TETHYS OIL

Annual Report 2010

Contents

Information regarding Annual General Meeting

The Annual General Meeting of shareholders of Tethys Oil will be held on Wednesday 25 May 2011, 3 p.m. at Van der Nootska Palatset, S:t Paulsgatan 21 in Stockholm. The notice and the complete proposals of the Board of Directors etc. are available at www.tethysoil.com. To be entitled to participate, shareholders must be included in the register of shareholders maintained by Euroclear Sweden AB, in their own names, as of Wednesday 19 May 2011 and must notify Tethys Oil no later than 19 May, 2011, 4 p.m. According to the Swedish Companies Act, a shareholder who wishes to attend by proxy, must present a proxy in writing, dated and signed by the shareholder.

Financial information

The company plans to publish the following financial reports:
Three month report 2011 (January – March 2011) on 9 May 2011
Annual General Meeting 2011, Stockholm, 25 May 2011
Six month report 2011 (January – June 2011) on 22 August 2011
Nine month report 2011 (January – September 2011) on 14 November 2011
Year end report 2011 (January – December 2011) on 13 February 2012

Landsten Reklam 2011. Design Henrik Strömberg. Printed in Sweden.

Tethys Oil in brief

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

The shares are listed on NASDAQ OMX First North (TETY) in Stockholm. Remium AB is Certified Adviser.

2010 in brief

Operational

- Saiwan East–3 well tested 10,714 barrels of oil per day in July
- Saiwan East-4 well, drilled in august, no flows established but the well encountered different quality oil from previous Saiwan wells
- Farha South-4 well tested 3,079 barrels of oil per day in October
- Farha South-5 well tested in excess of 1,500 barrels of oil per day in December
- In 2010, a total of 139,213 barrels were produced under the Farha South Early Production System ("EPS"). Tethys' share of the test production oil amounts to 30 per cent, or 41,764 barrels, before government take

Financial

- In 2010, Tethys Oil sold 18,898 barrels of oil after government take from the EPS on Block 3 Oman, resulting in net sales of TSEK 11,066 (TSEK –)
- In May, Tethys entered into a Farmout Agreement with Mitsui E&P Middle East B.V., a subsidiary of Mitsui & Co. Ltd., whereby Mitsui acquired 20 percent of the licence covering Blocks 3 and 4. The purchase price amounted to MUSD 20 in cash. In addition Mitsui undertook to fund Tethys' share of capital expenditures up to MUSD 60 on the Blocks effectively from January 1st 2010
- Result for the full year 2010 amounted to TSEK 80,069 (TSEK -42,503 for the corresponding period last year)
- Earnings per share amounted to SEK 2.60 (SEK -1.62) for 2010

Letter to the shareholders

Dear Friends and Investors

2010 was an eventful year for Tethys, and the company grew stronger with both financial and operational successes. Four new wells and were drilled and over 1,100 square kilometres of 3D seismic were acquired on our Omani onshore Blocks 3 and 4. We recorded our first ever oil sales. Our balance sheet got strengthened following the farm out to Mitsui. And our projects are becoming more organized as the databases grow and the models themselves mature.

The two new wells on the Farha South area, FS-4 and FS-5, further confirmed the productivity of the area. The flow rates of the 2009 Farha South-3 well was beaten in both wells when tested in excess of 3,000 and 1,500 bopd respectively. All three wells have been hooked up to a an Early Production System ("EPS") for a long term production test with the aim to gain more information about the reservoir. In 2010, a total of 139,213 barrels were produced from the Barik layer in Farha South 3, 4 and 5 wells. Tethys' share of the test production oil amounts to 30 per cent, or 41,764 barrels before government take. We expect intermittent test production to continue as more wells will be added to the EPS.

The drilling of Saiwan East-2 and -3 wells in 2009 and 2010 proved the presence of light oil in Khufai layer in the Saiwan East area on Block 4 as well as confirming the heavy oil in other layers. The SE-3 well exceeded our expectations and tested over

10,000 barrels of conventional oil per day. The heavy oil remains an interesting project in our portfolio, but it will most probably involve considerable future investment. The SE-4 well seem to have encountered unexpectedly large quantities of oil with different gravities and viscosities than previously believed possible. The results underscore the complexity, but also the potential, of Block 4 in general and the Saiwan area in particular.

In 2010, Tethys farmed out 20 percent of the licence covering Blocks 3 and 4 to Mitsui. The purchase price amounted to USD 20 million in cash. In addition, Mitsui has undertaken to fund Tethys' share of capital expenditures up to USD 60 million on the Blocks effective from January 1st 2010. Tethys could further receive a bonus payment of USD 10 million. With the farmout, Tethys' foreseeable investment needs relating to Blocks 3 and 4 seem satisfied.

Outlook

In the first quarter 2011, a second rig was contracted to the work programme on Block 3 and 4. Two rigs will allow a speedier drilling schedule for 2011 and accelerated the development of a fully-fledged development plan. We will also increase activity in all our other theatres of operations. The JAS-2 well was re-logged and confirmed to be hydrocarbon bearing in December, leading us to suggest further activity on Block 15.

In France, Tethys entered in April 2011 into an agreement with Mouvoil SA whereby Tethys acquired a 37.5% interest in an exploration and production licence in southern France. On the other French licence, Attila, the operator suggests additional drilling to try and prove the commerciality of our gas discovery, something we are studying today.

And least but not last, our studies over Gotland has so far yielded more than 40 potentially oil bearing reefal structures. Tethys has launched a soil sampling survey over parts of its licence area. The results of the survey are expected to provide additional information to the location of as yet undiscovered oil deposits on Gotland.

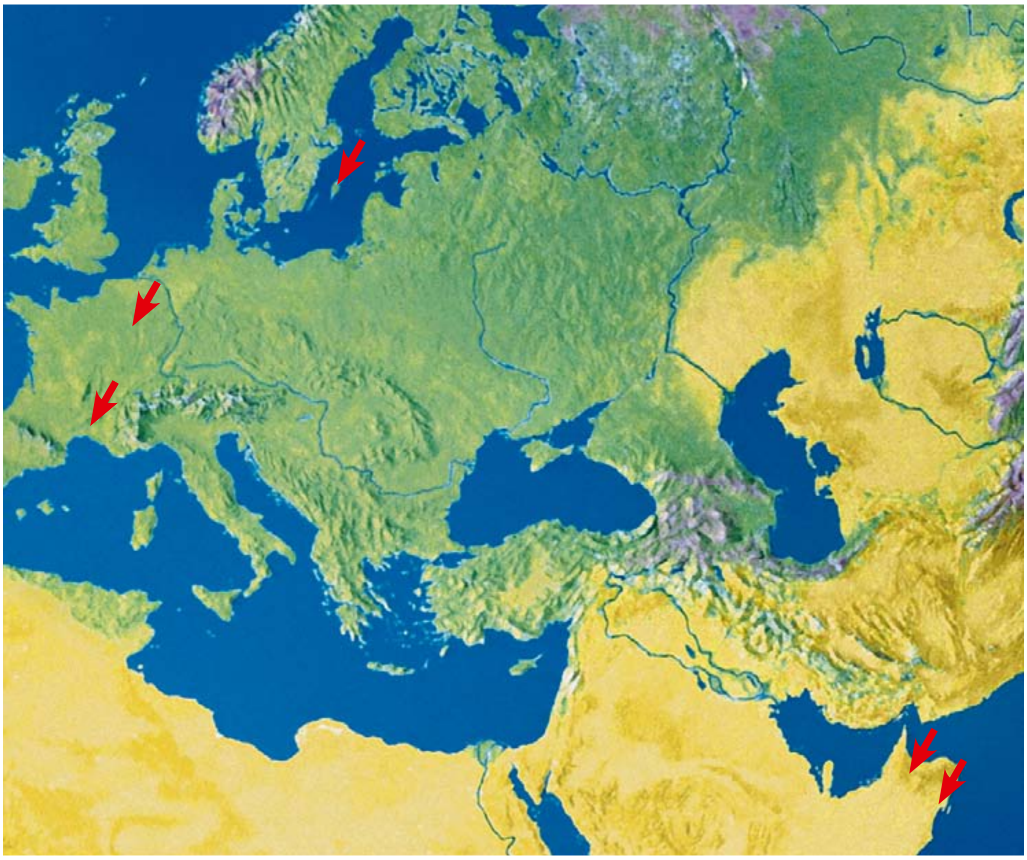
So Oman remains at the core but the periphery is also revving up, so stay with us we are maturing but still growing.

