-operate. A typical oil concession could be held by five different companies with 20 per cent each in the licence. The company first awarded the licence is usually inviting other companies to participate. Invited companies thereafter pay for all or for part of the undertaken work commitments. In return, they receive part of potential future earnings. This is called to “farm out” or “farm in”.

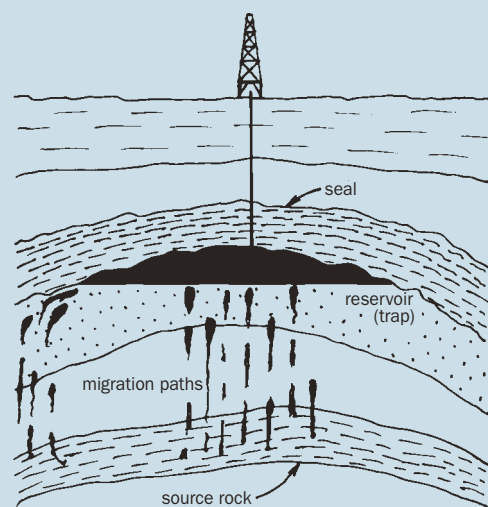
The company with the operating responsibility, called the operator, can either carry out the work themselves or acquire the services on contract.

Development of geological models to locate oil and natural gas prospects

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

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

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



Exploration

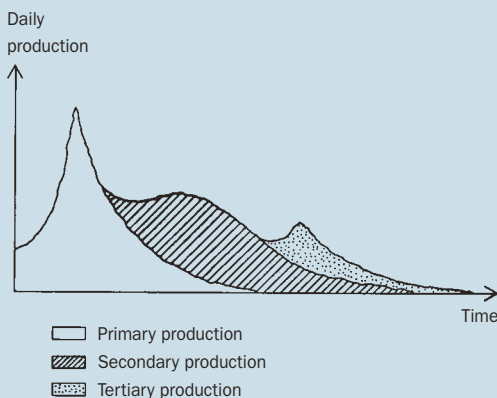
Oil and natural gas are found in sedimentary rocks at depths of less than 10 kilometres. These rocks have been deposited through particles, carried by air or by water and then buried and cemented into rocks. In order to locate geological structures that are advantageous for oil and natural gas accumulations,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

tions in the speed of the sound wave and angle, to estimate the location of structures that could hold oil and/or natural gas reserves in an exploration area.

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

Drilling

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



Indications of oil and gas whilst drilling

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

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

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

Calculation of reserves

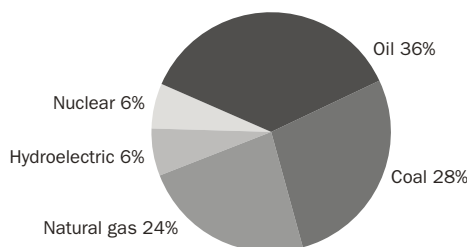
The reserves are an estimate of the volume of crude oil and natural gas of a discovery that is viewed as commercially recoverable under present economical conditions. The reserves are divided into two groups, proven and unproven reserves. In turn, the unproven reserves are divided into probable and possible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

The oil and gas market

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

Sources of energy

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



Source: BP Statistical Review of World Energy 2006.

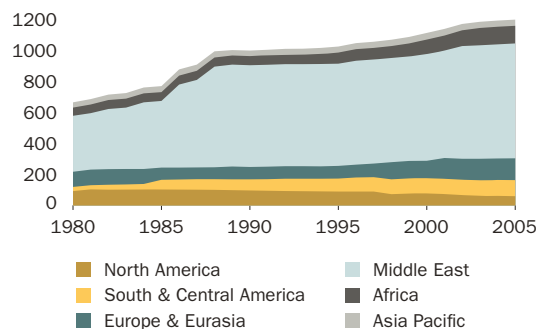
The oil market

Oil price – trends and variables

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

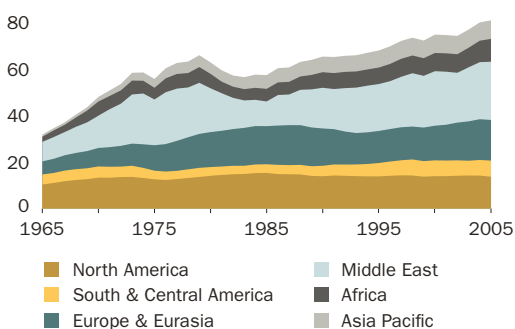
The amount of variables that can affect oil supply and demand are vast and much resources and brain power is devoted to create dynamic models aiming to explain past developments, understand the current

1. Known global oil reserves, thousand million barrels



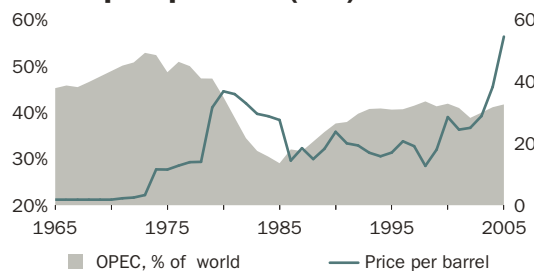
Source: BP Statistical Review of World Energy 2006.

2. Global oil production, thousand barrels per day



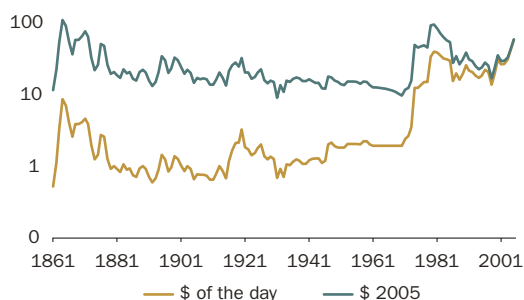
Source: BP Statistical Review of World Energy 2006.

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



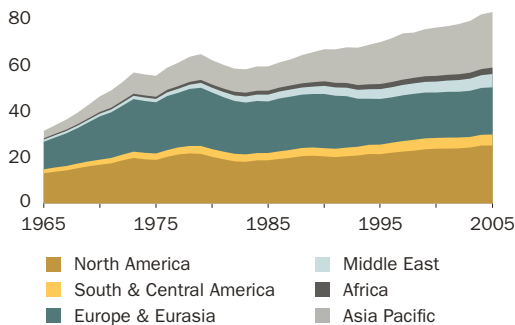
Source: BP Statistical Review of World Energy 2006.

4. Oil price development since 1861



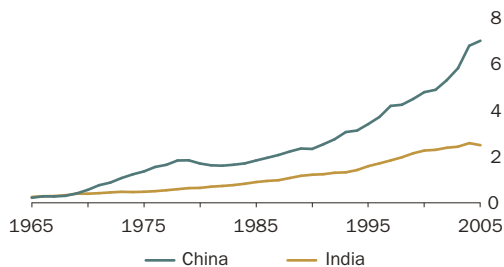
Source: BP Statistical Review of World Energy 2006.

5. Global oil consumption, thousand barrels per day



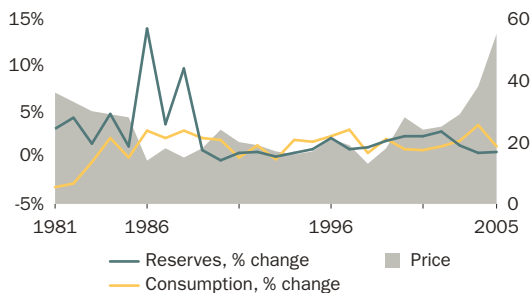
Source: BP Statistical Review of World Energy 2006.

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



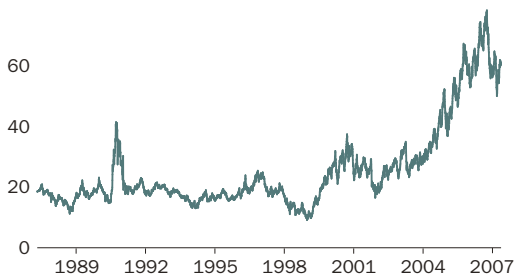
Source: BP Statistical Review of World Energy 2006.

7. Production change and price change



Source: BP Statistical Review of World Energy 2006.

8. Oil price development since 1985



Source: Wall Street Journal

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

A first variable to consider is the available amount of oil. Figure 1 shows that the increase in available reserves has fallen over the last 20 years. Add to this that new discoveries tend to be smaller and further in between than in the past and the trend seem to be towards an eventual limit to available supply. A possibly more immediate observation regarding reserves however is the distribution of reserves. More than 70 per cent of known reserves are located in the Middle East and reserve growth in other areas of the world over the last 20 years has been marginal.

After the first of the supply shocks caused by the OPEC driven price increases in the 70's, resulting in strong declines in consumption, as well as spurring a sharp increase in non-OPEC spending on exploration, development and production the oil price has been primarily demand driven. Consumption has increased and the long term trend has been for price and production to follow. Increases in Chinese consumption over the last decade stand out as a case in point.

Small changes in demand and supply can however have dramatic effects on price in the short run. A notable example is the effects of the Saudi production increase in 1998 which came to coincide with the downturn in Asia. Note however, that Chinese consumption never actually declined. Only the rate of increase dropped. Note also that a very small adjustment of less than 2 per cent decrease in supply restored the price within a year.

OPEC's share of world production, and more importantly share of available excess supply, determines OPEC's influence over price. As is evident from the 80's where non-OPEC supply increased dramatically and in spite of large cuts within OPEC to mitigate the supply increases, the price dropped sharply. As long as OPEC controls the marginal barrel produced, it is likely that OPEC will be able to exercise significant influence over the oil price. And as long as no other regions significantly increase reserves and production capacity this state of affairs is likely to prevail.

Oil price – future outlook

Oil prices in the near to medium term are likely to remain within the range USD 45–48 to USD 70–72 per barrel for Brent bar a catastrophic event, political or other, which would cause a major supply disrupt-

tion. OPEC should have a sufficient share of supply to be able to meet any attempt by the price to go below 45. At the other end of the range, that element of financial speculation which most likely is present in current prices has so far not been strong enough to push prices even higher.

While average oil prices over say a five year period are likely to keep rising over time it is equally likely that oil prices will continue their historic volatility.

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

Lead times are long in this industry and new investment often does not come on stream until after five years or more. However by 2009 supply should increase which most likely will have a stabilizing to downward pushing effect on price. Should such an increase in supply co-inside with a decrease in demand, say following an economic slowdown in China or India, also a dramatic price fall could not be ruled out. A scenario similar to what we saw in the mid 80's could repeat itself. It is however unlikely that substantially lower prices could be sustained for any longer period of time, but a sharp correction can certainly not be ruled out and could present a valuable opportunity to acquire assets for any player able to maintain a long term view.

The fact that even today's price of close to USD 70 per barrel for Brent adjusted for inflation is still less than the top prices recorded around 1980, certainly speaks in favour for the long term view on price.

Natural gas market in Europe

Overview

Natural gas has become an increasingly important source of energy in Western Europe accounting for 24.3 per cent of total primary energy supply in 2004. If current trends continue, natural gas is expected to continue to increase in relative importance in the European Union compared with other energy sources. The market for natural gas is in many ways different to that of the oil market. Even though gas is created in much the same ways as oil, the fact that it is a gas makes it more difficult to transport. Pipelines play an important role in transporting natural gas (pipelines account for 84 per cent of gas transport in Western Europe) and therefore prices are being set locally and in comparison with oil, prices of natural gas are less

homogenous. The natural gas market is not global in the same way as the oil market is and therefore this natural gas section will focus on the natural gas market of Europe. (Source: Eurogas Annual Report 2004–2005)

Pricing of natural gas

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

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

Between July 2004 and July 2005, industrial consumers across the EU spent an average of €203 per mcm of natural gas. The price received by producers is less due to transportation and marketing costs. Details of natural gas sales contracts between producers and buyers are normally held confidential for commercial reasons. Therefore, it is difficult to estimate what producers of natural gas could expect to receive for their production. (Source: Eurostat)

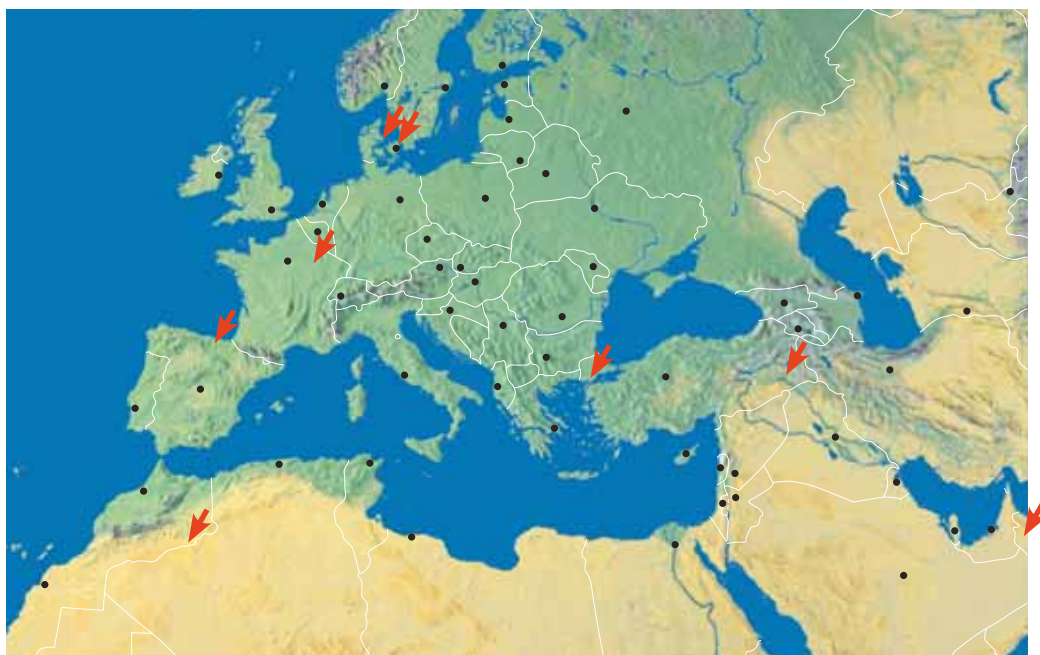
Environment

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

Pipeline infrastructure

The natural gas pipeline network of Europe is a great technological and business achievement. Over 1,800,000 kilometres of pipeline extend across the European Union and thousands of kilometres of pipeline interconnections and extensions are being built or planned, to ensure a secure and reliable supply of energy. (Source: Eurogas Annual Report 2003–2004) EU legislation has provided for both third party access to transportation networks and transparency of transport tariffs.

Tethys Oil



Overview

Tethys Oil is a Swedish company focused on exploration for and production of oil and natural gas. Tethys 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 has interests in exploration licences in Oman, Denmark, France, Morocco, Spain and Turkey. The shares are listed on First North (TETY) in Stockholm.

Asset portfolio

Tethys Oil's strategy is to create value for its shareholders through exploration as well as acquisition of assets in different development phases. Tethys Oil will continue to evaluate opportunities to acquire both exploration licences and producing assets.

Organization

Tethys Oil's head office is located in Stockholm, Sweden and in addition the company has technical offices in Geneva, Switzerland and Muscat, Oman. Furthermore, there are representation offices where deemed necessary. The Group has six full and part time employees and an equal number of technical consultants on long term contracts. The company aims to maintain low over head costs and a stream lined result orientated organization, which is strengthened by additional technical consultants during drilling operations and more complex geological and geophysical studies. Through this organization Tethys Oil accesses local competence with years of experience which would otherwise take several years to build in-house.

History

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

Country	Licence areas	Tethys Oil, %	Total area, km ²	Operator
Oman	Block 15	40%	1,389	Tethys Oil
Denmark	Licence 1/02	50%	533	Tethys Oil
	Licence 1/03	50%	1,655	Tethys Oil
Morocco	Bouanane	(Under negotiations)	(Under negotiations)	Tethys Oil
Spain	Valderredible	50%	241	Ascent Resources
	Huermeces	50%	121	Ascent Resources
	Basconillos	50%	194	Ascent Resources
	Cameros-2	26%	35	SHESA
	Ebro-A	26%	217	SHESA
Turkey	Ispandika	10%	965	Aladdin Middle East
	Thrace	25%	897	Aladdin Middle East
France	Attila	40%	1,986	Galli Coz
Total			8,233	

Oman

Block 15 is a very promising block with some 10 structures identified from seismic, including the Jebel Aswad/Wadi Saylah discovery which at the time of writing is being appraised with horizontal underbalanced drilling.



Background

On May 24, 2006, Tethys Oil acquired GotOil Resources (Oman) Ltd., a company, which has a 40 per cent interest in Block 15 onshore Oman licence.

Geology

Oman is located on the eastern part of the Arabian Plate. Block 15 is situated in the northwestern part of central Oman, and more specifically in the northern part of western Oman's Fahud basin. This area became the site of carbonate platform deposition during the Jurassic and Cretaceous time periods, following the break-up of Gondwanaland, and the opening of the Tethys Ocean.

The region has undergone two stages of tectonic phases that created the geological structures, appropriate for oil fields. In the First Phase, Late Cretaceous time, the region of Block 15 underwent subsidence. During this time fault trends were created in a northwest-southeast direction. In the Second Phase, Early Tertiary time, folding commenced in the Oman Mountains, and northeast-southwest shortening is documented as overprinting extension in the region of the Natih and Fahud Fields. The result of this event is inversion of pre-existing northwest-southeast trending faults in the basin.