Stockholm in April 2011

Magnus Nordin
Managing Director

Vince Hamilton
Chairman of the Board

Operations



Strategy

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

Licences

Country	Licence areas	Tethys Oil	Total area, km²	Operator
Oman	Block 15	40%	1,389	Odin Energi
	Block 3, 4	30%	33,125	CCED
France	Attila	40%	1,986	Galli Coz
	Permis du Bassin D'Alès	37.5%	215	Tethys Oil
Sweden	Gotland Större	100%	540	Tethys Oil
Total			**37,255**	

Oman

Sultanate of Oman

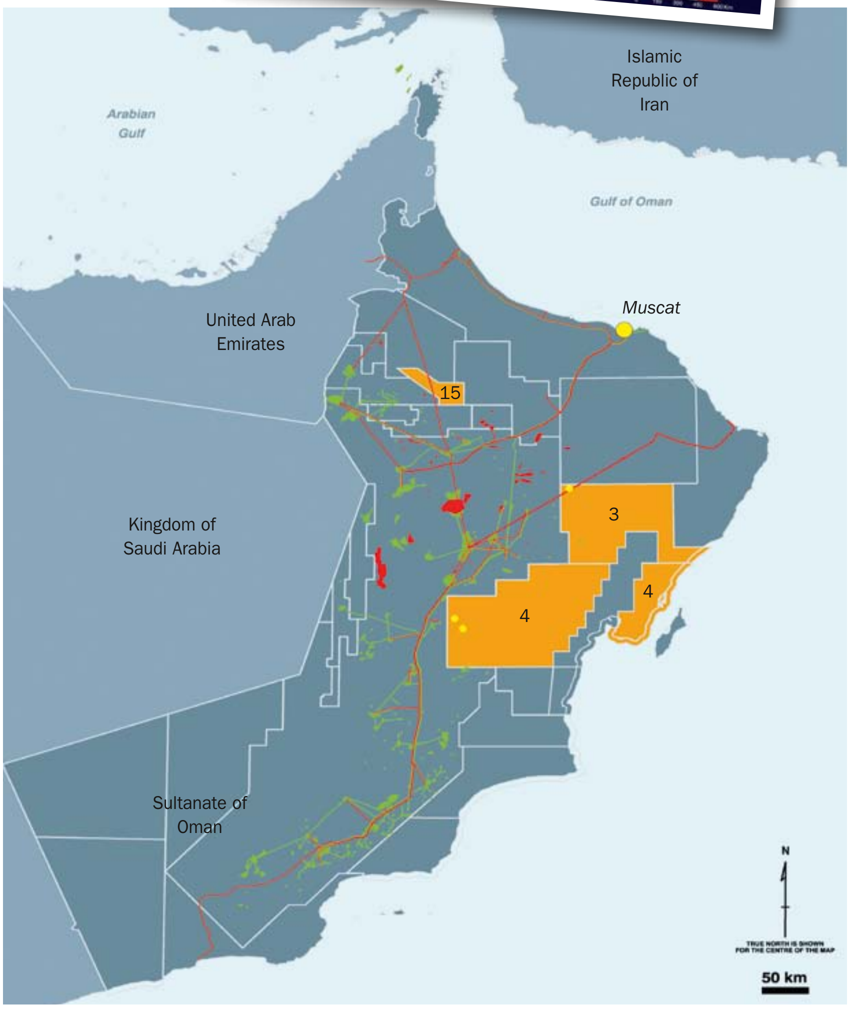
The Sultanate of Oman is located on the tip of the eastern Arabian Peninsula, neighbouring United Arab Emirates in the northwest, Saudi Arabia in the west and Yemen in the southwest. The coast is formed by the Arabian Sea on the south and east and the Gulf of Oman on the northeast, with a coastline of 2,092 kilometres. The area of Oman amounts to 212,460 square kilometers. The capital is Muscat and the population amounts to 3.0 millions.

Oman Oil

Oman is economically dependent on its oil revenues, which account for about 75 per cent of the Oman's export earnings and 40 per cent of its gross domestic product. Oman has about 5.6 billion barrels of proven oil reserves, corresponding to about 0.4 per cent of the worlds proven oil reserves. The oil reserves are not as large as the neighbouring states in the Gulf area, but are definitely comparable on a per capita basis with oil states elsewhere. Oman's proven oil reserves of 1.9 thousand barrels per capita is more than both Norway's of 1.5 thousand but and Russia's of 0.6 thousand barrels per capita.

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

The Government majority owned Petroleum Development of Oman (PDO) in partnership with multinational petroleum companies, Shell and Total, have successively expanded the Omani reserves and it is only in recent years that the country has seen a reduction in oil production. Peak production of crude oil in Oman occurred in 2000 when production reached 970,000 bopd. The production in 2009 amounted to about 810,000 bopd. Oman is not a formal member of OPEC.



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

Tethys Oil Oman

Tethys Oil entered Oman in 2006 with the acquisition of a 40 per cent interest in Block 15 onshore Oman. In 2007, Tethys Oil acquired a 50 per cent stake in Blocks 3 and 4 onshore Oman. After successful drillings on all Blocks, Oman has become Tethys Oil's undisputed core area. The three blocks have a combined gross area of around 30,000 square kilometres, which makes Tethys Oil the second largest onshore oil and gas concession- holder in Oman. Besides the Jebel Aswad discovery on Block 15, Farha South on Block 3 and Saiwan East on Block 4, the licences hold many exploration plays for both oil and natural gas. Tethys Oil's ambition is to continue to appraise and develop the known discoveries as well as to explore for new ones.

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

Photo: Abdalla Al Qasmi, www.flickr.com/abdalla1

Oman, Block 3, Farha South

The successful drilling of Farha South-3 (“FS-3”) in 2009, which flowed over 1,000 bopd when tested, was followed with the equally highly successful wells FS-4-and FS-5 in 2010. All three wells are now hooked up to the Farha South Early Production System, and are since 2010 in intermittent pilot production.

Drilling of Farha South-3 in 2009

The first well to be drilled on Block 3 with Tethys as partner was the FS-3 in early 2009. FS-3 was a delineation well to the discovery well, FS-1, and the drilling target was the Lower Bashair sandstone formation at a depth of around 1,900 metres. The well was drilled to a total depth of 2,723 metres, corresponding to a true vertical depth of 1,857 metres. The well was drilled as a vertical pilot hole with a horizontal sidetrack. A production flow of 754 bopd was recorded from the horizontal reservoir section. The oil is of very good quality (40 Deg API) with a low gas oil ratio.

Whilst drilling Farha South-3, oil shows similar to those recorded in the deeper Lower Al Bashair sandstone were also observed in the shallower Barik sandstone. When later tested, the Barik layer flowed 379 bopd from the vertical section of the well. The oil had a density of 42 degree API and a low gas-oil-ratio. In 2010, the Barik layer was tested with a down hole Electrical Submersible Pump (ESP) and flowed 1,010 bopd.

Farha South-4 well flowed 3,079 bopd

The Farha South-4 well was spudded in mid-August 2010. The FS-4 well was drilled 740 metres to the south southeast of the Farha South-3 well. The pilot hole was drilled to a depth of 2,039 metres. Both the Barik and the Lower Al Bashair formations were penetrated with oil shows. The Barik formation was found at 1,272 metres below ground level and was penetrated with an 820 metres horizontal section. The horizontal section was logged during drilling. A pump was installed and production testing was conducted on the horizontal section. The maximum rate achieved with pump during the tests was 3,079 barrels of 43 degree API gravity oil through an 80/64ths (31.75 mm.) choke size.

Farha South-5 well flowed in excess of 1,500 bopd

The Farha South-5 well was spudded in early October 2010. The FS-5 well was drilled as a stepout exploration well 6.8 kilometres northeast of the discovery well FS-3. The pilot hole was drilled to a depth of 2,370 metres. Both the Barik formation and the Lower Al Bashair formation were penetrated with oil shows. Electrical logs were run. Subsequently, a horizontal sidetrack was drilled 160 metres within the Barik formation, which lies at 1,240 metres below ground level. A pump was installed and the well was placed on production. The initial daily production rate was in excess of 1,500 bopd of 44 degree API gravity.

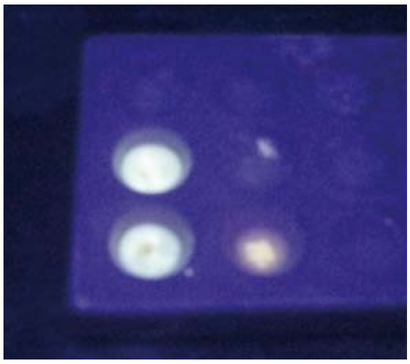
3D seismic study

During the end of 2009 and spring of 2010, a comprehensive 3D seismic survey was conducted over the Farha trend. The study covered a total of 742 square kilometres on Block 3. The seismic acquisition was conducted by BGP Oil and Gas Services of China.

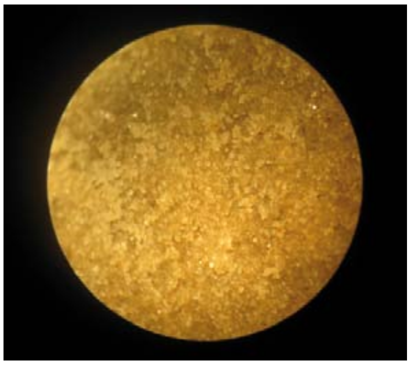
Early production system

In the third quarter 2010, an Early Production System (“EPS”) for a long term production test of the Farha South structure was launched. The aim with the EPS is to gain more information about the reservoir in order to optimize future production volumes. Produced and sold volumes under the EPS will differ substantially over time. In 2010, a total of 139,213 barrels were produced from the Barik layer in Farha South 3, 4 and 5 wells. Tethys’ share of the test production oil amounts to 30 per cent, or 41,764 barrels before government take. The produced oil is trucked from the Farha South facilities 80 kilometres to the Alam station, where the oil is loaded into the National Omani pipeline system.