Reservoir

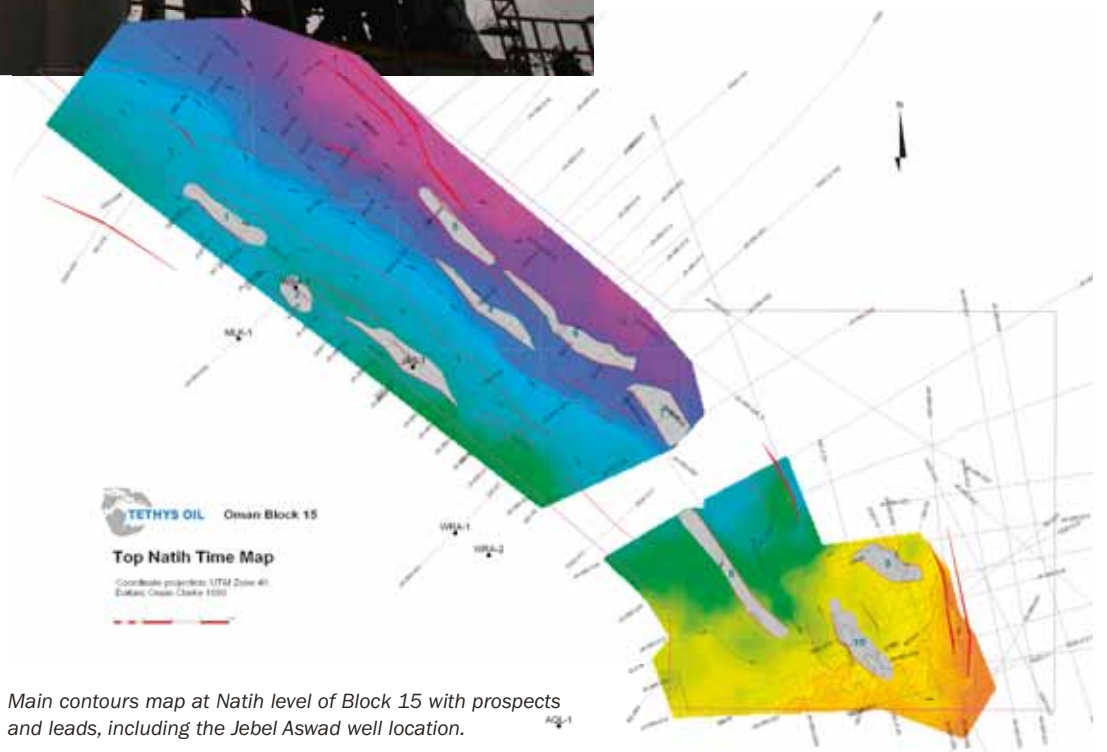
The prospective reservoir horizons in Block 15 are the Cretaceous limestones of the Shuaiba and Natih formations. Both the Shuaiba and the Natih are productive reservoir horizons in a number of fields to the W, SW, S and SE (e.g. the Natih and Fahud Fields, approximately 50 kilometres south of Block 15). These reservoirs in Block 15 are around 2,800 metres deep.

The Shuaiba reservoir is composed primarily of micritic lime mudstone, which generally has a moderate to good porosity (12-30 per cent) with poorer permeability (less than 5 mD (Millidarcy)). It is also commonly fractured.

The Natih reservoir is a fractured chalky limestone with a predominantly low permeability matrix. Production is largely controlled by the density, orientation and connectivity of fractures. High levels of fracture occurrence and density are often linked to the localized presence of minor faults. Porosity of the Natih reservoir in the Natih field ranges from 15-27 per cent, with permeability from 2-500 mD, but predominantly between 5-50 mD.



Licences	Tethys Oil, %	Total area, km ²	Operator
Block 15	40%	1,389	Tethys Oil
Total		1,389	



Main contours map at Natih level of Block 15 with prospects and leads, including the Jebel Aswad well location.

History

The first oil field was discovered by Shell in 1962 and called Yibal. It is the largest field that has been discovered in Oman. Oman is not part of OPEC and produces around 800,000 barrels of oil per day. The country has an estimated 5.5 billion bbls of proven reserves. In addition, it is a major producer of Liquefied Natural Gas (LNG).

GotOil Oman signed an Exploration and Production Sharing Agreement with the Ministry of Oil and Gas of the Sultanate of Oman for Block 15, onshore Oman on September 6, 2005. This was ratified by the Sultan on October 23, 2005. GotOil Oman is the designated operator with 40 per cent interest, with Odin Energi A/S having the remaining 60 per cent interest. On May 24, 2006, Tethys Oil acquired GotOil Resources (Oman) Ltd. Block 15 covers an area of 1,389 square kilometres.

Over 2,500 kilometres of 2D seismic data has been acquired, processed and interpreted.

British Petroleum collected the first modern seismic data in 1985 (835 kilometres). This data was reprocessed by Conquest Oman and later followed by new acquisition of an additional 425 kilometres of 2D seismic data in 1991.

The two previously drilled exploration wells on Block 15, Jebel Aswad and Wadi Saylah were drilled by Conquest Exploration in 1994 and 1997 respectively. Jebel Aswad-1 has tested 204 bbls of 40 degree API oil from a 30 foot perforated interval in the Natih limestone reservoir, after being re-entered in 1995. Well logs of Jebel Aswad indicate a gross hydrocarbon bearing limestone section of 210 feet. Well logs of Wadi Saylah indicate a 132 feet gross hydrocarbon bearing column but was never tested. Conquest Petroleum subsequently relinquished the block in 1998 and Novus Petroleum acquired the block as part of a multi-block bid. Novus performed some seismic reprocessing and then relinquished it in the early 2004.

Risk

The primary risk associated with the existing oil discovered in Block 15 is production rate. Previous work demonstrated that oil can be produced through a vertical well bore but at a low rate. Probably the dominant factor controlling the well production rate is the amount of fractures present in the reservoir rocks. In order to intersect more fractures it is proposed to drill a horizontal well within the oil-bearing horizon. If there are sufficient fractures encountered in this manner, then the probability of achieving commercial oil production rates is greatly increased.

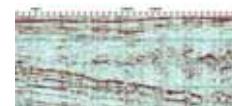
Potential

Based on an engineering study of the two wells, an amount of oil in-place has been calculated to be 55 million bbls. Anticipated reserves are based on the Natih limestone section. This assumes that the two wells have intersected a common oil-water contact and that the oil saturation in the reservoir is continuous across the structure. Proven reserves of 250,000 bbls are calculated by the engineering study for the area immediately around the vertical well that tested oil to surface.

Reprocessing



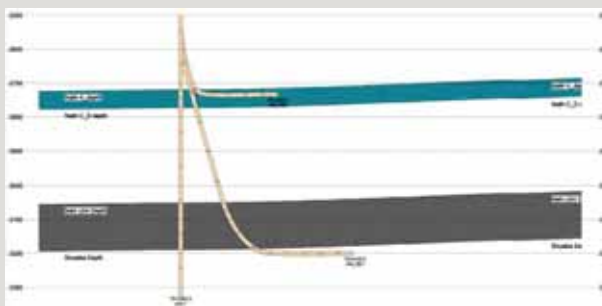
Before



After

Horizontal drilling

A significant improvement in directional drilling technology occurred when downhole drilling motors were first used in the mid 70's. These motors allowed the bit to rotate whilst leaving the drillstring stationary. This in turn allows for a smooth arc to be drilled underground. More recent breakthroughs include the development of rotary steerable tools, which allow three dimensional control of the bit without stopping drill string rotation.



There are many advantages of horizontal drilling. The main advantage is to achieve higher production rates through the increased exposure of formation surface area. Horizontal, or directional drilling, is also used when it is not possible to access a target vertically below the drilling site, for instance when the target is under a town. The technique also allows for multiple wells to be drilled from the same rig, which is especially cost efficient when drilling offshore. The only disadvantage of drilling horizontally compared to vertically is the increase in cost.

Underbalanced drilling

Underbalanced drilling is a procedure used where the hydrostatic pressure in the wellbore is kept lower than the fluid pressure in the formation being drilled. As the well is being drilled, formation fluid is produced into the wellbore and up to the surface where the oil is stored and processed. This is opposite to the standard practice of mud drilling, where the wellbore is kept at a higher pressure to the formation pressure to prevent oil or gas entering the well.

The main advantage of using underbalanced drilling is to eliminate damage to the reservoir rock. In a conventional well, the higher hydrostatic pressure of the drilling mud is forced into the reservoir rock, which frequently causes damage that may not be reversible. With less pressure at the bottom of the wellbore, it is also easier for the drill bit to cut and remove rock. An effect of using underbalance drilling, and since hydrocarbons is not forced back into the reservoir by the pressure, the operator is able to constantly monitor the contents of the well. The main disadvantage of the technique is the cost - underbalanced drilling is usually more expensive than conventional drilling.



Work programme

The outcome of the geological and geophysical work carried out to date have confirmed the integrity of the Jebel Aswad/Wadi Saylah (JAWS) structure. The new maps show that the Wadi Saylah well was drilled on a part of the structure which is separated from the main structure by a fault. The extent of the Wadi Saylah area will be determined later and focus will be on the main structure as defined by seismic and the Jebel Aswad well.

Anticipated reserves are based on the Natih limestone section. In addition, detailed log analysis has suggested that the Shuaiba reservoir rock also is oil saturated. The Shuaiba is the main producing rock in the region, but was not re-tested in 1995. It is thus less certain as a producer than is the Natih. However should the Shuaiba produce, reserves in the field would increase significantly.

The drilling of the Jebel Aswad re-entry well commenced during Easter 2007. Drilling operations are expected to last for some 40 days.

The re-entry of the Jebel Aswad well will be designed to appraise both the Natih and the Shuaiba reservoir sections in order to determine reserves in place and a likely recovery factor. Two horizontal legs will be drilled at the respective horizons using underbalanced drilling fluids in order to minimize damage to the reservoir and maximize oil production.

In addition to Jebel Aswad/Wadi Saylah, several other structures have been identified on the Block. These will be subject to additional seismic studies in the future.



Denmark

During the autumn of 2006, the exploration well Karlebo-1 on licence 1/02 in Karlebo onshore Denmark was drilled. The well was Tethys Oil's first as operator. Licence 1/02 was awarded by the Danish government during the summer of 2002. A second Danish licence was awarded under 2003. No significant amounts of hydrocarbons were detected in Karlebo-1, but the well was a milestone in Tethys' short history.



Denmark is Europe's third largest producer of oil and natural gas with all production coming from offshore in the North Sea. Onshore Denmark and in particular Zealand is comparatively under-explored. Before Tethys drilling of Karlebo-1, only two exploration wells has been drilled on Zealand, both relatively long ago.



Geological results from the Karlebo-1 well

The Karlebo-1 well was drilled to a total depth of 2,489 m. in order to encounter Mesozoic aged sandstone reservoirs in a position that could have trapped oil or gas generated from deeper Paleozoic source rocks. The well penetrated a total of 300 m. of net reservoir sands in the pre-Chalk section, but failed to encounter hydrocarbons, and was plugged and abandoned as a dry hole.

Using data gathered from the Karlebo well the company has conducted a post-drilling appraisal of Licences 1/02. Additionally regional data and studies were analyzed for the Licence 1/03 area. In brief, the results are negative for continued exploration in these licences.

The analysis focuses on the source rock since the other necessary elements were found with the Karlebo borehole. All relevant literature and data regarding the Alum Shale has been gathered and reviewed. This leads to the conclusion that the Alum shale is a widespread excellent source rock and had an initial enormous hydrocarbon generating potential. Computer modelling of the thermal history of northeastern Denmark through geologic time was conducted with an industry standard software available for this purpose. Different scenarios of depositional history and temperature development were modelled and the results compared to other rock maturity data. In the best fit scenario the Alum shale became mature for oil during the middle Paleozoic, mature for gas in the late Paleozoic time era.

Consequently the Alum shale probably generated most of its hydrocarbons before the Mesozoic reservoirs were deposited. Hydrocarbons may have been trapped during the pre-Permian phase; it is, however, quite unlikely that such accumulations would have survived the intense late Paleozoic tectonics intact. These results are expected to apply to a relatively large area around the southern part of Kattegat, Northern Zealand and also Djursland. Therefore, the company now sees very limited hydrocarbon potential in these areas.

Exploration drilling of Karlebo-1 (55°55'12.897" N; 12°25'04.042" E)

In the beginning of 2006, the preparations for the upcoming drilling were tangible. A drill site was contracted and in January 2006 a contract for the construction of the drilling site was signed. Already casing had been received and tendering for other long-lead items was in progress.

Licences	Tethys Oil, %	Total area, km ²	Partner	Operator
Licence 1/02	50%	533	DONG, Odin, Star Energy	Tethys Oil Denmark
Licence 1/03	50%	1,655	DONG, Odin, Star Energy	Tethys Oil Denmark
Total		2,188		





During the spring, the constructive dialogue with the Karlebo authorities continued. On April 19, one of many public meetings was held, where local citizens and other interested parties could meet the management of Tethys and ask questions about the upcoming drilling.

In June, Tethys Oil AB received municipal approval to construct the well site. The construction of the some 5,000 square metres well site commenced in the second half of June and was finished in August. A total of 100 trucks carrying a total of 3,200 cubic metres of gravel and 50 trucks carrying 600 cubic metres of asphalt were required to be moved onto the location to construct the drill site, which included a complete closed drainage system to handle rain water. The drilling pad was reinforced with sixtyseven 10 meter piles and was designed to handle a drilling load of over 615,000 kilograms. In June, Tethys also entered into a drilling contract with the Polish company Oil and Gas Exploration Company Cracow Ltd. for the drilling of the Karelbo-1.

In July, Tethys Oil signed a Letter of Intent with Star Energy Group plc for Star Energy to become a 20% partner in Tethys Danish licences. Through the farmout, Tethys interest in the licences were reduced from 70% to 50%. The farmout arrangement called for Star Energy to pay 20% of historical costs and 40% of the cost of an exploration well on licence 1/02. Other partners are DONG E&P and Odin Energi A/S.



In September, the drilling rig mobilization commenced when the first out of 45 drilling rig loads arrived to the drilling site in Karlebo. In the end of September, the drilling operations commenced with an American IRI-750 rig. The operations were officially inaugurated on 27 September by Karlebo Mayor Olav Aaen. Some 100 invited guests were also present at the official opening.

On 18 October the well had been drilled to about 1,700 meters. The well was secured by casing that was set and cemented in place. On 14 November the well had reached a depth of 2,489 metres after having encountered problems at 1,916 metres, forcing a sidetrack to be drilled below the 7" casing shoe.



By 17 November it was clear that no significant amounts of hydrocarbons had been discovered and subsequently the well was plugged and abandoned.



Spain

Part of Tethys portfolio since 2003, Spain offers an interesting mix of smaller oil opportunities coupled with larger gas plays.



Tethys Oil's has interest in five exploration licences located in northern Spain. Tethys Oil acquired the first three licences in 2003. Collectively called the Sedano project, they are located south of the Cantabrian Mountains, within the Duero basin, between the cities of Burgos and Bilbao. In 2006, Tethys expanded the company's Spanish portfolio with the Cameros project – two licences located in the Ebro basin, within La Rioja state.

The Cantabrian Mountains are made up of Paleozoic rocks, which extend southward underneath the interest areas. These are composed of limestone, sandstone and coal seams, which are important gas source rocks. Younger Mesozoic sandstone of Triassic age overlay the Paleozoic rocks which are in turn covered by marine shale that is the source rock for the oil found in the Ayoluengo field, which is reservoir in sandstone of Cretaceous age.

The Sedano project

The Sedano project is located about 180 kilometres south of the city of Bilbao. Tethys has a 50 per cent share in the three licences with operator, London AIM-listed, Ascent Resources holding the remaining part.

The Valderredible exploration licence contains the Huidobro discovery that was made by Chevron in the 1960s. The previous operator has proposed to redrill the Huidobro anticline using modern technology and improved drilling practices aiming at achieving a commercially viable oil field. In addition, deeper structural prospects have been identified based on existing seismic data.

The Huermeceas exploration licence contains the Hontomin discovery, which was drilled by Chevron in 1960s and produced an average of 113 bbls per day. It is noteworthy that although this well produced oil, it missed the original target and only penetrated the flank of the structure. This area is separated from the primary location by a geological fault that places the reservoir rocks at a shallower depth.

The Basconillos-H area is located to the south west of the Ayoluengo field. The area includes the Tozo wells that were drilled from 1965 to 1967. These wells encountered oil saturated sandstone at shallow depths of less than 500 metres.

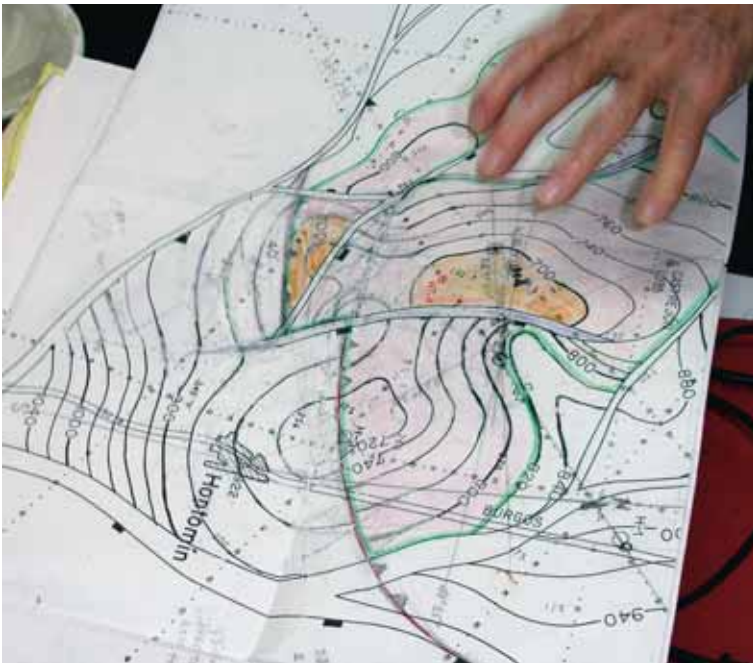


Technical work on the Sedano project

During the year technical work was focused on finalizing a drilling location for the drilling of the Hontomin-4 well. This included a further mapping of the prospect on existing seismic data. Most of the work was engineering studies for the location construction and well design, and was conducted by the operator Ascent Resources.

Subsequently on 17 March 2007, the drilling of the Hontomin-4 well on the Huermeceas Licence onshore Spain commenced. The well was planned to be drilled to a depth of 1,570 metres and the well was designed to appraise potential reserves on the Hontomin structure. The Hontomin-4 well was completed at the end of April. The well was drilled to a depth of 1,610 metres. The well was logged but no oil was encountered although the target formations were present. Preliminary analysis carried out by the operator, Ascent Resources, suggests that the complexity of the faulting in the formations above the target has resulted in the lack of an adequate seal for the reservoir.

Licences	Tethys Oil, %	Total area, km ²	Operator
Valderredible	50%	241	Ascent Resources Plc
Huermeceas	50%	121	Ascent Resources Plc
Basconillos-H	50%	194	Ascent Resources Plc
Cameros-2	26%	35	SHESA
Ebro-A	26%	217	SHESA
Total		808	



On Valderredible exploration licence, a geological consulting company had been contracted to conduct a study on several possible leads in the licence. The aim is to find shallow oil and deep natural gas prospects that could be drilled later during 2008.

The Cameros project

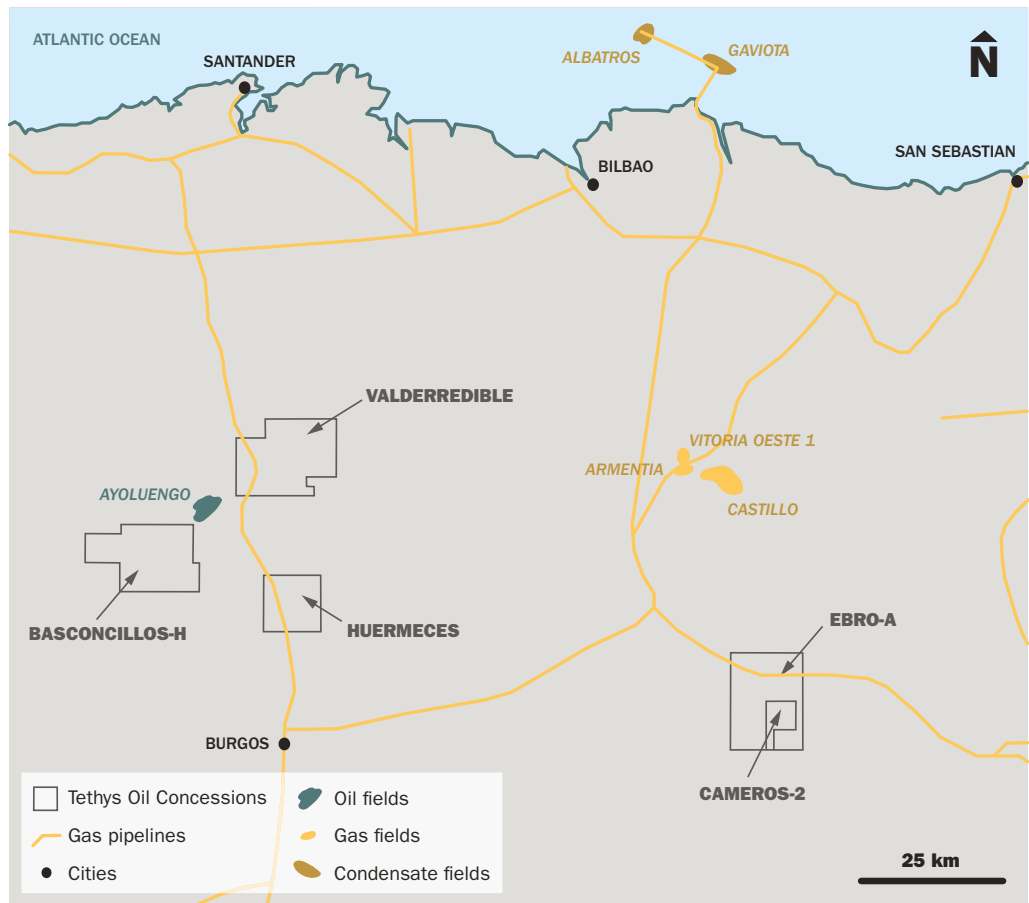
The Cameros licences are of interest for a large natural gas prospect, Najera, which has been identified

through the reprocessing of existing seismic data. The concept of the Najera prospect is to find gas in Cretaceous sandstone reservoirs that migrated from underneath the structure from Mesozoic aged source rocks that have been buried deeply enough for gas generation to occur from them. The structure itself is an anticline formed during Tertiary times and mountain-building episodes in Spain.

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

Technical work on the Cameros project

A large amount of technical work has been conducted by the other licence holders prior to Tethys joining. This included interpretation of existing seismic data



and nearby well logs, stratigraphy studies of wells and outcrops, geochemical analyses, and reprocessing and interpretation of one seismic survey. The latter work is most significant since it is from these reprocessed seismic lines that the Najera prospect has been identified and mapped. This particular seismic survey was acquired in 1997 by Enagas, a Spanish energy company, for the purpose of finding suitable gas storage sites.

Future work to be done prior to drilling will include the following: revision and analysis of the Rioja 4&5 well logs, geophysical characterization of the Utrillas reservoir formation, studies to define the optimal well location, design of the exploration well, and environmental impact study.



ASCENT RESOURCES has a portfolio of over 20 oil and gas projects across six countries in Europe. The projects are onshore in Italy, Switzerland, Hungary, Spain, Slovenia and offshore Netherlands. In Spain, where Tethys and Ascent are partners on three exploration licences, Ascent has an 88% interest and operatorship of the only onshore Spanish oilfield which produces over 100 barrels of oil per day.

Ascent's strategy is based upon holding a core of high potential, majority-owned European oil and gas projects, plus minority interests that focus on leveraging the European portfolio. With a balance between oil and gas projects, this strategy is designed to spread risk both geographically and by commodity.

Ascent has recently commenced a six well drilling programme, including both exploration and re-appraisal wells, with two in Hungary and two each in Spain and Italy. Ascent Resources plc is since November 2004 listed on AIM.



Morocco

2006 was an active year for Tethys in Morocco. The work programme associated with the reconnaissance licence was completed by summer and the results sufficiently encouraging to allow for a farmout agreement to be signed with UK independent Dana Petroleum. Dana is currently leading the negotiations with Morocco authorities to convert the reconnaissance licence to a Petroleum Agreement.



In July 2005, Tethys Oil and Eastern Petroleum signed a contract relating to a one year reconnaissance licence over an exploration area in central Morocco known as Bouanane. The licence gave Tethys, as Operator, and Eastern, each with a 50 per cent interest, the exclusive right for one year to investigate the licence area. The Bouanane licence covers an area of 2,100 square kilometres.

In September 2006, Tethys and partner Eastern Petroleum signed an agreement with UK oil and gas company Dana Petroleum, allowing Dana to acquire a 50 per cent working interest in the Exploration and Production agreement resulting from the Bouanane Reconnaissance Licence area. Dana will pay Tethys' and Eastern's share of the costs in relation to the licence in return for being assigned the interest. Subsequent to the end of the Reconnaissance Licence, Tethys and Eastern have the exclusive right to enter into an agreement for Exploration and Production in the Bouanane area. Dana is currently leading the negotiations with Moroccan state oil company, ONHYM, on a Petroleum Agreement for the Exploration and Exploitation of Hydrocarbons over the Bouanane area. Following completion of the transaction and the signing of a Petroleum Agreement, Dana will assume operatorship. Tethys will then have a 12.5 per cent interest in the licence carried over the drilling of one well.

Geology

Over 400 million years ago broad oceans covered much of the planets continents. These oceans were

rich in life. The resulting sedimentary rocks deposited at the bottom of these oceans were therefore rich in organic carbon. In many places around the world, in particular North Africa, these sediments form the famous Silurian oil source rocks (known in industry parlance as "hot shales"). These source rocks are present at the surface in the Moroccan Atlas Mountains. In the subsurface, in and around the Bouanane licence, they have been buried and heated, thus releasing their organic carbon content in the form of hydrocarbons, which is oil and natural gas.

Going further back in time, to the Ordovician time period, some 450 million years ago, these great oceans had not yet completely flooded the continents. Instead vast sandy beaches were present that resulted in the deposition of high quality reservoirs, perfectly made to hold the hydrocarbons later generated out of the Silurian.

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



Licences	Tethys Oil, %	Total area, km ²	Partners
Bouanane	(Under negotiations)	(Under negotiations)	Dana Petroleum, Eastern Petroleum, Tethys Oil



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

Main risks and potential of the reservoir

A successful exploration well in Morocco could show very large quantities of hydrocarbon, and a large discovery could be tied back to the trans-Morocco gas pipeline that supplies domestic markets and exports to Spain.

Licence and work programme

The purpose of the work programme for the reconnaissance licence period was to determine a drill site in order to test the large Tafejjart prospect/structure. It included:

- Satellite and radar acquisition and interpretation;
- Gravity and magnetic acquisition and interpretation;
- Reprocessing and interpretation of 2D seismic data;
- Integration of surface geology and final interpretation report.

The field work on the Bouanane licence started in February 2006 and was completed later during the year. Satellite and radar acquisition and interpretation, acquisition and interpretation of about 900 square kilometres of new gravity and magnetic data, as well as reprocessing and interpretation of nearly 600 kilometres of seismic data were completed by the end of a three month extension period granted in addition to the year licence. The work programme has confirmed the prospectivity of the area for natural gas, as well as confirmed the potential of the giant Tafejjart structure.

The purpose of the gravity and magnetic survey over the Bouanane licence was to further help in defining the extent of the Tafejjart prospect/structure and the depth of the deepest possible reservoir targets. This survey complements the existing seismic data over the main prospect of Tafejjart, especially to the north east where there is a lack of seismic lines. Additionally, there are other parts of the licence, without sufficient seismic coverage, where other prospects are expected.

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

Dana's current daily production is over 30,000 boepd, with that target to deliver over 40,000 boepd by end 2007. The group produces from 15 oil and gas fields with the main operations in the North Sea. About 91 per cent of the company's production of 17,901 boepd in 2005 came from 11 North Sea fields. Oil constituted approximately 83% of this volume averaged over the year. Dana has also won new licences in the UK and agreed deals for strategic entries into offshore Egypt and Morocco.

Finally, later in time during the Carboniferous period, some 300 to 350 million years ago, the entire area was blanketed with thick deposits of shale and mudstone. These types of rocks are excellent for their ability to seal hydrocarbons into reservoirs.

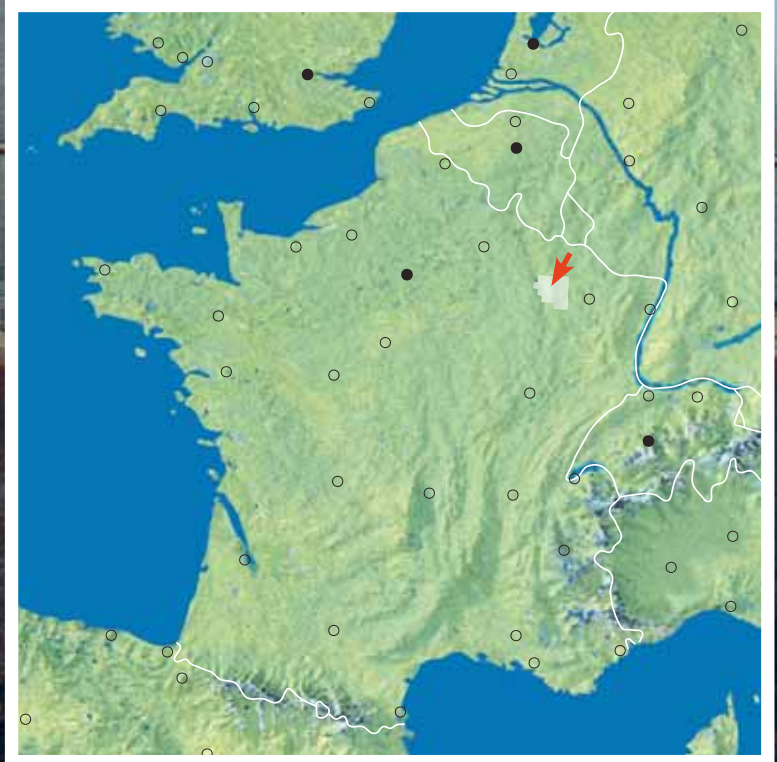
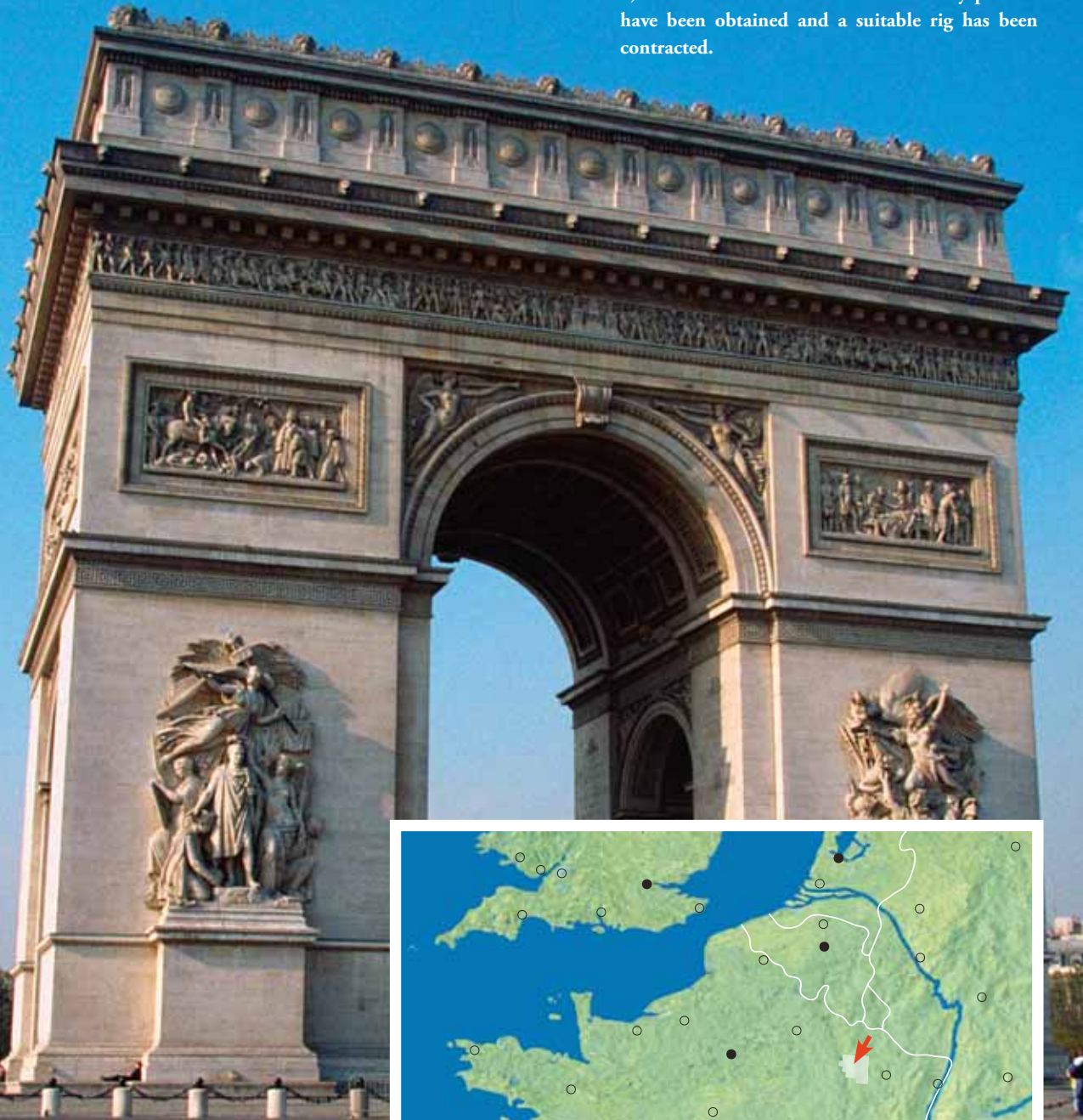
Gravity and magnetic studies

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

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

France

During 2006, sufficient information was obtained to upgrade the lead in question to a drillable prospect on which the Pierre Maubeuge 2 well (PLM-2) will be drilled as soon as all necessary permits have been obtained and a suitable rig has been contracted.



Background

Tethys Oil and the operator Galli Coz S.A. were awarded the Attila licence by the French government in February 2006. The licence covers 1,986 km² of the Department of Meuse in the oil and gas producing Paris basin, about 250 kilometres east of Paris. Tethys has a 40 per cent interest in the licence with Galli Coz S.A. having 60 per cent. The licence is valid for a period of five years.