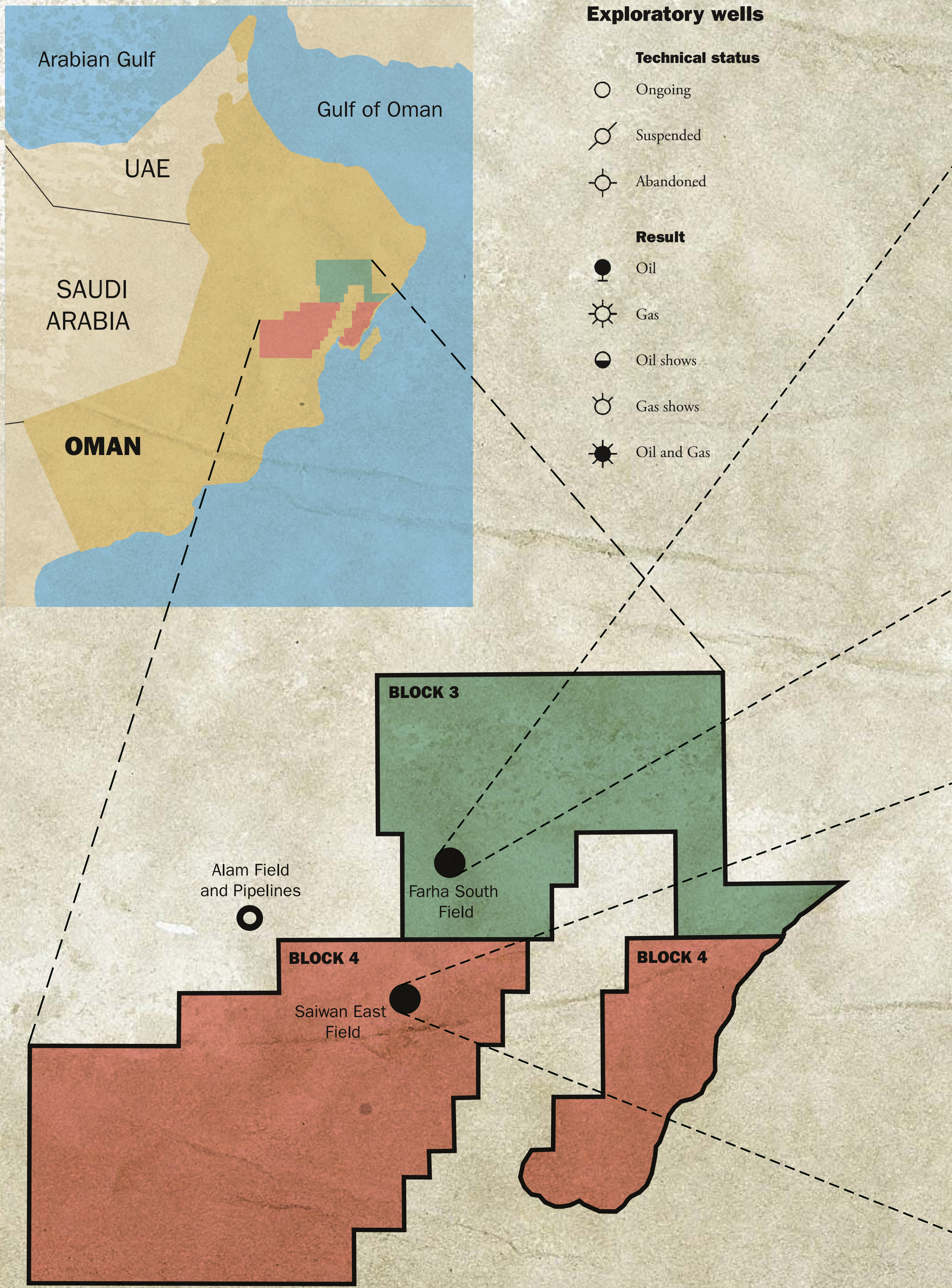
Oil stained core

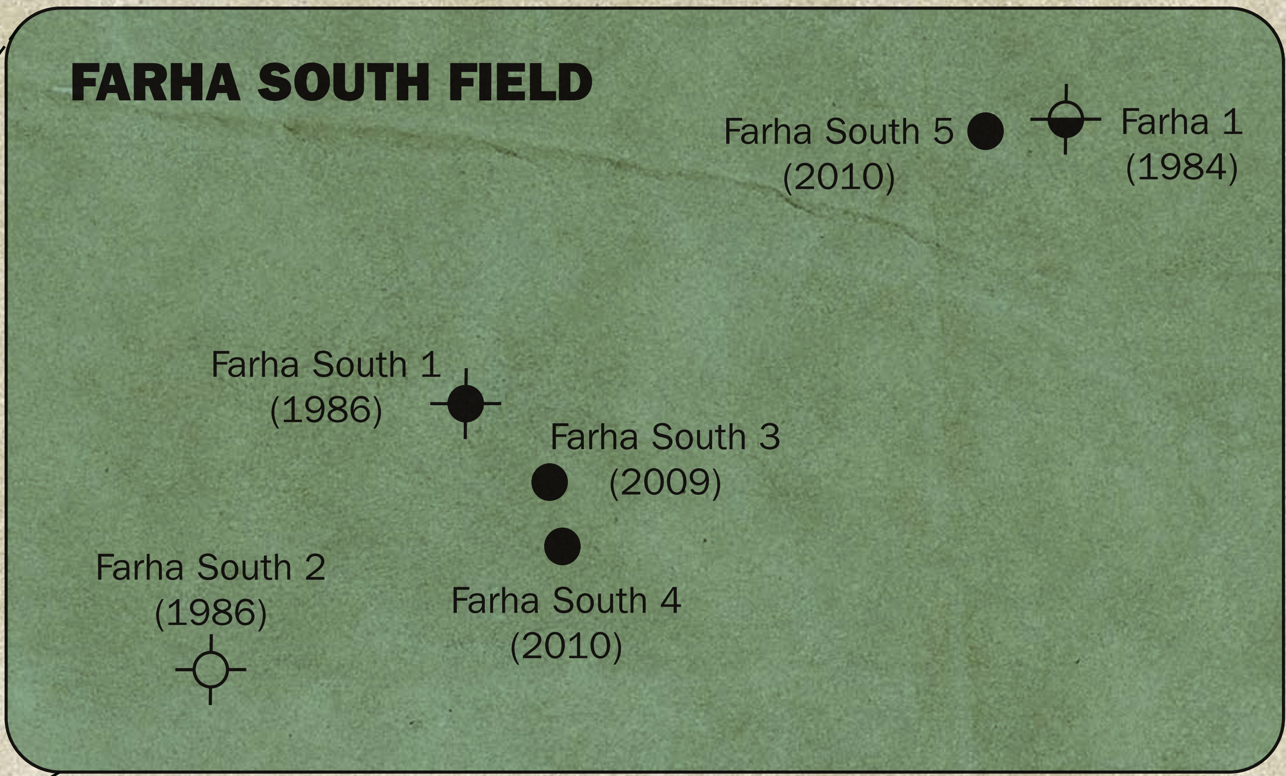


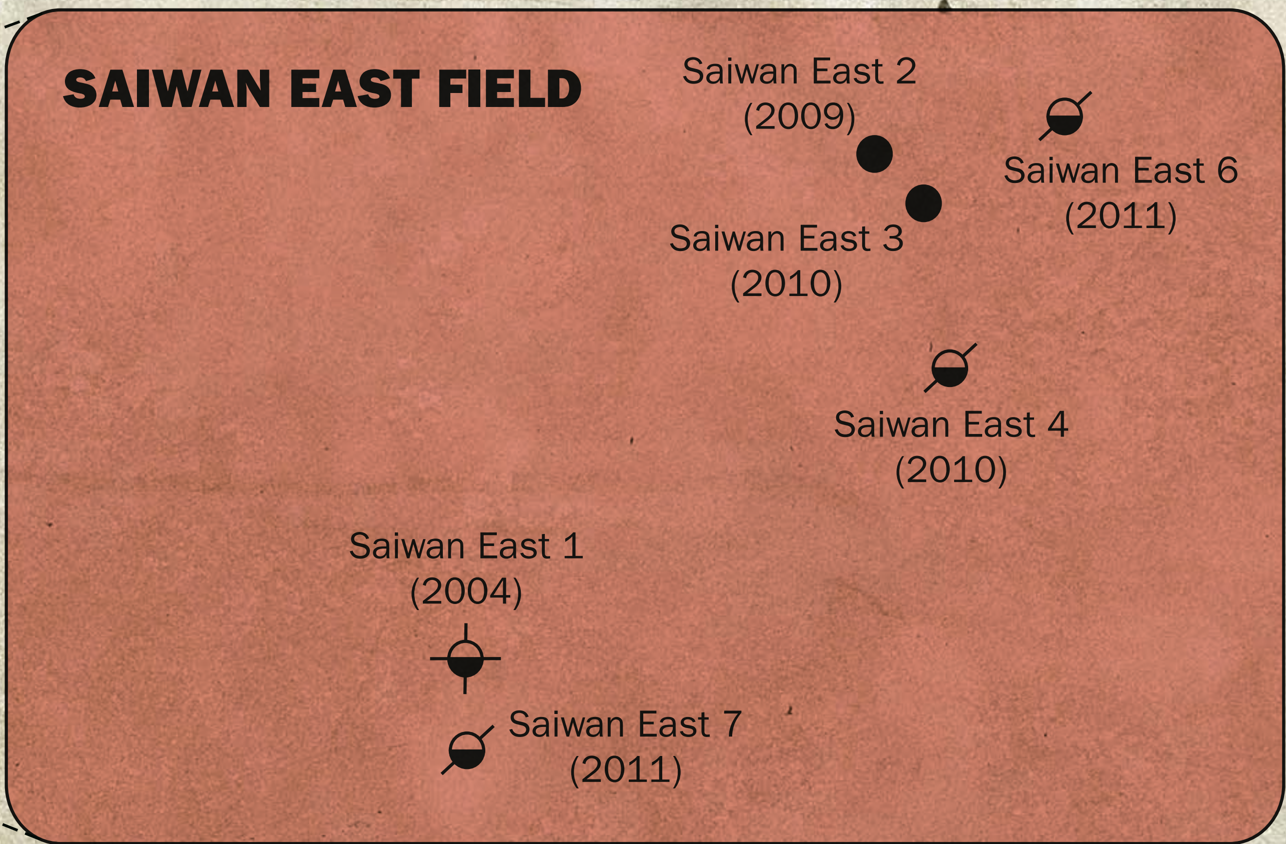
Bright fluorescent cut of Barik sandstone



Good porosity oil stained Barik sandstone


Arabian Gulf
Gulf of Oman
UAE
SAUDI ARABIA
OMAN
Exploratory wells
Technical status
Ongoing
Suspended
Abandoned
Result
Oil
Gas
Oil shows
Gas shows
Oil and Gas
BLOCK 3
Farha South Field
Alam Field and Pipelines
BLOCK 4
Saiwan East Field
BLOCK 4


FARHA SOUTH FIELD
Farha South 5
(2010)
Farha 1
(1984)
Farha South 1
(1986)
Farha South 3
(2009)
Farha South 2
(1986)
Farha South 4
(2010)


SAIWAN EAST FIELD
Saiwan East 2
(2009)
Saiwan East 6
(2011)
Saiwan East 3
(2010)
Saiwan East 4
(2010)
Saiwan East 1
(2004)
Saiwan East 7
(2011)

Oman, Block 4, Saiwan East

Five new wells have been drilled on the Saiwan East structure since Block 4 became a part of Tethys' project portfolio. The results have underscored the complexity, but also the potential, of Block 4 in general and the Saiwan area in particular.