Geology

A natural gas discovery, Montplonne, was made by Esso within the licence in 1984. The Montplonne discovery was however non-commercial at the time due to lack of infrastructure. Since then a 36 inch (0.90 metre) natural gas pipeline has been constructed across the middle of the licence area.

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

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

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

Tethys' objective in France is to find natural gas accumulations similar to the adjacent gas field called Trois-Fontaines. In general, the Paris basin is an oil basin because the depth of burial of the source rock is enough to generate oil but not deep enough, i.e. hot enough, to make natural gas. However to the east, starting under the Trois-Fontaines field and extending into Germany, there are gas generating source rocks present in the subsurface.

These gas source rocks are of Carboniferous age, between 300 and 360 million years old. The reason this geological time period is called Carboniferous is because rocks of this age are throughout the world dominated by coal (carbon). In addition to being valuable sources of energy when mined at the surface,

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

The presence of a gas field in this region of France is encouraging because it shows that there is in existence a working system to generate and trap natural gas. Tethys' belief is that there has simply not been sufficient exploration to find more fields. Within the near 2,000 square kilometre Attila licence area, only 12 wells have been drilled deep enough to penetrate the Triassic-aged reservoirs that contain gas in Trois-Fontaines. One of those wells, Montplonne-2, discovered a small gas field. This drilling density, 1 well per 166 square kilometres, could be compared with the average drilling density for Europe with one exploration well for every 116 square kilometres and in the USA with one per 28 square kilometres.

Main risks and potential of the reservoir

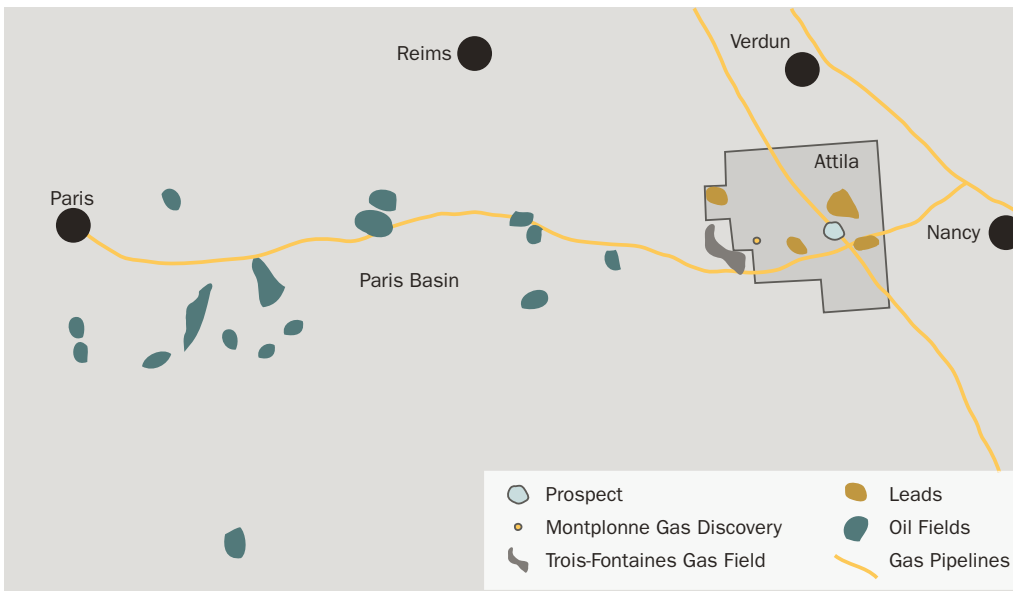
The objective with the Attila licence is to find gas generated from the Carboniferous migrating directly upwards into Triassic age sandstone reservoirs. A trap is required to make a gas field. In this case, the trap is geological faults, sudden breaks in the rock, which displace impermeable rocks up against porous reservoir rocks. Those geologic faults are causing a seal against which the migration of gas through the rock layers is stopped. However, herein lies the greatest risk. Are there faults and do they provide a sealing mechanism? As for potential reserves, they are in the order of magnitude between 10 and 100 bcf, depending on the amount of seal along the fault and the amount of porosity in the reservoir rocks.

Work programme

The technical work programme has been conducted on the licence. Satellite and radar data was acquired and analyzed to identify fault trends. About 180 kilometres of existing seismic data has been reprocessed. Geochemical surface samples were collected and have been analyzed confirming the prospectivity of the area.

The seismic interpretation of 180 kilometres of reprocessed seismic data has been completed and the results integrated in the geological model of the Attila licence. The interpretation has focused on a prospective area in the central part of the licence, where a geochemical survey and other data have indicated the presence of natural gas. The seismic interpretation defines a closed geological feature in this part of the licence, bound by a fault to the east.

Licences	Tethys Oil, %	Total area, km ²	Partner	Operator
Attila	40%	1,986	Galli Coz S.A.	Galli Coz S.A.
Total		1,986		



The benefit of the seismic reprocessing was an enhanced resolution of the data that allowed for accurate mapping of this fault and the structure. Combined with data previously acquired, the additional information provided by the seismic study was sufficient to upgrade the lead in question to a drillable prospect.

During 2006 the main work in France has been geared at securing permits for suitable well locations and detailed discussions and negotiations with local communities involved. The operator has conducted

several meetings and evaluated a number of possible surface locations from the perspective of suitability and accessibility. In this process, two primary locations were chosen and a dialogue is ongoing with local authorities to receive the permits necessary to commence drilling preparations. In parallel, discussions are ongoing with drilling rig contractors and tenders are being prepared for this and associated services. On April 24, 2007, drilling permission was received from the French local administration.

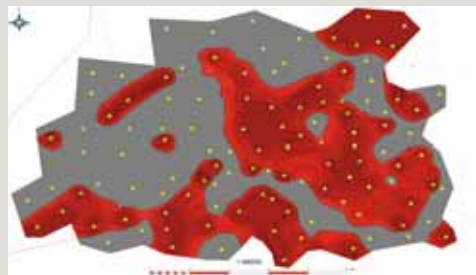
Surface geochemistry

During 2005 Tethys Oil participated in two surface geochemical surveys, one in Denmark and one in France.

Surface geochemistry is a technique that uses the presence and character of hydrocarbons within the soil to indicate deeper hydrocarbon accumulations. This is possible because all oil and gas fields leak minute quantities of hydrocarbons towards the surface through a process called micro-seepage.

The Gore™ Survey technique used in two of Tethys Oil's 2005 surveys works by installing collectors in the soil in a grid with a sample spacing of ½–1 kilometres. The collectors are left in the ground for ca. 3 weeks and are subsequently analysed for a range of more than 90 hydrocarbon compounds using gas chromatography and mass spectroscopy. Each module may have absorbed as little as one billionth of a gram of hydrocarbons.

The grid samples are compared to a geochemical model that includes end-points with known results, i.e. wells that discovered either oil or gas or wells that were dry. The similarity of the grid points to the positive model end-point (i.e. an oil or gas well)



is expressed as a percentage and a contour map is generated based on these values.

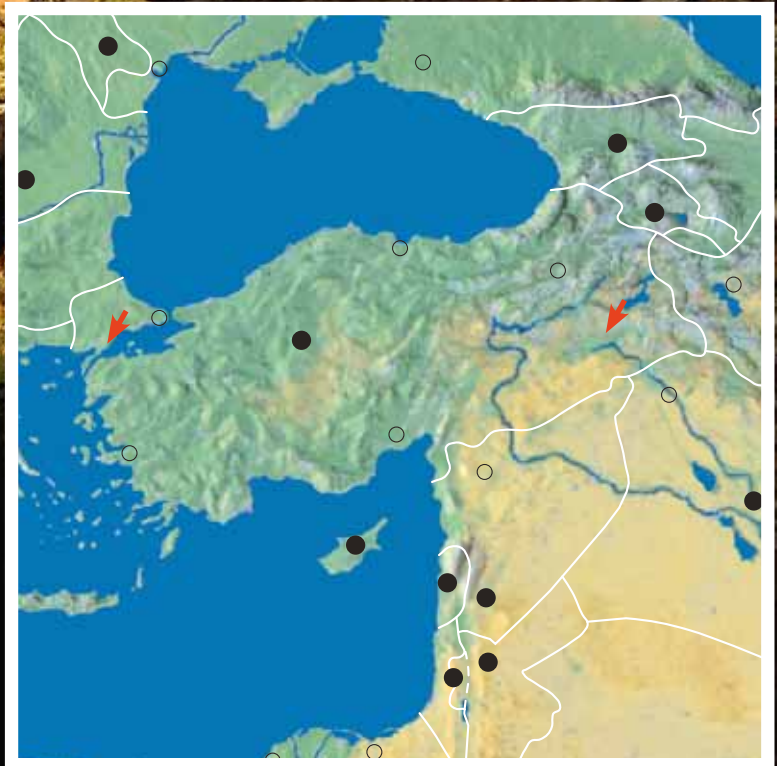
If the positive geochemical model endpoint for example is gas – like in the French survey – then areas similar to it can be expected to have a gas accumulation. The method does not say anything about the volume of gas there, only the area it occupies. However, if good model wells are available the method has been proven to be correct about 9 times out of 10, thus significantly reducing exploration risk.

In the example from France the red areas are similar to the gas model end-point and can be expected to be gas bearing. The grey areas are expected to be dry.

Surface geochemistry is a relatively inexpensive exploration method that forms a good supplement to other exploration methods, like for example seismic data.

Turkey

Geologically complicated, Turkey remains under explored. Tethys aims to maintain exposure both to a shallow gas plays in the northwest as well as the much more high risk oil exploration in the southeast.



The Thrace licences

In September 2005, Tethys increased the project portfolio with two onshore exploration licences in Thrace (licences 3998 and 3999), in the European part of Turkey. Under the contract, Tethys could earn up to 25 per cent interest in the licences. Aladdin Middle East is the operator and JKK Oil & Gas is a partner. The licences cover 897 square kilometres and are located in the middle of the Thrace basin.

Geological overview

In the European part of Turkey, west of Istanbul and the Sea of Marmara, lies the Tertiary Thrace Basin which is a triangular-shaped mainly onshore basin. The Basin extends into Bulgaria, where some shallow production is recorded. The Basin is bounded by outcropping Palaeozoic/Mesozoic basement to the north and by the Northern Anatolian Fault Zone in the south. The area contains more than 300 bcf of proven gas plus some oil.

Thirty three wells were drilled in the area before 1970 mainly targeting oil accumulations in a Cretaceous limestone. This exploration period resulted in the discovery of Hamitabat Field, still the largest gas field in the basin, plus a number of smaller discoveries. Since 1990 a number of further discoveries have been made by targeting shallow natural gas accumulations in Tertiary sandstones. Previously these gas zones were considered a drilling hazard; however, now that infrastructure and gas consumers are present in Thrace, they are commercially valuable even at small sizes.

Tethys Oil's geological model over the licences in Thrace

The Eocene Hamitabat Formation is the dominant source rock in the Thrace Basin. Although gas is the dominant hydrocarbon phase, oil is produced on the flanks of the Basin. Limited maturation data suggests that the top of the gas window is between about 2,500 metres and 3,000 metres in most of the Basin.

A number of hydrocarbon bearing reservoirs are present in the Thrace Basin. The oldest known reservoirs are within the Lower Eocene Hamitabat Formation. The Sogucak reefal and shallow water fringing limestones are productive in a number of fields.

In the known gas accumulations, the top seal is deltaic shales and claystones. Generally these seals are laterally extensive. Presence of an effective top seal



is thus one of the lowest risks in the Thrace Basin. Little has been published on structural styles in this area, but the main trapping mechanisms in the Basin are dip closed anticlines. These structures are believed to be related to reactivation of deep seated faults associated with Basin readjustment, possibly focused along pinch-out edges of the underlying Hamitabat Sub-basin.

Main risks and potential of the reservoir

The primary target is anticlines located in the south eastern part of licence 3999. Those structures were formed by regional compressive forces that caused the rocks to fold into their anticlinal forms. If they have the proper shape and were formed at the right time, they make excellent traps for hydrocarbons. Therefore the main risk for this play is this shape factor. The work programme is designed to define the structure better. The structure is anticipated to contain natural gas, although oil is also a possibility.

Work programme

Existing seismic data shows two strong leads in the Thrace licences. Additional seismic will however be required to confirm the presence of drillable prospects. The seismic programme has been agreed with partners and a seismic contractor has been engaged. The seismic acquisition will likely take place in spring and summer 2007. If the results of the new seismic are encouraging, an exploration well could be drilled later during the year.

Licences	Tethys Oil, %	Total area, km ²	Operator
Thrace	25%	897	Aladdin Middle East Ltd.
Ispandika	10%	965	Aladdin Middle East Ltd.
Total		1862	

The Ispandika licences

In November 2003, Tethys Oil entered into an agreement covering the exploration licences 3794 and 3795 in Ispandika. Aladdin Middle East is the operator of licences and Tethys has ten per cent interest.

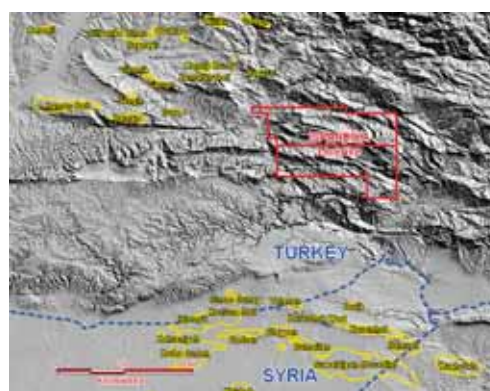
Tethys Oil's geological model over the licences in Ispandika

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



Main risks and potential of the reservoir

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



Work programme

In the Ispandika area onshore southeastern Turkey, Tethys and operator Aladdin Middle East were in the fourth quarter 2006 joined by US group Terralliance as a new partner. Tethys maintains a 10 per cent interest in the licence. Given the comparative shortage of seismic data, a shallow stratigraphic (geological research) well was drilled in order to gain a better knowledge of the near surface lithology in the area.

This well encountered difficulties in both drilling and in results. Surface access was constrained due to security issues and to weather related problems. Geological information gained from this well did not increase our knowledge of the area substantially.

Tethys' partner in Turkey – Aladdin Middle East Ltd.

Aladdin Middle East, Ltd. (AME) is an independent American oil and gas exploration and production company organized in 1960 for oil exploration in Turkey. Outside the main office in Wichita, Kansas, the company's operational headquarters is located in Ankara, Turkey.

Next to the oil field AME is operator of, the company holds over 7,300 square kilometres of onshore exploration licences mainly in south east Turkey Basin (North Arabian Shield) and in the Antalya Basin, which makes AME the largest concession operator in the country among the foreign petroleum right holding companies.

In addition to AME's production and exploration activities, the company has an inventory of nine drilling and/or workover rigs of varying capacities ranging up to 7,600 metres depth. AME's contracting division has drilled more than 60 exploration and development wells in Turkey for major companies including Exxon-Mobil, Wintershall, Placid, Neste Oy and many other operators.

Corporate Responsibility



Policy statement

Like everything else, Tethys Oil, its employees, customers, partners and shareholders are part of our common society and environment. We, as individuals or companies may from time to time operate in different positions and play different roles but we are always a part of the society, at large or local, and our fundamental dependence on our common environment never goes away. Being an oil company Tethys Oil knows this only too well, because the business of an oil company by definition impacts the environment. It is not possible to extract raw materials from the earth without in some way affecting the area where the extraction takes place. And this of course is true not only for the physical environment but also for the human environment where oil is found and produced.

As long as there is a demand for the products that oil companies bring to market to satisfy that demand there will also be oil companies carrying out this business. And here lies a great opportunity. To look for and try to find and produce oil and natural gas is challenging in its own right, but an equally spurring challenge is to do this in a cost efficient minimum impact way.

Tethys Oil will strive to use techniques and methodology that is the most efficient from an environmental impact point of view.

In practice Tethys Oil has not and will not embark on any major industrial activity without commissioning appropriate health, safety, environmental and social (HSES) studies from suitable experts. Acquired assets not operated by Tethys Oil are and will be independently reviewed by Tethys Oil out of a HSES perspective and Tethys Oil will closely monitor any contractor or operator. Wherever changes can be favourably employed such will be recommended.

Most countries today have strong environmental laws and standards which of course are a great help to an oil company in assuring correct practices are followed. But Tethys Oil will aim to follow best available practices under all circumstances even if this will go beyond local laws.

To conclude, Tethys Oil will always be aware that it is part of our common environment and will do its utmost to preserve this in any way possible.





Case study Denmark

Karlebo well from an HSES perspective

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



Prospecting for oil among Danish horse pastures and fruit orchards, requires massive undertakings to be environmentally approved.

Board of Directors, management and auditors

Board of directors



Vincent Hamilton, born in 1963. Chief Operating Officer and Chairman of the Board since 2004 (member of the Board since 2001). 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: 639,571.
Number of purchase warrants in Tethys Oil: 135,571.



Håkan Ehrenblad, born in 1939. Member of the board since 2003. Mr. Ehrenblad served at various executive positions at Bonnier Magazine Group until 1984. Mr. Ehrenblad has been a pioneer in the fields of information concerning computer and internet security. He has also published several books on mainly finance and tax information. Today he is active in publishing and media and also as active investor, mainly in the global energy sector. Director of Tanganyika Oil Company Ltd.
Number of shares in Tethys Oil: 49,399.
Number of purchase warrants in Tethys Oil: 38,399.