Drilling of Saiwan East-2

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

The well was deepened and a previously undiscovered target was encountered at a depth of around 1,600 metres. The Khufai limestone, a 30 metres thick oil bearing reservoir, was drill stem tested and flowed 280 bopd of 33 degree API oil on a 24/64" choke. No water was produced during the test and the oil has a very low gas oil ratio. Pressure gauges left in the hole was recovered and analysed in July 2009. Preliminary analysis of the data suggests the Khufai to suffer from skin damage (+20) as a result of the heavy drilling mud used whilst drilling. In 2011, a horizontal section was drilled in the well and the well has been connected to testing equipment for a planned long term production test.

Testing of the heavy oil zones

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

Saiwan East-3

Drilling of the Saiwan East-2 well commenced in May 2010 with the objective to appraise and develop the discovery of light oil in the Khufai formation made in 2009. A vertical pilot hole was drilled with a horizontal well. In the beginning of July, the drilling was completed and production testing of the horizontal section drilled in the Khufai reservoir was conducted. The maximum rate achieved during the test was 10,714 barrels per day of 32.4 API gravity oil through a 38 millimetre choke size.

Saiwan East-4 well

The Saiwan East-4 well was drilled in the summer of 2010 2.9 kilometers to the southeast of the Saiwan East-3. The well was drilled to a total depth of 2,463 metres. SE-4 was tested around year end 2010. No flows were established and some hole conditions resulted in encountering water bearing fractures in the top part of the Khufai interfering with test data from this zone. The actual production capability of SE-4 therefore remains undetermined. However, the results from the testing suggest that the oil in this part of Block 4 is of a different quality from the oil encountered in previous Saiwan wells. The data also suggests that considerably larger parts than previously believed of the more than 400 metres thick Khufai section could contain oil of various qualities. The oil encountered in SE-4 could range in density from the 33 degree API oil produced from SE-2 and SE-3 to the heavy oil encountered above the Khufai in these wells.

Saiwan East-6

The Saiwan East-6 well was finalized in the first quarter 2011. SE-6 was drilled 4.8 kilometres north from the SE-4 well. Heavy oil was found in the Miqrat and Buah formations above the Khufai formation, which was found 1,617 meters below ground. The well was drilled to a total depth of 1,720 meters with intermittent shows of very heavy oil also in the Khufai formation. The well has been logged and a drill stem test-run in the open hole to test the top 30 metres of the Khufai formation yielded formation water with oil skim on surface. The well has been completed as an observation well.

Saiwan East-7

The Saiwan East-7 well drilled in 2011 reached a total depth of 1,890 metres, where the main target was to test the presence of oil in the Khufai section in the southern part of the Saiwan East structure. The well identified a more than 90 meter thick column of intermittent heavy oil saturation in the upper parts of the Khufai. A limited test programme was run, using a wireline MDT tool, but no flows were

established. As expected heavy oil was also encountered in the shallower Buah, Miqrat and Amin formations. SE-7 has been temporarily suspended for possible testing and further study.

3D seismic study on Blocks 3 and 4

During the end of 2009 and spring of 2010, a comprehensive 3D seismic survey was conducted over the Saiwan East structure. The study covered a total of 400 square kilometres on Block 4. The seismic acquisition was conducted by BGP Oil and Gas Services of China.

Oman, Block 15, Jebel Aswad

The Jebel Aswad-1 well was Tethys first Omani well, drilled in 2007. Jebel Aswad-2 was drilled the year after, and a comprehensive 3D seismic study was also conducted in 2008. After the JAS-2 well, the work on Block 15 has been focused on seismic re-interpretation and other geophysical and geological studies following the undermined test results of the JAS-2 well. With the main aim to launch a long term production test on JAS-1 and -2 wells in 2011, a work programme now is taking shape.

Tethys' re-entry of Jebel Aswad-1 in 2007

The history of Block 15 includes two wells drilled by a previous operator in 1994 and 1997. Both wells indicated hydrocarbons, and Jebel Aswad-1 tested 204 barrels of oil from the Natih limestone reservoir. The reentry of Jebel Aswad-1 commenced in April, 2007. The drilling was designed to appraise both the Shuaiba and Natih reservoir intervals in order to determine well deliverability and a likely recovery factor. Both reservoirs did also produce hydrocarbons to surface.

The well penetrated a total of 848 metres of hydrocarbon bearing Natih limestone in a horizontal sidetrack that measured 3,830 metres from the surface. On testing, the Natih flowed 11.03 mmcfpd and 793 bopd of 57 degree API condensate (total of 2,626 boepd) through a 1 inch choke. The Shuaiba could not be fully tested, but wet gas was produced and flared during the underbalanced drilling phase.

The drilling of Jebel Aswad-2 in 2008

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

3D seismic survey

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

2010

In late 2010, a new logging programme, based on Schlumberger technology, was conducted in the JAS-2 well. The logging confirmed some 700 metres of oil saturated reservoir along the horizontal section. It was also established that the water producing fault was located in the end of the horizontal section.

Tethys has agreed with the partner Odin Energi, to resume the work programme on Block 15 with Odin as operator from 1 January 2011. The main aim with the suggested programme is to launch a long term production test on JAS-1 and -2 wells in 2011.

Photo: www.flickr.com/swedgatch

Sweden, Gotland Större

Since awarded the licence, Tethys has conducted a comprehensive study of the existing data and combined it with information from a newly acquired airborne survey. Tethys is now taking the next step and a soil sampling survey is planned to be launched over parts of the licence in April and May 2011. The results of the survey are expected to provide additional information as to where undiscovered oil deposits on Gotland are present.

Sweden is not home to large quantities of oil and natural gas. Actually it is not home even to small quantities. But there is one exception. From the island of Gotland in the Baltic Sea, some 700,000 barrels of oil were produced between the mid seventies and early nineties. Given Sweden's favorable mineral law – only corporate tax is charged, and the fact that the oil is to be found in very shallow reefal reservoirs – about 250 metres below surface, even comparable small quantities could prove to be very profitable.

Oil exploration started already in the 1930s on the island, when two wells were drilled. Oil was encountered in both wells, but not in commercial quantities. In 1969, state owned Oljeprospektering AB (OPAB) started operations on the island. During the company's 17 years on Gotland, OPAB drilled 241 wells and acquired over 2,500 kilometres of seismic. After OPAB left, Gotlandsolja AB assumed operations in 1987. Before they left in 1992, they drilled another 82 wells.

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

A review of historic data suggest that only a limited number of the reefs present on Gotland have actually been mapped and drilled. Statistic data indicates that there could be as many as 600 of these reefs. About 150 of these have been drilled and mapped. Of the 150 drilled, about ten per cent encountered oil. According to Tethys' estimates, there could be one or a couple more million barrels of oil to be found and produced on Gotland. This oil is not to be found in one field, but distributed on several reefs. These reefs are however shallow and relatively inexpensive to drill.

Licence work

Tethys has been granted an extension of the licence Gotland Större until end of 2011. Since Tethys was awarded the licence, a comprehensive study of the existing data over the licence area has been conducted. More than 300 kilometres of seismic data has been digitalized and reprocessed with modern computer technology. The seismic data has been combined with gravimetric information and topographic data from newly acquired airborne surveys with a view to identify as yet undrilled Ordovician mounds that could contain oil. After completing the database and study, to date more than 40 possible reefs have been identified each one being potentially oil bearing.