John Hoey, born in 1939. Member of the board since 2001. John Hoey has a management background in corporate finance and energy sector. Mr. Hoey was the President and Director of Hondo Oil & Gas Co. which was a publicly traded company, from 1993 to 1998. From 1985 to 1992, he was associated with Atlantic Petroleum Corp. of Pennsylvania and served as President and director. From 1972 to 1984, Mr. Hoey held various executive positions in commercial and investment banking in Saudi Arabia, England and the USA with Arab and American Financial Institutions. He is a co-founder, Vice-Chairman and Director of VietNam Holding Ltd. traded on AIM in London.
Number of shares in Tethys Oil: 434,276.
Number of purchase warrants in Tethys Oil: 102,545.



Magnus Nordin, born in 1956. Chief Executive Officer and Member of the Board since 2001. CEO of Sands Petroleum 1993–1998. Deputy CEO Lundin Oil 1998–2000, Head of investor relations 2001–2004, (acting CEO October 2002–2003) Vostok Oil Ltd., CEO of Sodra Petroleum 1998–2000. Board member of Mino-
taurus AB.
Number of shares in Tethys Oil: 406,952 (incl 20,000 shares lent to H&Q Bank AB).
Number of purchase warrants in Tethys Oil: 66,865 (incl 20,000 purchase warrants lent to H&Q Bank AB).



Carl-Gustaf Ingelman, born in 1935. Member of the board since 2005. Mr. Ingelman holds a master of engineering degree and a business degree. Until 1992, he was head of quality at Televerket Teletest. Previously he held executive positions at among others Swedish Telecommunication Consulting and The Swedish Bankers' Association. Nowadays Mr Ingelman is active as private investor at the Swedish stock market. He is a member of the management group of the Östermalm branch of the Swedish Shareholders' Association and a Director in Nordic Holding AB GeVe Spirits AB, Midgård Equity AB, Nationella Spel i Sverige AB, Payer AB and Scandinavian Clinical Nutrition i Sverige AB.
Number of shares in Tethys Oil: 370,000.
Number of purchase warrants in Tethys Oil: 0.

Management

Magnus Nordin, Chief Executive Officer

Vincent Hamilton, Chief Operating Officer

Morgan Sadarangani, born in 1975. Chief Financial Officer. Employed since January 2004. Different positions within SEB and Enskilda Securities, Corporate Finance, between 1998–2002.
Number of shares in Tethys Oil: 22,000.



Jonas Lindvall, born in 1967. Member of the board since 2006. Chief Executive Officer of Tethys Oil's subsidiary Tethys Oil Oman Ltd. Lindvall holds a degree in Petroleum Engineering from the University of Tulsa. Lindvall worked for IPC/Lundin Oil until 1998, culminating as head of the Bukha oil field. Between 1998 and 2000, Lindvall worked for Shell Petroleum in Oman. From 2000, he worked with his own company, GotOil Resources. Between 2001 and 2004, he was head of the drilling department of Talisman Energy in Malaysia. Lindvall has experience in drilling over 100 holes, both onshore and offshore.
Number of shares in Tethys Oil: 401,000.
Number of purchase warrants in Tethys Oil: 0.



Jan Risberg, born in 1964. Member of the board since 2004. Jan Risberg has several years of experience from the financial sector. He has among other things worked for Aros Securities department of Corporate Finance between the years 1993–1996, at Enskilda Securities department of Corporate Finance between the years 1996–2000 and as Manager of Ledstiernan AB's London branch between the years 2000–2002. Jan Risberg is today active as an independent consultant in the financial sector.
Number of shares in Tethys Oil: 204,422.
Number of purchase warrants in Tethys Oil: 64,236.

Auditor

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



The Tethys Oil share

Dividend policy

Tethys Oil has, since the foundation of the company, not paid any dividends. Future dividends are dependent of the result of Tethys Oil. In the event of future generated income, dividends can be paid if other conditions of the company allows. The size of future dividends will be determined by the company's financial position and growth opportunities by profitable investments.

Shares and options outstanding

Tethys Oil's registered share capital at 31 December 2006 amounts to TSEK 2,871 represented by 5,741,760 shares of nominal value SEK 0.50 which represents 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 programme for employees.

Share data

Since the company's inception in September 2001 and up to 31 December 2006 the parent company share capital has developed as shown below:

Year	Share capital development	Ratio value, SEK	Change in number of shares	Total number of shares	Change in total share capital, SEK	Total share capital SEK
2001	Formation of the company	100.00	1,000	1,000	100,000	100,000
2001	Share issue	100.00	4,000	5,000	400,000	500,000
2001	Share split 1:100	1.00	495,000	500,000	–	500,000
2003	Share issue	1.00	250,000	750,000	250,000	750,000
2004	Share split 1:2	0.50	750,000	1,500,000	–	750,000
2004	Share issue	0.50	2,884,800	4,384,800	1,442,400	2,192,400
2006	Rights issue	0.50	876,960	5,261,760	438,480	2,630,880
2006	Non-cash issue	0.50	400,000	5,661,760	200,000	2,830,880
2006	Directed issue	0.50	80,000	5,741,760	40,000	2,870,880

Share ownership structure

The 10 largest shareholders in Tethys Oil as per 31 March 2007.

Share holders as of 31 March 2007	Number of shares	Capital and votes, %
Vincent Hamilton through company*	639,571	11.14
SIS Segaintersettle AG	518,506	9.03
Bank Julius Baer und Co AG	436,990	7.61
John Hoey through company**	434,276	7.56
Magnus Nordin***	406,952	7.09
Jonas Lindvall	401,000	6.98
Carl-Gustaf Ingelman	370,000	6.44
Lorito Holdings Ltd.	293,136	5.11
Jan Risberg	204,422	3.56
Neptunus Konsult AB	138,000	2.40
Other (1,401 shareholders)	1,898,907	33.07
Total	5,741,760	100.00

* Oceanus Investments Hamilton Family

** Capge Ltd.

*** Including 20,000 shares lent to Remium AB.

Source: VPC and Tethys Oil

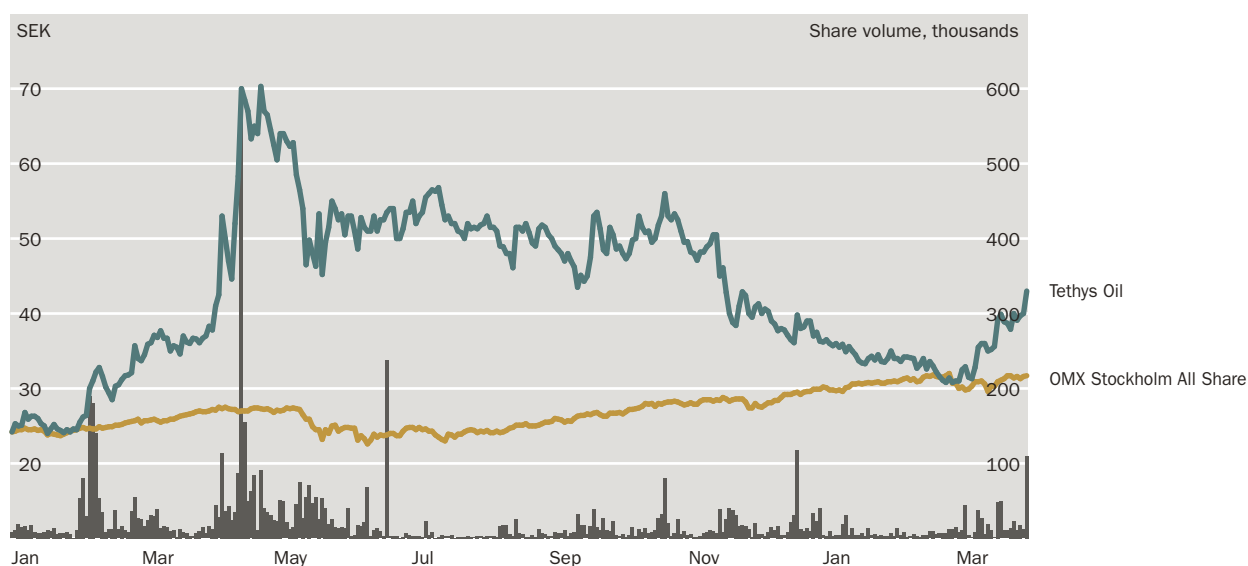
Distribution of shareholdings

Distribution of shareholdings in Tethys Oil as per 31 March 2007.

Size categories as per 31 March 2006	Number of shares	Percentage of shares, %	Number of shareholders	Percentage of shareholders, %
1 – 500	207,617	3.62	935	66.41
501 – 10,000	772,978	13.46	442	31.39
10,001 – 50,000	371,172	6.46	18	1.28
50,001 – 100,000	220,000	3.83	3	0.21
100,001 –	4,169,993	72.63	13	0.71
Total	5,741,760	100.00	1,411	100.00

Source: VPC and Tethys Oil

Share price development and turnover, January 2005–March 2007



Source: Stockholmsbörsen

Share statistics 2006

The shares in Tethys Oil are traded on Stockholmsbörsen's First North and first day of trading was 6 April 2004

Ticker name	TETY
Year high	75.00 (12 April 2006)
Year low	23.20 (1 February 2006)
Average turnover per day, shares	23,609
Average turnover per day, TSEK	1,131
Period turnover, shares	5,925,791
Period turnover/outstanding shares	126%

Key financial data

Group	1 Jan 2006– 31 Dec 2006 12 months	1 Jan 2005– 31 Dec 2005 12 months	1 Jan 2004– 31 Dec 2004 12 months
Items regarding the income statement and balance sheet			
Gross margin, TSEK	n.a.	n.a.	n.a.
Operating result, TSEK	-30,976	-14,998	-5,810
Operating margin, %	neg.	neg.	neg.
Result before tax, TSEK	-29,802	-14,368	-5,062
Net result, TSEK	-29,802	-14,368	-5,062
Net margin, %	neg.	neg.	neg.
Shareholders' equity, TSEK	95,230	52,375	66,743
Balance sheet total, TSEK	118,983	54,833	69,102
Capital structure			
Equity ratio, %	80.04%	95.52%	96.59%
Leverage ratio, %	n.a.	n.a.	n.a.
Adjusted equity ratio, %	80.04%	95.52%	96.59%
Interest coverage ratio, %	n.a.	n.a.	n.a.
Investments, TSEK	35,207	6,491	12,696
Profitability			
Return on shareholders' equity, %	neg.	neg.	neg.
Return on capital employed, %	neg.	neg.	neg.
Key figures per employee			
Average number of employees	5	4	3
Number of shares			
Dividend per share, SEK	n.a.	n.a.	n.a.
Cash flow used in operations per share, SEK	neg.	neg.	neg.
Number of shares on balance day, thousands	5,742	4,385	4,385
Shareholders' equity per share, SEK	16.59	11.94	15.22
Weighted number of shares on balance day, thousands	5,110	4,385	3,705
Earnings per share, SEK	-5.83	-3.28	-1.37
Earnings per share after dilution, SEK	-5.83	-3.28	-1.37

Definitions of key ratios

Margins

Gross margin: Operating result before depreciation as a percentage of yearly turnover.

Operating margin: Operating result as a percentage of yearly turnover.

Net margin: Net result as a percentage of yearly turnover.

Capital structure

Solvency: Shareholders' equity as a percentage of total assets.

Leverage ratio: Interest bearing liabilities as a percentage of shareholders' equity.

Adjusted equity ratio: Shareholders' equity plus equity part of untaxed reserves as a percentage of total assets.

Interest coverage ratio: Result before taxes plus financial costs as a percentage of financial costs.

Investments: Total investments during the year.

Parent	1 Jan 2006– 31 Dec 2006 12 months	1 Jan 2005– 31 Dec 2005 12 months	1 Jan 2004– 31 Dec 2004 12 months
Items regarding the income statement and balance sheet			
Gross margin, TSEK	n.a.	n.a.	n.a.
Operating result, TSEK	-4,488	-3,786	-3,903
Operating margin, %	neg.	neg.	neg.
Result before tax, TSEK	-28,178	-12,391	-2,970
Net result, TSEK	-28,178	-12,391	-2,970
Net margin, %	neg.	neg.	neg.
Shareholders' equity, TSEK	100,945	56,444	68,835
Balance sheet total, TSEK	121,232	58,982	70,346
Capital structure			
Equity ratio, %	83.27%	95.70%	97.85%
Leverage ratio, %	n.a.	n.a.	n.a.
Adjusted equity ratio, %	83.27%	95.70%	97.85%
Interest coverage ratio, %	n.a.	n.a.	n.a.
Investments, TSEK	59,096	5,874	11,651
Profitability			
Return on shareholders' equity, %	neg.	neg.	neg.
Return on capital employed, %	neg.	neg.	neg.
Key figures per employee			
Average number of employees	5	4	3
Number of shares			
Dividend per share, SEK	n.a.	n.a.	n.a.
Cash flow used in operations per share, SEK	neg.	neg.	neg.
Number of shares on balance day, thousands	5,742	4,385	4,385
Shareholders' equity per share, SEK	16.59	12.87	15.70
Weighted number of shares on balance day, thousands	5,110	4,385	3,705
Earnings per share, SEK	-5.51	-2.83	-0.80
Earnings per share after dilution, SEK	-5.51	-2.83	-0.80

Profitability

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

Return on capital employed: Net result as a percentage of average capital employed (total assets less non interests-bearing liabilities).

Other

Number of employees: Average number of employees full-time.

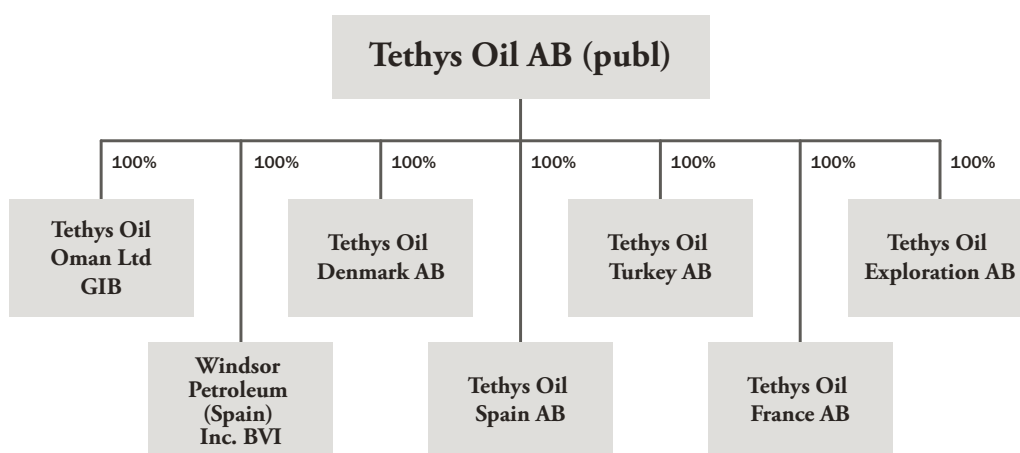
Shareholders' equity per share: Shareholders' equity divided by the number of outstanding shares.

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

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

Administration report

(An English translation of the Swedish original)



Operations

Tethys Oil is a Swedish company focused on exploration for and production of oil and natural gas. Tethys Oil aims to maintain a well balanced portfolio of high risk/high reward exploration opportunities coupled with lower risk exploration and appraisal development assets. The company's strategy is twofold: to explore for oil and natural gas near existing and developing markets; and to develop proven reserves that have previously been sub-economic due to location or technological reasons. The company has interests in licences in Oman, Denmark, Morocco, Spain, Turkey and France.

Oman

The Group acquired 100 per cent of the share capital of GotOil Resources (Oman) Ltd., now name changed to Tethys Oil Oman Ltd., on 24 May 2006 from Maha Resources Ltd. Tethys Oil Oman Ltd. (Tethys Oman), registered in Gibraltar, has 40 per cent interest in an Exploration and Production Sharing Agreement in Block 15, Oman. The total value of the consideration amounted to SEK 24,183,900.

Preparations on the block have gradually intensified during 2006. In parallel to drilling preparations, comprehensive geological and geophysical work has continued, including petrophysical evaluations, reprocessing and interpretation of seismic lines and studies of lithology and reservoir distribution. The result of the studies is now being incorporated with existing information. The combined data will be the basis for the upcoming work programme with a view to optimize the drilling programme further.

Block 15 is an appraisal project with more than 50 million barrels of estimated oil in-place from struc-

tures already drilled. In addition the block has substantial exploration upside. Tethys Oil has 40 per cent interest in the block.

Denmark

Tethys Oil has two exploration licences in Denmark located on Jutland and Zealand, licence 1/02 and licence 1/03. Tethys Oil is the operator and holds a 50 per cent interest in both licences.

Licence 1/02

Licence 1/02 has been a focal point for the group during the year. Activities during the first three quarters were mainly drilling preparations and construction work. With Tethys Oil as operator, the drilling of exploration well Karlebo-1 on the licence, north of Copenhagen in Denmark started in the end of the third quarter 2006. The partner group also includes Star Energy Group plc., DONG Energy A/S and Odin Energi A/S.

On 14 November 2006 the well had reached its final depth of 2,489 metres. Wireline logs were run in the hole, but no significant amounts of hydrocarbons were detected. A decision to plug and abandon the well was taken on 17 November 2006. An extension of the licence was granted up to 22 May 2007 by the Danish Energy Authority.

Licence 1/03

There has been no significant activity on licence 1/03 during 2006. During the first quarter 2007 a detailed analysis of all available data will be carried out, including the data from Karlebo-1. The analysis will be incorporated in Tethys' geological models. A similar licence extension up to May 22, 2007 was

granted by the Danish Energy Authority regarding licence 1/03.

A decision about any future work on Tethys Danish licences, 1/02 on Zealand and 1/03 on Zealand and Jutland, will be taken during the second quarter of 2007.

France

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

The comprehensive work programme in 2006 confirmed the structural integrity of the prospect and the prospectivity of the area. A decision to carry on with an exploration drilling was taken, and a drilling location was contracted. The work with obtaining relevant local permits is now ongoing. The tender process with drilling rig contractors and other associated services has also been initiated.

Spain

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

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

In the Sedano project the operator Ascent Resources has during 2006 mainly worked on well preparations for the drilling of the Hontomin-4 appraisal well in the Huermece exploration licence and the Tozo-1 re-entry in the Basconillos-H exploration licence. The Hontomin-4 well was completed at the end of April 2007. The well was drilled to a depth of 1,610 metres. The well was logged but no oil was encountered although the target formations were present.

Preliminary analysis carried out by the operator, Ascent Resources, suggests that the complexity of the faulting in the formations above the target has resulted in the lack of an adequate seal for the reservoir. On Valderredible exploration licence, a company has been contracted to conduct a study on several possible leads in the licence. The aim is to drill an exploration well during 2007.

During the fourth quarter, Tethys agreed to exchange its interest in the La Lora concession including the Ayoluengo field for interests in the Cameros project. Therefore the company is no longer part of costs for or income from the oil production from Ayoluengo.

The Cameros project is of interest for a large natural gas prospect that has been identified in it through the reprocessing of existing seismic data. Gas fields have produced in the Ebro basin before. In February 2007, the Cameros project expanded from one licence to two licences when the government awarded the partner group a second licence, Cameros-2, in an area surrounding the original licence.

Turkey

Tethys Oil has interests in four exploration licences in Turkey. Tethys Oil holds interest in two exploration licences in the Ispandika area located in south-eastern Turkey close to Syria and Iraq. The other two licences are located in north-western and European part of Turkey close to Bulgaria and Greece. Tethys Oil has 10 per cent interest in the two Ispandika licences and 25 per cent interest in the two exploration licence in Thrace. The interests in the licences are held through Tethys Oil's Turkish partner and operator of the licences Aladdin Middle East Ltd.

Ispandika

In the Ispandika area onshore south-eastern Turkey, Tethys and operator Aladdin Middle East Ltd. were in the fourth quarter 2006 joined by US group Terraliance as a new partner. Tethys maintains a 10 per cent interest in the licence. Given the comparative shortage of seismic data, the drilling of a shallow stratigraphic (geological research) well was commenced during the end of 2006 in order to gain a better knowledge of the near surface lithology in the area.

Thrace

Existing seismic data shows two strong leads in the Thrace licences. Additional seismic will however be required to confirm the presence of drillable prospects. The seismic programme has been agreed with partners and a seismic contractor has been engaged. Due to a shortage of crews in the area, and the onset of winter, seismic acquisition will likely take place in spring 2007. Drilling will then take place later in the year.

Morocco

In Morocco, Tethys Oil is the operator with 50 per cent interest in the reconnaissance licence Bouanane, located in the eastern part of Morocco. The reconnaissance licence gives Tethys Oil the exclusive right for one year to investigate and it furthermore grants Tethys Oil the right during this time to elect to convert the licence into a regular eight year exploration licence on terms and conditions to be negotiated.

During 2006, Tethys Oil as operator completed the required work programme for the Bouanane Reconnaissance Licence in Morocco. The results confirmed the prospectivity of the area, in particular for natural gas and better defined the potential of the giant Tafej-jart structure.

In September, 2006, Tethys and partner Eastern Petroleum (Cyprus) Limited signed an agreement with UK oil and gas company Dana Petroleum Plc, for Dana to acquire a 50 per cent working interest in the Exploration and Production agreement resulting from the Bouanane Reconnaissance Licence area, onshore Morocco, Dana will pay Tethys' and Eastern's share of the costs in relation to the licence in return for being assigned the interest. Subsequent to the end of the Reconnaissance Licence, Tethys and Eastern have the exclusive right to enter into an agreement for Exploration and Production in the Bouanane area. Dana is currently leading the negotiations with Moroccan state oil company, ONHYM, over a Petroleum Agreement for the Exploration and Exploitation of Hydrocarbons in the Bouanane area. Following completion of the transaction and the signing of a Petroleum Agreement, Dana will assume operatorship. Tethys will then have a 12.5 per cent interest in the licence.

Potential licence areas – Gotland and Latvia

In connection with the Oman acquisition in 2006, Tethys Oil received options to acquire a 30 per cent interest in an exploration concession on the Swedish island of Gotland and an 11 per cent interest in the Dunalka production licence onshore Latvia.

Significant agreements and commitments

Tethys Oil has agreements regarding the operations in Oman, Denmark, Turkey, Morocco, France and Spain. In Denmark Tethys Oil is a direct licence holder of the exploration licences 1/02 and 1/03, in France the company is a direct licence holder in the exploration licence Attila and in Morocco Tethys Oil is a direct licence holder to the reconnaissance licence Bouanane. In Turkey and Spain Tethys Oil holds its interest through agreements with partners. 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.

Tethys Oil has no commitments in its operations in Spain and Turkey. In Denmark Tethys Oil has fulfilled its commitments on licences 1/02 and 1/03. In Morocco, Tethys Oil has fulfilled its commitment. In France, the Attila exploration licence awarded during the first quarter 2006, the financial commitment is approximately TEUR 520. In Oman Tethys Oil has a financial commitment amounting to TUSD 4,459.

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 year ended 31 December 2006. The amounts relating to the comparative period (equivalent period of last year) are shown in parenthesis after the amount for the current period. Up until 31 December 2006, Tethys Oil has not reported any sales of oil and gas, which is why there is no segmental information below. Also due to the fact that there have been no sales in Tethys Oil, seasonal variations do not impact the result.

Acquisition of GotOil Resources (Oman) Ltd.

The Group acquired 100 per cent of the share capital of GotOil Resources (Oman) Ltd., now name changed to Tethys Oil Oman Ltd., on 24 May 2006 from Maha Resources Ltd. Tethys Oil Oman Ltd. (Tethys Oman), registered in Gibraltar, has 40 per cent interest in an Exploration and Production Sharing Agreement in Block 15, Oman. As consideration for the acquisition Tethys Oil paid USD 600,000 (SEK 4,383,900) in cash and issued 400,000 new shares of Tethys Oil. The value of the shares is based on the market price of SEK 49.50 for the Tethys Oil share at the effective date of acquisition, 24 May 2006 as from which date Tethys Oman is consolidated. The total value of the consideration therefore amounts to SEK 24,183,900. The share issue was registered on 5 June 2006.

Loss for the period and sales

Tethys Oil reports a loss for the period 2006 of TSEK -29,802 (TSEK -14,368 for last year), representing earnings per share of SEK -5.83 (SEK -3.28) for 2006. Write downs of oil and gas properties of TSEK 22,382 has negatively affected the result of 2006. TSEK 18,985 of the write downs regards licence 1/02 in Denmark. This write down is a consequence of the results from the exploration well Karlebo-1 drilled during the fourth quarter, showing no significant signs of hydrocarbons. Other write downs have been Tethys Oil's interest in the production licence La Lora in Spain where Tethys Oil no longer hold any interest and write downs of new venture projects. These write downs are made after impairment testing and in line with Tethys Oil's accounting policies. Cash flow from operations before changes in

Movement in oil and gas properties, TSEK

Country	Book value 1 Jan 2005, TSEK	Investments 1 Jan–31 Dec 2005, TSEK	Write downs 1 Jan–31 Dec 2005, TSEK	Book value 31 Dec 2005, TSEK	Book value 1 Jan 2006, TSEK	Investments 1 Jan–31 Dec 2006, TSEK	Write downs 1 Jan–31 Dec 2006, TSEK	Book value 31 Dec 2006, TSEK
Oman	–	–	–	–	–	26,700 ¹	–	26,700
Denmark	1,707	3,412	–	5,119	5,119	14,553 ²	18,985	687
Morocco	9	544	–	553	553	2,359	–	2,912
Spain	3,118	33	–	3,152	3,152	214	1,487	1,878
Turkey	8,897	615	-8,179	727	727	735	192	1,270
France	–	690	–	690	690	343	–	1,033
New ventures	270	1,125	-233	1,163	1,163	1,304	1,855	612
Total	14,002	6,419	8,412	11,404	11,404	46,208	22,519	35,072

¹ See further note 16

² Investments in Denmark are reduced as a consequence of the farm out to Star Energy during the third quarter and their payment of back costs.

working capital for 2006 amounted to TSEK -7,157 (TSEK -5,315).

The loss for the period 2006 has not been significantly impacted by net foreign exchange losses or gains.

Tethys Oil has not recorded any sales or production of oil and gas for the twelve month period ended 31 December 2006. Accordingly, there has been no depletion of oil and gas properties.

Administration expenses

Administrative expenses amounted to TSEK -9,000 (TSEK -6,609) for 2006 of which depreciation amounted to TSEK 125 (TSEK 35). Administrative expenses are mainly salaries, rents, listing costs and outside services. These costs are corporate costs and are accordingly not capitalised. Depreciation is referable to office equipment. The increase in costs of administration is related to an increased overall corporate activity during 2006 compared to 2005 as well as new administration costs referable to the acquired company Tethys Oman.

Investments

Oil and gas properties as at 31 December 2006 amounted to TSEK 35,072 (TSEK 11,404). Investments in oil and gas properties of TSEK 46,208 (TSEK 6,420) were incurred for the 12 month period ending 31 December 2006. Investments during the year have mainly been the acquisition of Tethys Oil Oman Ltd. (previously GotOil Resources (Oman) Ltd.) and investments referable to the exploration well Karlebo-1 in Denmark. The total consideration for the acquisition in Oman and the acquisition costs less fair value of acquired net assets amounts to TSEK 24,933 is allocated to oil and gas properties and is therefore the largest part of the investments during 2006. In Denmark licence 1/02 Tethys Oil drilled the exploration well Karlebo-1 during mainly the fourth quarter. Total investments in Denmark during the year amounted to TSEK 14,553 and the largest part of these investments were drilling expen-

ditures of which Tethys Oil paid 30 per cent and 70 per cent were contributed by partners. As no significant amounts of hydrocarbons were detected these and previously incurred investments in the licence have been written down. The total write downs in Denmark amounted to TSEK 18,985 during 2006. Other write downs of oil and gas properties have mainly been in Spain and are referable to the production licence Ayoluengo where Tethys Oil no longer holds any interest. Total write downs during 2006 amounted to TSEK 22,519.

Prepayment of oil and gas properties

Prepayment of oil and gas properties amounted to TSEK 8,723 (TSEK –) as at 31 December 2006. Prepayments of oil and gas properties are mainly related to joint ventures where Tethys Oil is not operator. Most part of the prepayment of oil and gas properties regard cash calls paid for wells to be drilled in Spain.

Liquidity and financing

Cash and bank as at 31 December 2006 amounted to TSEK 57,112 (TSEK 657). Short-term investments as at 31 December 2006 amounted to TSEK 973 (TSEK 40,445). The short-term investments are investments in mutual bond funds with short durations, less than three months from acquisition date.

At an Extraordinary General Meeting of Tethys Oil on 19 May 2006 a resolution was made to issue new shares with associated warrants carrying preferential rights for existing share holders. Five existing shares entitled the holder to subscribe for one Unit, which consisted of one newly issued share and one newly issued warrant. The price for each Unit was set to SEK 60 per Unit. On 22 June 2006 Tethys Oil announced the rights issue fully subscribed. Through this rights issue the company raised around MSEK 52.6 before issue costs and increased the number of shares with 876,960 shares. The issue costs amounted to approximately MSEK 4.5.

Current receivables

Current receivables amounted to TSEK 16,853 (TSEK 1,681) as at 31 December 2006. Current receivables are mainly remaining receivables from partners regarding operations. In particular the high levels of current receivables regard the operations in Denmark on licence 1/02 where Tethys Oil Denmark is the operator of the licence. Part of the current receivables is Danish VAT which has been built up during the fourth quarter when the exploration well was drilled.

Current liabilities

Current liabilities as at 31 December 2006 amounted to TSEK 23,752 (TSEK 2,458), of which TSEK 22,282 (TSEK 2,055) relates to accounts payable, TSEK 787 (TSEK 117) relates to other current liabilities and TSEK 684 (TSEK 286) relates to accrued expenses. Accounts payable make up for most of the current liabilities and mainly regard costs relating to the exploration well Karlebo-1 where Tethys Oil was operator.

Parent company

The parent company reports a result amounting to TSEK -28,178 (TSEK -12,391) for 2006. Write down of shares in group companies of TSEK 26,546 has negatively affected the result of the twelve month period. This is an effect of the group write down of oil and gas properties described above. Costs of administration and depreciation amounted to TSEK -7,742 (TSEK -6,598) for 2006. Net financial income amounted to TSEK -23,689 (TSEK -8,605) during 2006. The write down of shares in group companies are included in the net financial income. Investments during 2006 amounted to TSEK 59,096 (TSEK 5,874). Investments are mainly related to the acquisition of Tethys Oman. Apart from the acquisition, 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.

Financial instruments

Tethys Oil has not during the period used any financial instruments in order to hedge risks. This is mainly due to the relatively low exchange rate exposure in Tethys Oil's current operations.

Board of directors and management

At the Annual Meeting of shareholders on 4 May 2006 Håkan Ehrenblad, Vincent Hamilton, John Hoey, Carl-Gustaf Ingelman, 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. At the Extraordinary General Meeting of shareholders on 19 May 2006 Jonas Lindvall was newly elected member of the board. Mr. Lindvall is a petroleum engineer with over 20 years experience from the oil and gas

industry. He is also an employee of the group and will be in charge of the group's operations in Oman.

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 rules of procedures were adopted on May 4 2006. The Board had 10 meetings during 2006. Most importantly the Board has adopted the interim reports of the year as well as the budget of 2007.

The seven member board consists of three executive and four non-executive directors. Vince Hamilton has acted both as Chairman of the Board and as Chief Operating Officer. The four non-executive directors are also members of the Audit committee which had three meetings during 2006. Chairman of the Audit committee is Jan Risberg.

Between Board meetings weekly to daily contacts have been kept informally between the Executive and non-Executive Directors.

Group structure

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

Share data

The number of shares in Tethys Oil amount to 5,741,760 (4,384,800), with a quota value of SEK 0.50 (SEK 0.50). The number of shares includes 400,000 shares from the non-cash issue in connection with the acquisition of Tethys Oman that were registered on 5 June 2006. It further includes 876,960 shares from the rights issue that were registered on 10 July 2006. For the weighted number of shares calculation they were included from the issue date, 28 June 2006. A directed issue to Maha Resources of 80,000 shares is also included in the number of shares and in the weighted number of share calculation they were included from 7 August 2006.

In the rights issue described above, Tethys Oil issued a warrant for every issued share, amounting to 876,960 warrants. These warrants were listed on First North on 17 July 2006. The warrants could be exercised during two fixed periods. The first period was between 1 December 2006–31 January 2007 and had a subscription price of SEK 72 and the second period is between 1 September 2007–30 September 2007 and has a subscription price of SEK 78. As the share price at the end of the reporting period was below subscrip-

tion prices, these warrants are not included in the diluted number of shares.

Stockholm, 30 April 2007

Tethys Oil does not have any incentive programme.

Vincent Hamilton, Chairman of the Board

Risk and uncertainties

A statement of risks and uncertainties are presented in note 1, page 59.

Håkan Ehrenblad, Director

Dividend

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

John Hoey, Director

Carl-Gustaf Ingelman, Director

Treatment of accumulated deficit

The Board of Directors propose that the accumulated deficit of TSEK 50,711, of which the loss for the year, TSEK 28,178, be brought forward.

Jonas Lindvall, Director

The result of the group's and parent company's operations and the financial position at the end of the financial year is shown in the following income statement, balance sheet, cash flow statement and related notes. Balance sheet and income statement will be adopted at the AGM, 16 May 2007.

Jan Risberg, Director

Magnus Nordin, Managing Director

Auditor's endorsement

My audit report was submitted on 30 April 2007.