The next step is to conduct a soil sample survey over the best located reefs and to analyse the soil and compare it to soil samples taken above previously known oil bearing reefs in order to further determine the oil bearing potential of undrilled reefs before a possible drilling decision is made. This geochemical survey will be conducted during the spring 2011.

Photo: Alexandre Santerne, www.flickr.com/santerne

France

Tethys first French licence, the Attila licence, is located in the oil and gas producing Paris basin, some 250 kilometres east of Paris. Tethys and partner Galli Coz S.A. drilled the Pierre Maubeuge 2 (PLM-2) exploration well in autumn 2007. In spring 2011, Tethys acquired a 37.5 per cent interest in the licence Permis du Bassin D'Alès, an exploration and production licence in the department of Gard in southern France

The Attila licence

Tethys Oil and the operator Galli Coz S.A. were awarded the Attila licence in 2006. After one and a half year of exploration work, including satellite and radar data, reprocessing of existing seismic data and geochemical surface samples, Tethys and Galli Coz had proved the prospectivity of the area and were ready to test the project with the drill bit.

With the objective was to find natural gas accumulations, the PLM-2 was spudded in the end of September 2007. After less than three weeks of drilling operations, the well was finalized at a total depth of 1,310 metres. During drilling, gas shows were recorded in the Triassic formation below a salt layer. Wireline logging confirmed the indications of gas while drilling. In 2008, well completion and production tests were conducted on the well but only a minor gas flow occurred. An evaluation of the well results was conducted and it was decided to re-test the well during the autumn of 2008. Higher gas flows were recorded during this test; however the results proved the PLM-2 well to be non commercial in its current state.

In 2010, additional tests and analyses have been carried out. The results of this work suggest that too heavy drill mud was used when drilling PLM-2, resulting in the well suffering from skin damage. The true flow potential of the well has therefore not been established. The operator has proposed to drill a side track in PLM-2 with lighter mud in order to test an undamaged section of the gas reservoir.

Permis du Bassin D'Alès

In April 2011, Tethys acquired 37.5 per cent interest in a second French licence from the Swiss company Mouvoil S.A., holding the remaining 62.5 per cent. The licence, called Permis du Bassin D'Alès, is an exploration and production licence covering 215 square kilometres in the department of Gard in southern France.

The licence area covers part of the Alès basin including the Maruejols heavy oil field discovered in 1947. The field is delineated by nine wells and has produced small amounts of 14 degree API oil, during 1947-1950 and 1980-1982. The licence also covers at least two prospects with potential for conventional oil at respective depths of 1,400 and 2,000 metres. The shallower one has estimated prospective resources of 25 million barrels.

The work programme will be prioritized to firm up the shallower conventional oil prospect with 30 new line kilometres of 2D seismic seismic planned to be acquired in 2011, and a first exploration well to 1,400 metres depth scheduled for 2012. In parallel a feasibility study of the heavy oil field will be carried out in 2011, with a view to recommend the most suitable pilot productions system.

Mouvoil S.A. is a private Swiss company that was awarded the licence during 2010. Their principals have many years of experience with French multi-national oil companies.

Photo: Charles Roffey, www.flickr.com/CharlesFred

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. However, Tethys Oil will aim to follow best available practices under all circumstances even if this will go beyond local laws.

To conclude, Tethys Oil will always be aware that it is part of our common society and our environment and will do its utmost to act responsible.

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

The driling of Karlebo-1, Autumn 2006

Case studies

Denmark – Karlebo well from an HSES perspective

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

Oman – Water is life!

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

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

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

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

History

Tethys Oil AB was founded in 2001 and was awarded its first licence onshore Denmark in 2002. In 2003, interests in three Spanish licences were acquired. Subsequently, opportunities in Turkey were evaluated resulting in the signing of an agreement covering three Turkish licences in December 2003. A second Danish licence was awarded in 2003 and an application for an additional exploration licence in Spain was filed. Tethys Oil conducted an IPO in March 2004 and was listed for trading on Nya Marknaden (the predecessor of First North) in Stockholm on 6 April 2004.

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

First operated well

Tethys first well as operator was the Karlebo-1 well in autumn 2006. After almost five years of preparatory work, Karlebo-1 on licence 1/02 onshore Zealand north of Copenhagen in Denmark was spudded in late September with an official inauguration on 27 September 2006. The well was drilled to a total depth of 2,489 metres and on 17 November, it was clear that no hydrocarbons had been found. Tethys subsequently abandoned the Danish licences.

Despite the result of the well, the accomplishment in itself has been a major asset and has firmly put Tethys on the map as an operator capable of conducting a complicated operation in one of the technically and environmentally most demanding jurisdictions in the world – the European Union.

First wet well

Almost on the day, One year after Tethys acquired the 40 per cent interest in Block 15 onshore Oman, the re-entry of Jebel Aswad-1 commenced with Tethys as Operator in April, 2007. The Jebel Aswad well was originally drilled in 1994 and encountered oil in two limestone intervals called Natih and Shuaiba. By midsummer 2007, drilling and testing operations were completed and it was clear that Tethys had drilled its first live well. The Natih horizontal sidetrack penetrated a total of 848 metres of hydrocarbon bearing limestone and had a total measured depth of 3,830 metres. On testing the Natih flowed 11.03 mmcfpd and 793 bopd of 57 degree API condensate (total of 2,626 boepd) through a 1-inch choke.

Oman, January 2008

The oil and gas market

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

Sources of energy

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

The oil market

Oil price – trends and variables

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

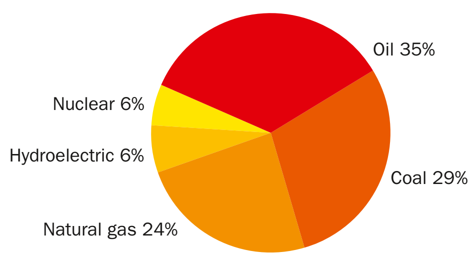
The amount of variables that can affect oil supply and demand are vast and much resources and brain power is devoted to create dynamic models aiming to explain past developments, understand the current situation and, by creating rules based on the past, to try to predict the future. Any such attempt goes well beyond the scope of this Annual report but in this section we will try to highlight a few variables we believe are important for understanding oil price formation and what could be possible useful conclusions from these observations.

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

After the first of the supply shocks caused by the OPEC driven price increases in the 1970's, resulting in strong declines in consumption, as well as spurring a sharp increase in non-OPEC spending on exploration, development and production the oil price has been primarily demand driven. Consumption has increased and the long term trend has been for price and production to follow. Increases in Chinese consumption over the last decade stand out as a case in point.