Klas Brand
Authorized Public Accountant
PricewaterhouseCoopers AB



Consolidated income statement

TSEK	Note	1 Jan 2006– 31 Dec 2006 12 months	1 Jan 2005– 31 Dec 2005 12 months	1 Jan 2004– 31 Dec 2004 12 months
Net sales of oil and gas		–	–	–
Depreciation of oil and gas properties	4	–	–	–
Write off of oil and gas properties	4	-22,519	-8,412	-435
Other income		543	23	–
Administrative expenses	5–7	-9,000	-6,609	-5,375
Operating result		-30,976	-14,998	-5,810
Financial income and similar items	8	2,204	774	764
Financial expenses and similar items	9	-1,030	-144	-16
Net financial income		1,174	630	748
Result before tax		-29,802	-14,368	-5,062
Income tax		–	–	–
Loss for the period		-29,802	-14,368	-5,062
Number of shares outstanding		5,741,760	4,384,800	4,384,800
Number of shares outstanding (after dilution)	11	5,741,760	4,384,800	4,384,800
Weighted number of shares		5,109,599	4,384,800	3,705,094
Earnings per share, SEK		-5.83	-3.28	-1.37
Earnings per share (after dilution), SEK	11	-5.83	-3.28	-1.37

Consolidated balance sheet

TSEK	Note	31 Dec 2006	31 Dec 2005	31 Dec 2004
ASSETS				
Fixed assets				
Oil and gas properties	4	35,072	11,404	14,002
Office equipment	10	145	195	158
Prepayment of oil and gas properties		8,723	–	–
Total fixed assets		43,940	11,599	14,160
Current assets				
Other receivables		16,853	1,681	766
Prepaid expenses		105	451	139
Short term investments		973	40,445	53,525
Cash and bank		57,112	657	513
Total current assets		75,043	43,234	54,942
TOTAL ASSETS		118,983	54,833	69,102
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity				
	11			
Share capital		2,871	2,192	2,192
Additional paid in capital		143,071	71,071	71,071
Retained earnings		-50,711	-20,888	-6,520
Total shareholders' equity		95,230	52,375	66,743
Non interest bearing current liabilities				
Accounts payable		22,282	2,055	751
Other current liabilities		787	117	95
Accrued expenses	12	684	286	1,513
Total non interest bearing current liabilities		23,752	2,458	2,359
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		118,983	54,833	69,102
Pledged assets	14	–	780	–
Contingent liabilities	15	18,193	14,527	14,527

Consolidated statement of changes in equity

TSEK	Share capital	Additional paid in capital	Retained earnings
Opening balance at 1 January 2004	750	4,250	-1,458
Loss for the period	-	-	-5,062
	750	4,250	-6,520
Share issue	1,442	73,562	-
Issue costs	-	-6,741	-
Closing balance at 31 December 2004	2,192	71,071	-6,520
Opening balance at 1 January 2005	2,192	71,071	-6,520
Loss for the period	-	-	-14,368
Closing balance at 31 December 2005	2,192	71,071	-20,888
Opening balance at 1 January 2006	2,192	71,071	-20,888
Loss for the period	-	-	-29,802
	2,192	71,071	-50,690
Non-cash issue	200	19,600	-
Rights issue	438	52,179	-
Issue costs	-	-4,539	-
Directed issue	40	4,760	-
Currency translation difference	-	-	-21
Closing balance at 31 December 2006	2,871	143,071	-50,711

Consolidated cash flow statement

TSEK	Note	1 Jan 2006– 31 Dec 2006 12 months	1 Jan 2005– 31 Dec 2005 12 months	1 Jan 2004– 31 Dec 2004 12 months
Cash flow from operations				
Operating result		-30,976	-14,998	-5,810
Financial income and similar items	8	2,204	774	764
Financial expenses and similar items	9	-1,030	-144	-16
Adjustment for write down of oil and gas properties	4	22,519	8,412	435
Adjustment for depreciation	10	125	640	50
Total cash flow used in operations before change in working capital		-7,157	-5,315	-4,577
Decrease in receivables		-14,825	-1,228	-886
Increase in liabilities		21,294	99	1,762
Cash flow used in operations		-689	-6,444	-3,701
Investment activity				
Investment in oil and gas properties	4	-26,408	-6,420	-12,538
Investment in other fixed assets	10	-75	-72	-158
Prepayment of oil and gas properties		-8,723		
Cash flow used for investment activity		-35,206	-6,491	-12,696
Financing activity				
Share issue, net after issue costs		52,879	-	68,263
Cash flow from financing activity		52,879	-	68,263
Period cash flow		16,983	-12,936	-51,866
Cash and cash equivalents at the beginning of the period *		41,102	54,037	2,171
Cash and cash equivalents at the end of the period *		58,085	41,102	54,037

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

Parent company income statement

TSEK	Note	1 Jan 2006– 31 Dec 2006 12 months	1 Jan 2005– 31 Dec 2005 12 months	1 Jan 2004– 31 Dec 2004 12 months
Net sales of oil and gas		–	–	–
Depletion of oil and gas properties	4	–	–	–
Write off of oil and gas properties	4	–	–	–
Other income	5–7	3,253	2,812	1,472
Administrative expenses		-7,742	-6,598	-5,375
Operating result		-4,488	-3,786	-3,903
Interest income and similar items	8	3,503	1,226	948
Interest expenses	9	-646	-139	-16
Write down of shares in group company	13	-26,546	-9,692	–
Net financial income		-23,689	-8,605	933
Result before tax		-28,178	-12,391	-2,970
Tax		–	–	–
Loss for the period		-28,178	-12,391	-2,970
Number of shares outstanding		5,741,760	4,384,800	4,384,800
Number of shares outstanding (after dilution)	11	5,741,760	4,384,800	4,384,800
Weighted number of shares		5,109,599	4,384,800	3,705,094

Parent company balance sheet

TSEK	Note	31 Dec 2006	31 Dec 2005	31 Dec 2004
ASSETS				
Fixed assets				
Oil and gas properties	4	–	–	–
Office equipment	10	145	195	158
Total Fixed assets		145	195	158
Financial assets				
Shares in subsidiaries	13	25,831	1,203	1,203
Long term receivables		44,441	16,794	10,993
Total financial assets		70,272	17,998	12,196
Current assets				
Other receivables		522	28	427
Prepaid expenses		85	156	139
Receivables from group affiliates		–	–	3,890
Short term investments		973	40,445	53,525
Cash and bank		49,234	160	13
Total current assets		50,814	40,789	57,993
TOTAL ASSETS		121,232	58,981	70,346
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity				
Share capital	11	2,871	2,192	2,192
Statutory reserve		71,071	71,071	71,071
Share premium reserve		72,000	–	–
Retained earnings		-16,820	-4,428	-1,458
Net result		-28,178	-12,391	-2,970
Total shareholders equity		100,945	56,444	68,835
Non interest bearing current liabilities				
Accounts payable		19,164	2,055	751
Other current liabilities		641	312	95
Accrued expenses	12	482	170	665
Total non interest bearing current liabilities		20,287	2,538	1,511
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		121,232	58,982	70,346
Pledged assets	14	–	780	–
Contingent liabilities	15	4,696	–	–

Parent company statement of changes in equity

TSEK	Restricted equity			Unrestricted equity	
	Share capital	Statutory reserve	Share premium reserve	Retained earnings	Loss for the period
Opening balance at 1 January 2004	750	4,250	-	-567	-891
Transfer of prior year net result	-	-	-	-891	891
Loss for the period	-	-	-	-	-2,970
	750	4,250	-	-1,458	-2,970
Share issue	1,442	73,562	-	-	-
Issue costs	-	-6,741	-	-	-
Closing balance at 31 December 2004	2,192	71,071	-	-1,458	-2,970
Opening balance at 1 January 2005	2,192	71,071	-	-1,458	-2,970
Transfer of prior year net result	-	-	-	-2,970	2,970
Loss for the period	-	-	-	-	-12,391
Closing balance at 31 December 2005	2,192	71,071	-	-4,428	-12,391
Opening balance at 1 January 2006	2,192	71,071	-	-4,428	-12,391
Transfer of prior year net result	-	-	-	-12,391	12,391
Loss for the period	-	-	-	-	-28,178
	2,192	71,071	-	-16,820	-28,178
Non-cash issue	200	-	19,600	-	-
Rights issue	438	-	52,179	-	-
Issue costs	-	-	-4,539	-	-
Directed issue	40	-	4,760	-	-
Closing balance at 31 December 2006	2,871	71,071	72,000	-16,820	-28,178

* Share premium reserve as of 1 December 2005 has been reclassified to Statutory reserve in line with Swedish Company Act.

Parent company cash flow statement

TSEK	Note	1 Jan 2006– 31 Dec 2006 12 months	1 Jan 2005– 31 Dec 2005 12 months	1 Jan 2004– 31 Dec 2004 12 months
Cash flow from operations				
Operating result		-4,488	-3,786	-3,903
Interest income and similar items	8	3,503	1,226	948
Interest expenses and similar items	9	-646	-139	-16
Adjustment for depreciation	10	125	35	50
Total cash flow used in operations before change in working capital		-1,506	-2,664	-2,920
Increase in receivables		-423	4,271	-3,240
Increase in liabilities		17,749	1,026	914
Cash flow from/used in operations		-15,820	-2,633	-5,246
Investment activity				
Investment in long term receivables		-54,637	-15,494	-11,493
Acquisition of subsidiary, net of cash acquired		-4,384	-	-
Investment in other fixed assets	10	-75	-72	-158
Cash flow used for investment activity		-59,096	-15,566	-11,651
Financing activity				
Share issue, net after issue costs		52,879	-	68,263
Cash flow from financing activity		52,879	-	68,263
Period cash flow		9,602	-12,933	51,366
Cash and cash equivalents at the beginning of the period *		40,605	53,537	2,171
Cash and cash equivalents at the end of the period *		50,207	40,604	53,537

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

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 Denmark, France, Morocco, Oman, Spain and Turkey. During the year the Group acquired 100 per cent of the share capital of GotOil Resources (Oman) Ltd., now name changed to Tethys Oil Oman Ltd. Tethys Oil Oman Ltd. has 40 per cent interest in an Exploration and Production Sharing Agreement in Block 15, Oman.

The Company is a limited liability company incorporated and domiciled in Stockholm, Sweden. The Company is listed on First North (previously called Nya Marknaden) in Stockholm.

These consolidated financial statements have been approved for issue by the Board of Directors on 30 April 2007.

Accounting principles

The principle accounting policies applied in the preparation of these consolidated financial statements are set out below. The same accounting principles were used in the annual report 2005 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 the Annual Accounts Act, RR 30 “Supplementary rules for groups” and International Financial Reporting Standards (IFRS) as adopted by the EU. The annual report for the parent company has been prepared in accordance with the Annual Accounts Act and Swedish Financial Accounting Standards Council’s RR 32 “Accounting for legal entities”. RR 32 means that the parent company in the annual report for the legal entity shall apply IFRS’ rules and statements as adopted by the EU, so far this is possible within the framework of the Annual Accounts Act and with regard to the connection between accounting and taxation. The recommendation states which exceptions and additions that shall be made from IFRS. The accounting principles of the parent company are the same as for the group. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. These areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 1.

Standards, amendments and interpretations effective in 2006 but not relevant

The following standards, amendments and interpretations are mandatory for accounting periods begin-

ning on or after 1 January 2006 but are not relevant to the Group’s operations:

- IAS 19 (Amendment), Employee Benefits;
- IAS 21 (Amendment), Net Investment in a Foreign Operation;
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- IAS 39 (Amendment), The Fair Value Option;
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts;
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- IFRS 6, Exploration for and Evaluation of Mineral Resources;
- IFRIC 4, Determining whether an Arrangement contains a Lease;
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds;
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

Interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following interpretations to existing standards have been published that are mandatory for the Group’s accounting periods beginning on or after 1 May 2006 or later periods but that the Group has not early adopted:

- IFRS 7, Financial Instruments: Disclosures, and the complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures. IFRS 7 introduces new disclosures relating to financial instruments. This standard does not have any impact on the classification and valuation of the Group’s financial instruments.
- IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006). IFRIC 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of IFRS 2. The Group will apply IFRIC 8 from 1 January 2007, but it is not expected to have any impact on the Group’s accounts; and
- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). IFRIC 7 provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in

the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, IFRIC 7 is not relevant to the Group's operations; and

- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As none of the group entities have changed the terms of their contracts, IFRIC 9 is not relevant to the Group's operations.
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply IFRIC 10 from 1 January 2007, but it is not expected to have any impact on the Group's accounts.

Principles of consolidation

The consolidated financial statements include the accounts of the parent company and each of those companies in which it owns, directly or indirectly, shares representing more than 50 per cent of the voting rights or has the sole right to exercise control over the operations.

The consolidated financial statements of the Tethys Oil Group have been prepared using the purchase method of accounting. Under the purchase method of accounting, in addition to the parent company equity, only changes in subsidiary equity arising after acquisitions are included in group equity. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill.

All inter company profits, transactions and balances are eliminated on consolidation.

Foreign currencies

Assets and liabilities in foreign currency are translated at the year-end exchange rates. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

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

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

Segment reporting

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

Income taxes

Presented income taxes include tax payable or tax receivable for the reporting period, adjustments in regard to previous year's taxes and changes in deferred tax.

Valuations of all tax liabilities/claims is in nominal amounts and are prepared in accordance with tax legislation and tax rates decided or announced and at which they are likely to be resolved.

Items presented in the income statement will be presented in conjunction with related tax effects in the income statement. Tax effects from items accounted directly to shareholders' capital is presented in shareholders' equity.

Deferred tax is prepared using the balance sheet method on all temporary differences which arises from timing in recognition of items. Deferred tax claim, regarding tax losses carried forward, of TSEK 44,998 has not been presented, as the company is in an exploration phase and it is therefore difficult to predict if and when such deductible tax loss can be used. The tax loss carried forward as per 31 December 2005 amounted to TSEK 16,820, and as per 31 December 2004 it amounted to TSEK 4,428.

Fixed assets

Fixed assets are presented at historical cost less depreciation. Expenditures on improvement of the fixed assets, exceeding original level are included in the asset's carrying amount. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

Office material

5 years

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

Cash flow analysis

The cash flow analysis is prepared in accordance to the indirect method. The presented cash flow only takes into account transactions of payments and money received.

Cash and bank includes short term investments which are exposed to a minimum of risk and traded on an open market with announced amounts or invested with shorter duration than 3 months from the time of the investment.

Valuation principles

Assets and liabilities, including other receivables and short-term investments, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Assets are also measured less provision for impairment.

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

Oil and gas operations

a) Accounting for costs of exploration, appraisal and development

In the Company's oil and gas operations all costs for acquiring concessions, licences or interests in production sharing contracts and for the survey, drilling and development of such interests have been capitalized on a field-by-field cost centre basis. Net capitalized costs, together with anticipated future capital costs determined at the balance sheet date price levels, are depleted based on the year's production in relation to estimated total proven and probable reserves of oil and gas in accordance with the unit of production method. Proved reserves are those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods and governmental regulations. Proved reserves can be categorized as developed or undeveloped. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90 per cent probability that the quantities actually recovered will equal or exceed the estimates. Probable reserves are those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. In this context, when probabilistic methods are used, there should be at least a 50 per cent probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves. Proceeds from the sale or farm-out of oil and gas concessions are offset against the related capital-

ized costs of each cost centre in the exploration stage with any excess of net proceeds over all costs capitalized included in the income statement. A gain or loss is recognized on the sale or farm-out of producing areas when the depletion rate is changed by more than 20 per cent. Total costs capitalized in a cost centre are written off when future recovery of such costs is determined to be unlikely.

b) Revenues

Revenues from the sale of oil and gas are recognized in the income statement net of royalties taken in kind. Sales are recognized upon delivery of products and customer acceptance or on performance of services. Incidental revenues from the production of oil and gas are offset against capitalized costs of the related cost centre until quantities of proven and probable reserves are determined and commercial production has commenced.

c) Service income

Service income, generated by providing technical and management services to joint ventures, is recognized as revenue in accordance with the terms of each concession agreement.

d) Joint ventures

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

e) Impairment tests

Impairment tests, carried out on a field by field basis, are carried out continuously to determine that the net book amount of capitalized costs within each cost centre less any provision for site restoration costs, royalties and deferred production or revenue related taxes is covered by the anticipated future net revenue from oil and gas reserves attributable to the Group's interest in related fields. Provision is made for any permanent impairment, where the net book amount, according to the above, exceeds the estimated future discounted net cash flows using prices and cost levels used by Group management in their internal forecasting. If the Group decides not to continue with a field specific exploration programme then the expenditure will be expensed.

f) Site restoration costs

On fields where the Group is required to contribute to site restoration costs, a provision is created to recognize the future liability. At the date of acquisition of the field or at first production, an asset is created to represent the discounted value of the anticipated site restoration liability and depleted over the life of the field on a unit of production basis. The corresponding accounting entry to the creation of the asset recognizes the discounted value of the future liability. The discount applied to the anticipated site restoration

liability is subsequently released over the life of the field and is charged to financial expenses.

g) Effects of changes in estimates

The effects of changes in estimated costs and commercial reserves or other factors affecting unit of production calculations for depletion and site restoration costs do not give rise to prior year adjustments and are dealt with prospectively over the estimated remaining commercial reserves of each field. While the Group uses its best estimates and judgment, actual results could differ from these estimates.

h) Over- and underlifts

The quantities of oil and other hydrocarbons lifted by the Group may differ from its equity share of production giving rise to over- or underlifts which are accounted for as follows:

- An underlift of production from a field is included in current receivables and valued at the reporting date spot price or prevailing contract price.
- An overlift of production from a field is included in current liabilities and valued at the reporting date spot price or prevailing contract price.

i) Royalties

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.

j) 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.

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.

Technical and geological risk

Tethys Oil has up to 31 December 2006 not presented any sales of oil and gas. At its current stage of development the group is exploring for oil and gas and appraising undeveloped known oil and/or gas accumulations. The main operational risk is that the interest the group has in oil and gas assets will not evolve into commercial reserves of oil and gas. There are no methods to establish with full certainty how much oil and gas there is in a geological layer situated a couple of kilometres under the earth's surface. Probabilities that commercial oil reserves will not be found are highest before and during exploration drilling. Even when the presence of oil and natural gas reserves are established during exploration drilling, significant uncertainty remain as to when and how these reserves can be extracted. The group currently holds interest in 14 licences all subject to different risks. In the high risk end there are licences where oil and gas never has been proved to exist and the lower risk area there are licences where known quantities of oil exists and the risk is if it can be commercially produced. The selection process of new venture licences are subject to careful and detailed analysis by Tethys Oil. The risks are significant and Tethys Oil's principal approach to deal with these risks are through diversification of assets, sharing risks with industry partners and by attracting and engaging, both externally and internally, highly skilled technical professionals.