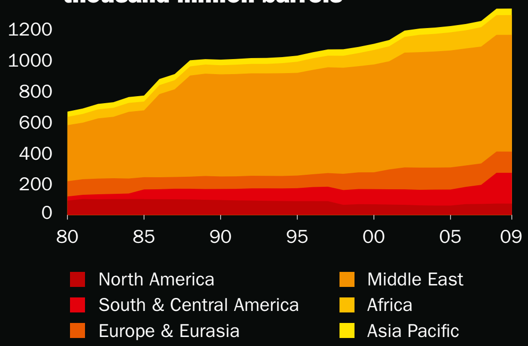
Small changes in demand and supply can however have dramatic effects on price in the short run. A notable example is the effects of the Saudi production increase in 1998 which came to coincide with the downturn in Asia. Note however, that Chinese consumption never actually declined. Only the rate of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

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

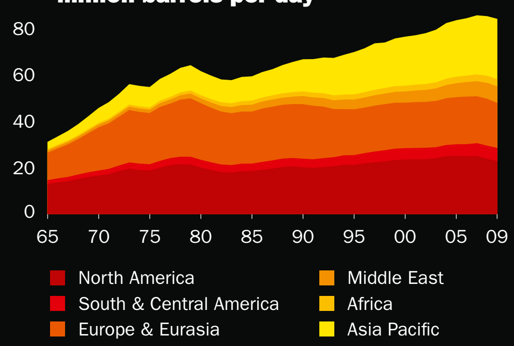


Källa: BP Statistical Review of World Energy 2009

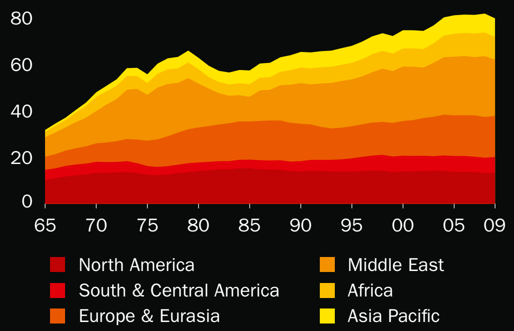
1. Known global oil reserves, thousand million barrels



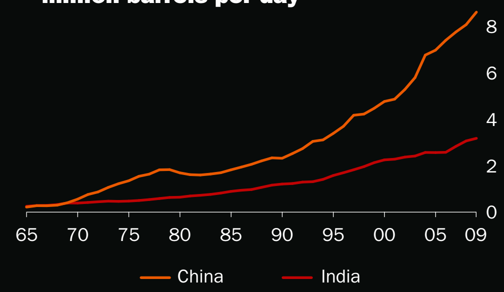
5. Global oil consumption, million barrels per day



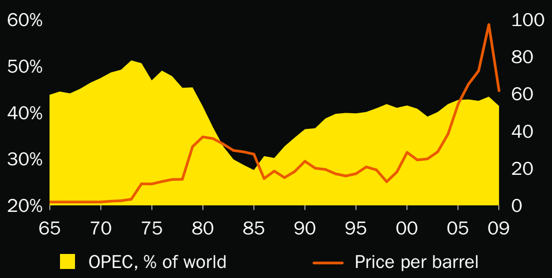
2. Global oil production, million barrels per day



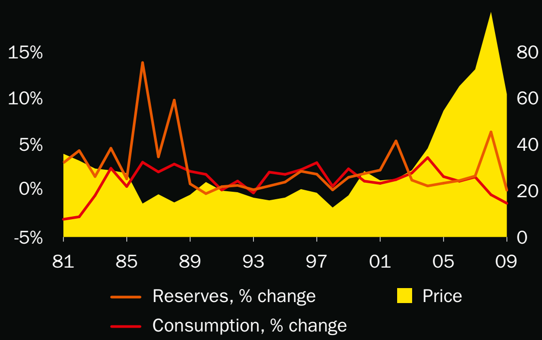
6. Oil consumption – China & India, million barrels per day



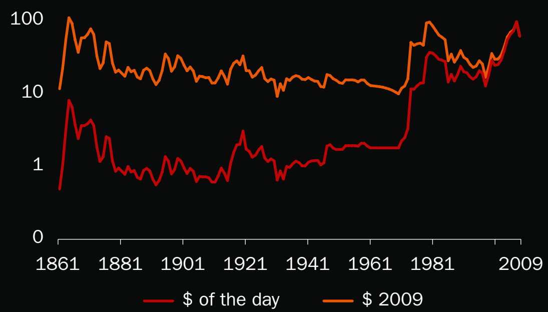
3. OPEC share of global oil production and price per barrel (USD)



7. Production change and price change



4. Oil price development since 1861



8. Oil price development since 1987

Source graph 1–7: BP Statistical Review of World Energy 2010.
Source graph 8: U.S. Energy Information Administration

Board of directors, management and

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

Vincent Hamilton,
born in 1963. Chief Operating Officer and Chairman of the Board since 2004 (member of the Board since 2001). Education: Master of Science in Geology, Colorado School of Mines in Golden, Colorado. Geologist Shell, 1989–1991. Geologist Eurocan, 1991–1994. President of Canadian Industrial Minerals, 1994–1995. General Manager of Sands Petroleum UK Ltd., 1995–1998. President of Mart Resources, 1999–2001.
Number of shares in Tethys Oil: 2,326,955

Magnus Nordin,
born in 1956. Chief Executive Officer and Member of the Board since 2001. Education: Bachelor of Arts, Lund University and Master of Arts, University of California in Los Angeles, California. CEO of Sands Petroleum, 1993–1998. Deputy CEO Lundin Oil 1998-2000, Head of investor relations 2001–2004, (acting CEO) Vostok Oil Ltd. October 2002–2003, CEO of Sodra Petroleum 1998–2000. Board member of Minotaurus AB.
Number of shares in Tethys Oil: 1,459,127

John Hoey,
born in 1939. Member of the board since 2001. Education: Bachelor of Science in Mechanical Engineering, University of Notre Dame, Indiana and MBA, Harvard University, Boston, Massachusetts. Mr. Hoey has a management background in corporate finance and energy sector. President and Director of Hondo Oil & Gas Co, 1993–1998. President and Director of Atlantic Petroleum Corp. of Pennsylvania, 1985–1992. Various executive positions in commercial and investment banking in

Morgan Sadarangani, Johan Rippe, Johan Malmqvist.

Management

Magnus Nordin,
Managing Director

Vincent Hamilton,
Chief Operating Officer

Morgan Sadarangani,
born in 1975. Chief Financial Officer. Employed since January 2004. Education: Master of Economics in Business Administration, University of Uppsala. Different positions within SEB and Enskilda Securities, Corporate Finance, 1998–2002.
Number of shares in Tethys Oil: 139,200

Auditors

Johan Rippe,
born in 1968. Authorized Public Accountant, Lead partner. Company's auditor since 2007. PricewaterhouseCoopers AB, Gothenburg

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

Saudi Arabia, England and the USA with Arab and American financial institutions, 1972-1984. Co-founder of VietNam Holding Ltd. and Chairman of Mundoro Capital Inc.
Number of shares in Tethys Oil: 821,393

Håkan Ehrenblad,
born in 1939. Member of the board since 2003. Education: Mechanical engineer HTLS, Chemical/Paper manufacturing Royal Institute of Technology, Stockholm, PED from the Institute for Management Development (IMD), Lausanne, Switzerland. Various executive positions at Bonnier Magazine Group until 1984. Mr. Ehrenblad has been a pioneer in the fields of information concerning computer and internet security, and has published several books. Mr. Ehrenblad is active in publishing and media and is also an active investor. Board member of Tanganyika Oil Company Ltd. until 2008.
Number of shares in Tethys Oil: 311,336

Jan Risberg,
born in 1964. Member of the board since 2004. Mr. Risberg has several years of experience from the financial sector. Various position within Aros Securities department of Corporate Finance, 1993–1996, at Enskilda Securities department of Corporate Finance, 1996–2000, and as Manager of Ledstiernan AB's London branch, 2000-2002. Mr. Risberg is today active as an independent consultant in the financial sector.
Number of shares in Tethys Oil: 838,419

The Tethys Oil share

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

Shares and warrants outstanding

Tethys Oil's registered share capital at 31 December 2010 amounts to SEK 5,417,415 represented by 32,504,489 shares with a quota value of SEK 0.17.