Oil price

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

Access to equipment

An operational risk factor is access to equipment in Tethys Oil's project. Especially in the drilling phase of a project the group is dependent on advanced equipment such as rigs, casing, pipes etc. A shortage of the-

ses supplies can present difficulties for Tethys Oil to fulfil projects. In recent years shortages of specialised equipment have increased costs and delayed projects.

Political risk

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

Exchange rate risk

By operating in several countries, Tethys Oil is exposed to fluctuations in a number of currencies. Swedish kronors accounted for around 20 per cent of invoices paid during 2006 and the main currency was US dollars. Possible future income will also most likely be denominated in foreign currencies, especially US dollars. Tethys Oil does not currently hedge exchange rates.

Liquidity risk

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

Environment

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

Key personnel

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

Note 2, Critical accounting estimates and judgements

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

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

Note 3, Segment information

The Group does not present any segment information regarding revenues as there have been no sales or production of oil and gas in the Group. Regarding oil and gas properties, segment information based on geography is presented below in note 4.

Note 4, Oil and gas properties

Country	Book value	Investments	Write downs	Book value	Book value	Investments	Write downs	Book value
	1 Jan 2005, TSEK	1 Jan–31 Dec 2005, TSEK	1 Jan–31 Dec 2005, TSEK	31 Dec 2005, TSEK	1 Jan 2006, TSEK	1 Jan–31 Dec 2006, TSEK	1 Jan–31 Dec 2006, TSEK	31 Dec 2006, TSEK
Oman	–	–	–	–	–	26,700 ¹	–	26,700
Denmark	1,707	3,412	–	5,119	5,119	14,553 ²	18,985	687
Morocco	9	544	–	553	553	2,359	–	2,912
Spain	3,118	33	–	3,152	3,152	214	1,487	1,878
Turkey	8,897	615	-8,179	727	727	735	192	1,270
France	–	690	–	690	690	343	–	1,033
New ventures	270	1,125	-233	1,163	1,163	1,304	1,855	612
Total	14,002	6,419	8,412	11,404	11,404	46,208	22,519	35,072

¹ See further note 16.

² Investments in Denmark are reduced as a consequence of the farm out to Star Energy during the third quarter and their payment of back costs.

TSEK	Group			Parent		
	1 Jan 2006–31 Dec 2006 12 months	1 Jan 2005–31 Dec 2005 12 months	1 Jan 2004–31 Dec 2004 12 months	1 Jan 2006–31 Dec 2006 12 months	1 Jan 2005–31 Dec 2005 12 months	1 Jan 2004–31 Dec 2004 12 months
Oil and gas properties						
Investments in oil and gas properties						
Opening balance	20,251	14,437	1,889	–	–	–
Investments in Denmark	14,553	3,412	1,097	–	–	–
Investments in France	343	690	–	–	–	–
Investments in Morocco	2,359	544	–	–	–	–
Investments in Oman	26,700	–	–	–	–	–
Investments in Spain	214	33	1,991	–	–	–
Investments in Turkey	735	615	8,779	–	–	–
Other investments in oil and gas properties	1,304	1,125	671	–	–	–
Closing balance	66,459	20,856	14,437	–	–	–
Reclassification of assets in Turkey	–	-605	–	–	–	–
Depletion						
Depletion	–	–	–	–	–	–
Write down						
Opening balance	8,847	435	–	–	–	–
Write down	22,519	8,412	435	–	–	–
Closing balance	31,366	8,847	435	–	–	–
Net book value	35,072	11,404	14,002	–	–	–

Note 5, Remuneration to company auditor

TSEK	Group			Parent		
	1 Jan 2006–31 Dec 2006 12 months	1 Oct 2006–31 Dec 2006 3 months	1 Jan 2005–31 Dec 2005 12 months	1 Jan 2006–31 Dec 2006 12 months	1 Oct 2006–30 Dec 2006 3 months	1 Jan 2005–31 Dec 2005 12 months
Remuneration to company auditor include:						
PricewaterhouseCoopers AB:						
Audit fee	416	385	123	285	385	123
Other	477	–	–	477	–	–
Total	893	385	123	762	385	123

Note 6, Administrative expenses

TSEK	Group			Parent		
	1 Jan 2006– 31 Dec 2006 12 months	1 Oct 2006– 31 Dec 2006 3 months	1 Jan 2005– 31 Dec 2005 12 months	1 Jan 2006– 31 Dec 2006 12 months	1 Oct 2006– 30 Dec 2006 3 months	1 Jan 2005– 31 Dec 2005 12 months
Administration						
Staff	4,125	-2,847	-2,000	3,004	-2,847	-2,000
Rent	593	-589	-433	590	-589	-433
Other office costs	49	-81	-26	43	-81	-26
Listing costs	757	-625	-385	757	-625	-385
Audit	-416	-385	-123	-416	-385	-123
Costs of external relations	957	-421	-197	957	-421	-197
External accounting costs	52	-157	-283	14	-157	-283
Other costs	1,924	-1,469	-1,878	1,835	-1,458	-1,878
Depreciation	-125	-35	-50	-125	-35	-50
Total	-9,000	-6,609	-5,375	-7,742	-6,598	-5,375

Note 7, Employees

Average number of employees	2006		2005		2004	
	Total	Total men	Total	Total men	Total	Total men
Parent company	4	3	4	3	3	3
Subsidiaries	1	1	–	–	–	–
Total	5	4	4	3	3	3

TSEK	2006		2005		2004	
	Salaries, other remuneration and social costs	Salaries, other remuneration Social costs	Salaries, other remuneration Social costs	Salaries, other remuneration Social costs	Salaries, other remuneration Social costs	Salaries, other remuneration Social costs
Parent company	2,463	568	2,324	551	1,615	395
Subsidiaries	1,121	–	–	–	–	–
Total	3,584	568	2,324	551	1,615	395

Salaries and other remuneration distributed between the board and other employees	2006		2005		2004	
	Board and Managing Director	Other employees	Board and Managing Director	Other employees	Board and Managing Director	Other employees
Parent company	1,704	759	1,694	629	1,260	355
Subsidiaries	1,121	–	–	–	–	–
Total	2,825	759	1,694	629	1,260	355

The group currently has 6 full time employees. Due to the low number of employees no information regarding sick leave is presented. Vincent Hamilton in his capacity as Chief Operating Officer and Magnus Nordin as Managing Director are both entitled to twelve months payment if the Company terminates their employment.

Salaries and other remuneration to operative board members and executive management	Salaries	Bonus	Benefits	Total 2006	Total 2005	Total 2004
Vincent Hamilton	960	–	–	960	960	720
Magnus Nordin	732	–	12	744	734	540
Other	1,138	–	440	1,578	629	355
Total	2,830	–	452	3,282	2,324	1,615

Salaries and other remuneration to board members (in their capacity as board members)	Remuneration		Total	Total	Total	Attendance
	Salaries	tion	2006	2005	2004	2005
Vincent Hamilton	-	-	-	-	-	10/10
Magnus Nordin	-	-	-	-	-	10/10
Jonas Lindvall *	-	-	-	-	-	5/5
John Hoey	-	25	-	-	-	10/10
Carl Gustaf Ingelman	-	25	-	-	-	10/10
Håkan Ehrenblad	-	25	-	-	-	10/10
Jan Risberg	-	25	-	-	-	9/10
Total	-	100	-	-	-	

* Jonas Lindvall joined the Board of Directors on 19 May 2005.

At the Annual Meeting of shareholders on 4 May 2006 Håkan Ehrenblad, Vincent Hamilton, John Hoey, Carl-Gustaf Ingelman, 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. At the Extraordinary General Meeting of shareholders on 19 May 2006 Jonas Lindvall was newly elected member of the board. Mr. Lindvall is a petroleum engineer with over 20 years experience from the oil and gas industry. He is also an employee of the group and will be in charge of the group's operations in Oman.

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

Note 8, Financial income and similar items

TSEK	Group			Parent		
	1 Jan 2006– 31 Dec 2006 12 months	1 Oct 2006– 31 Dec 2006 3 months	1 Jan 2005– 31 Dec 2005 12 months	1 Jan 2006– 31 Dec 2006 12 months	1 Oct 2006– 30 Dec 2006 3 months	1 Jan 2005– 31 Dec 2005 12 months
Interest income	296	0	0	1,619	473	185
Gain on currency exchange rates	946	145	83	922	125	83
Write up of short term investments	-	440	622	-	440	622
Gain on selling short term investments	962	188	58	962	188	58
Total	2,204	774	764	3,503	1,226	948

Note 9, Financial expenses and similar items

TSEK	Group			Parent		
	1 Jan 2006– 31 Dec 2006 12 months	1 Oct 2006– 31 Dec 2006 3 months	1 Jan 2005– 31 Dec 2005 12 months	1 Jan 2006– 31 Dec 2006 12 months	1 Oct 2006– 30 Dec 2006 3 months	1 Jan 2005– 31 Dec 2005 12 months
Interest expenses	-3	-3	-1	-	-3	-1
Write down of short term investments	-584	-	-	-584	-	-
Loss on currency exchange rates	-443	-136	-15	-60	-136	-15
Other	-	-5	-	-	-	-
Total	-1,030	-144	-16	-646	-139	-16

Note 10, Office equipment

TSEK	Group			Parent		
	2006	2005	2004	2006	2005	2004
Office equipment						
Assets						
1 January	287	216	58	287	216	58
Additions	76	72	158	76	72	158
31 December	363	287	216	363	287	216
Depreciations						
1 January	-93	-58	-8	-93	-58	-8
Depreciation charges of the year	-125	-35	-50	-125	-35	-50
31 December	-218	-93	-58	-218	-93	-58
Net book value	145	195	158	145	195	158

Note 11, Shareholders' equity

The number of shares in Tethys Oil amount to 5,741,760 (4,384,800), with a quota value of SEK 0.50 (SEK 0.50). The number of shares includes 400,000 shares from the non-cash issue in connection with the acquisition of Tethys Oman that were registered on 5 June 2006. It further includes 876,960 shares from the rights issue that were registered on 10 July 2006. For the weighted number of shares calculation they were included from the issue date, 28 June 2006. A directed issue to Maha Resources of 80,000 shares is also included in the number of shares and in the weighted number of share calculation they were included from 7 August 2006.

In the rights issue described above, Tethys Oil issued a warrant for every issued share, amounting to 876,960 warrants. These warrants were listed on First North on 17 July 2006. The warrants could be exercised during two fixed periods. The first period was between 1 December 2006 – 31 January 2007 and had a subscription price of SEK 72 and the second period is between 1 September 2007 – 30 September 2007 and has a subscription price of SEK 78. As the share price at the end of the reporting period was below subscription prices, these warrants are not included in the diluted number of shares.

Tethys Oil does not have any incentive programmes.

Note 12, Accrued expenses

TSEK	Group			Parent		
	1 Jan 2006– 31 Dec 2006 12 months	1 Oct 2006– 31 Dec 2006 3 months	1 Jan 2005– 31 Dec 2005 12 months	1 Jan 2006– 31 Dec 2006 12 months	1 Oct 2006– 30 Dec 2006 3 months	1 Jan 2005– 31 Dec 2005 12 months
Accrued expenses						
Accrued expenses – exploration	–	116	848	–	–	–
Other	684	170	665	482	170	665
Total	684	286	1,513	482	170	665

Note 13, Shares in subsidiaries

TSEK	Parent company	Parent company	Parent company
	31 December 2006	31 December 2005	31 December 2004
Shares in subsidiaries			
1 January	1,203	1,203	703
Acquisitions	25,331	–	500
Contributed share capital	25,843	9,692	–
Write down of shares in group companies	26,546	-9,692	–
31 December	25,831	1,203	1,203

Company	Reg. number	Reg. office	Number of shares	Percentage	Nominal value per share	Parent Company	Parent company	Parent company
						Book amount December 31, 2005, TSEK	Book amount December 31, 2004, TSEK	Book amount December 31, 2003, TSEK
Tethys Oil Denmark AB	556658-1467	Sweden	1,000	100%	SEK 100	100	100	100
Tethys Oil Spain AB	556658-1442	Sweden	1,000	100%	SEK 100	100	100	100
Tethys Oil Turkey AB	556658-1913	Sweden	1,000	100%	SEK 100	100	100	100
Tethys Oil Exploration AB	556658-1483	Sweden	1,000	100%	SEK 100	100	100	100
Tethys Oil France AB	556658-1491	Sweden	1,000	100%	SEK 100	100	100	100
Tethys Oil Oman Ltd.	95212	Gibraltar	100	100%	GBP 1	25,331	-	-
Windsor Petroleum (Spain) Inc.	549 282	British Virgin Islands	1	100%	USD 1	-	703	703
Total						25,831	1,203	1,203

Note 14, Pledged assets

There are no pledged assets as per 31 December 2006. As per 31 December 2005 pledged assets in the parent company amounted to TSEK 780 and as per 31 December 2004 there were no pledged assets in the group.

Note 15, Contingent liabilities

The contingent liabilities amount to TSEK 18,193 as per 31 December 2006. In Denmark, the Group has a contingent liability amounting to TSEK 1,210 regarding remaining work commitment on the Danish drill site according to the agreement with the landowner, in France the parent company has a financial work commitment of TSEK 4,696 and in Oman the group has a financial work commitment of TSEK 12,200. Contingent liabilities amounted to TSEK 14,527 as per 31 December 2005 and 31 December 2004.

Note 16, Acquisition

The Group acquired 100 per cent of the share capital of Tethys Oman on 24 May 2006 from Maha Resources Ltd. Tethys Oman, registered in Gibraltar, has 40 per cent interest in an Exploration and Production Sharing Agreement in Block 15, Oman. As consideration for the acquisition Tethys Oil paid USD 600,000 (SEK 4,383,900) in cash and issued 400,000 new shares of Tethys Oil. The value of the shares is based on the market price of SEK 49.50 for the Tethys Oil share at the effective date of acquisition, 24 May 2006, from which date Tethys Oman is consolidated. The total value of the consideration therefore amounts to SEK 24,183,900. The share issue was registered on 5 June 2006.

Tethys Oman contributed revenues of TSEK 1,146 and net result of TSEK -354 to the Group for the period from acquisition to 31 December 2006. If acquisition had occurred on 1 January 2006 consolidated revenue and consolidated net result for the twelve month period ended 31 December 2006 would have been TSEK 2,330 and TSEK -318 respectively. Revenues in Tethys Oman are attributable to chargeouts to the joint venture regarding Block 15 in Oman.

sition had occurred on 1 January 2006 consolidated revenue and consolidated net result for the twelve month period ended 31 December 2006 would have been TSEK 2,330 and TSEK -318 respectively. Revenues in Tethys Oman are attributable to chargeouts to the joint venture regarding Block 15 in Oman.

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

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

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

Note 17, Related party transactions

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

Auditor's report

(An English translation of the Swedish original)

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

Corporate Identity Number 556615-8266

I have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the managing director of Tethys Oil AB (publ) for the year 2006. (The company's annual accounts are included in the printed version on pages 44–65). The board of directors and the managing director are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. My responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on my audit.

I conducted my audit in accordance with generally accepted auditing standards in Sweden. Those standards require that I plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the managing director and significant estimates made by the board of directors and the managing director when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for my opinion concerning discharge from liability, I examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company

of any board member or the managing director. I also examined whether any board member or the managing director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. I believe that my audit provides a reasonable basis for my opinion set out below.

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

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

Stockholm 30 April 2007

Klas Brand

Authorized Public Accountant
PricewaterhouseCoopers AB

Definitions and Abbreviations

General

AGM	Annual General Meeting
EGM	Extraordinary General Meeting
IPO	Initial Public Offering
SEK	Swedish krona
TSEK	Thousands of Swedish kronor
MSEK	Millions of Swedish kronor
USD	US dollar
TUSD	Thousands of US dollars
MUSD	Million US dollars
2D	Two-dimensional
3D	Three-dimensional

Petroleum related abbreviations and definitions

bbl	Barrel
bbls	Barrels
bcf	Billion cubic feet
boe	Barrels of oil equivalents
boepd	Barrels of oil equivalents per day
bopd	Barrels of oil per day
mbbl	Thousand barrels (in Latin mille)
mmbo	Million barrels of oil
mmboe	Million barrels of oil equivalents
mmboepd	Million barrels of oil per day
cf	Cubic feet
mcf	Thousand cubic feet
mcfpd	Thousand cubic feet per day
mmcf	Million cubic feet
mcm	Thousand cubic metres

Industry specific terms

Barrel

1 barrel = 159 liters.

1 cubic foot = 0.028 m³

Basin

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

Farm-in

A joint-venture agreement between companies whereby one company holds the licence and the other company joins them by taking a working interest in the licence.

Hydrocarbons

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

Licence

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

Paying interest

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

Probable reserves

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

Proved reserves

Proved reserves are those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods and governmental regulations. Proved reserves can be categorized as developed or undeveloped. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90 per cent probability that the quantities actually recovered will equal or exceed the estimates.

Seismic

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

Working interest

The actual interest owned by a party.



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