All shares in Tethys Oil represent one vote each. All outstanding shares are common shares and carry equal rights to participation in Tethys Oil's assets and earnings. Tethys Oil does not have an incentive program for employees. As per 31 December 2010 the Board of Directors had remaining outstanding authorization from the AGM to issue up to 10 per cent of the shares up until the next AGM.

As per 1 January 2010, Tethys Oil had 28,049,091 shares. Between January and July 2010, 3,955,398 warrants were exercised and accordingly an equivalent number of shares were issued by Tethys Oil. Tethys Oil received proceeds of TSEK 90,974 from the exercised warrants before issue costs. The share issues from the exercised warrants were registered continuously during the exercise period. Furthermore, two private placements were made during 2010, based on an authorization from the AGM held 20 May 2009. These two private placements of 500,000 shares together were conducted in March 2010 at SEK 30.75 and SEK 33.75 per share, which were in line with the prevailing market price at the time. The total proceeds from these private placements amounted to TSEK 15,820 before issue costs. The newly issued shares in the private placement were registered in April 2010.

Share capital development

Since the company's inception in September 2001 and up to 31 December 2010 the parent company's share capital has developed as shown below:

Year	Share capital development	Quota value, SEK	Change in number of shares	Total number of shares	Change in total share capital, SEK	Total share capital, SEK
2001	Formation of the Company	100.00	1,000	1,000	100,000	100,000
2001	Share issue	100.00	4,000	5,000	400,000	500,000
2001	Split 100:1	1.00	495,000	500,000	–	500,000
2003	Share issue	1.00	250,000	750,000	250,000	750,000
2004	Split 2:1	0.50	750,000	1,500,000	–	750,000
2004	Share issue	0.50	2,884,800	4,384,800	1,442,400	2,192,400
2006	Share issue	0.50	400,000	4,784,800	200,000	2,392,400
2006	Non-cash issue	0.50	876,960	5,661,760	438,480	2,830,880
2006	Share issue	0.50	80,000	5,741,760	40,000	2,870,880
2007	Share issue	0.50	300,000	6,041,760	150,000	3,020,880
2007	Exercise of warrants	0.50	2	6,041,762	1	3,020,881
2007	Share issue	0.50	125,000	6,166,762	62,500	3,083,381
2007	Set-off issue	0.50	226,000	6,392,762	113,000	3,196,381
2008	Split 3:1	0.17	12,785,524	19,178,286	–	–
2008	Share issue	0.17	4,800,000	23,978,286	800,000	3,996,381
2008	Exercise of warrants	0.17	1,800	23,980,086	300	3,996,681
2009	Share issue	0.17	1,300,000	25,280,086	216,667	4,213,348
2009	Share issue	0.17	2,000,000	27,280,086	333,333	4,546,618
2009	Exercise of warrants	0.17	176,186	27,456,272	29,364	4,576,045
2009	Exercise of warrants	0.17	592,819	28,049,091	98,803	4,674,849
2010	Exercise of warrants	0.17	252,080	28,301,171	42,013	4,716,862
2010	Exercise of warrants	0.17	137,429	28,438,600	22,905	4,739,767
2010	Exercise of warrants	0.17	754,942	29,193,542	125,824	4,865,590
2010	Share issue	0.17	250,000	29,443,542	41,667	4,907,257
2010	Share issue	0.17	250,000	29,693,542	41,667	4,948,924
2010	Exercise of warrants	0.17	482,528	30,176,070	80,421	5,029,345
2010	Exercise of warrants	0.17	185,798	30,361,865	30,966	5,060,311
2010	Exercise of warrants	0.17	84,971	30,446,836	14,162	5,074,473
2010	Exercise of warrants	0.17	2,057,653	32,504,489	342,942	5,417,415

Dividend policy

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

Share ownership structure

The 20 largest shareholders in Tethys Oil as per 31 March 2011.

Shareholders as of 31 March 2011	Number of shares	Capital and votes
SIX SIS	6,510,898	20.0%
Vincent Hamilton *	2,326,955	7.2%
Bk Julius Baer	2,021,417	6.2%
Union Bank of Switzerland	1,690,000	5.2%
Magnus Nordin	1,459,127	4.5%
Lorito Holdings Ltd	1,055,594	3.2%
MZ Investments	1,049,588	3.2%
Jan Risberg	838,419	2.6%
John Hoey *	821,393	2.5%
Pictet & Cie	813,980	2.5%
OZ Master Fund Ltd	763,189	2.3%
Jonas Lindvall	603,000	1.9%
Jean-Marie Lattès	550,000	1.7%
Avanza Pension	501,317	1.5%
BNP Paribas (Suisse) S.A.	497,313	1.5%
Nordnet Pensionsförsäkringar AB	417,236	1.3%
Grebbeshult Holding AB	406,800	1.3%
Cogeval S.A.	400,000	1.2%
Svenska Handelsbanken SA	356,000	1.1%
Bo-Axel Johnson	354,000	1.1%
Total, 20 largest shareholders	**23,436,226**	**72.1%**
Other, about 1,795 shareholders	9,068,263	27.9%
TOTAL	**32,504,489**	**100.0%**

Source: Euroclear Sweden AB and Tethys Oil AB
** Through company*

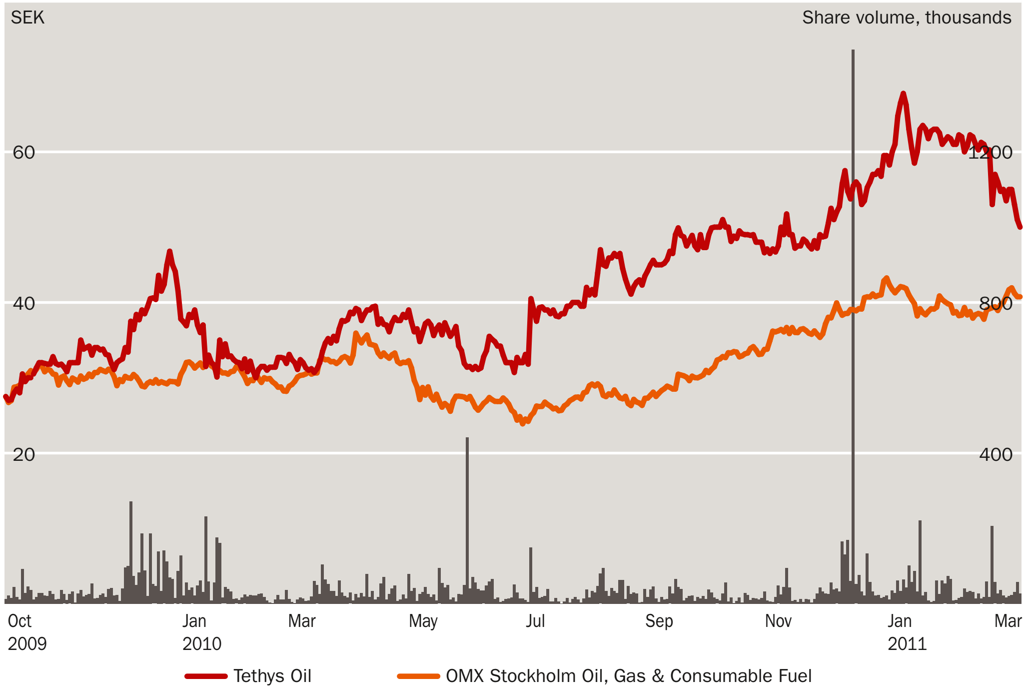
Distribution of shareholdings

Distribution of shareholdings in Tethys Oil as per 31 March 2011.

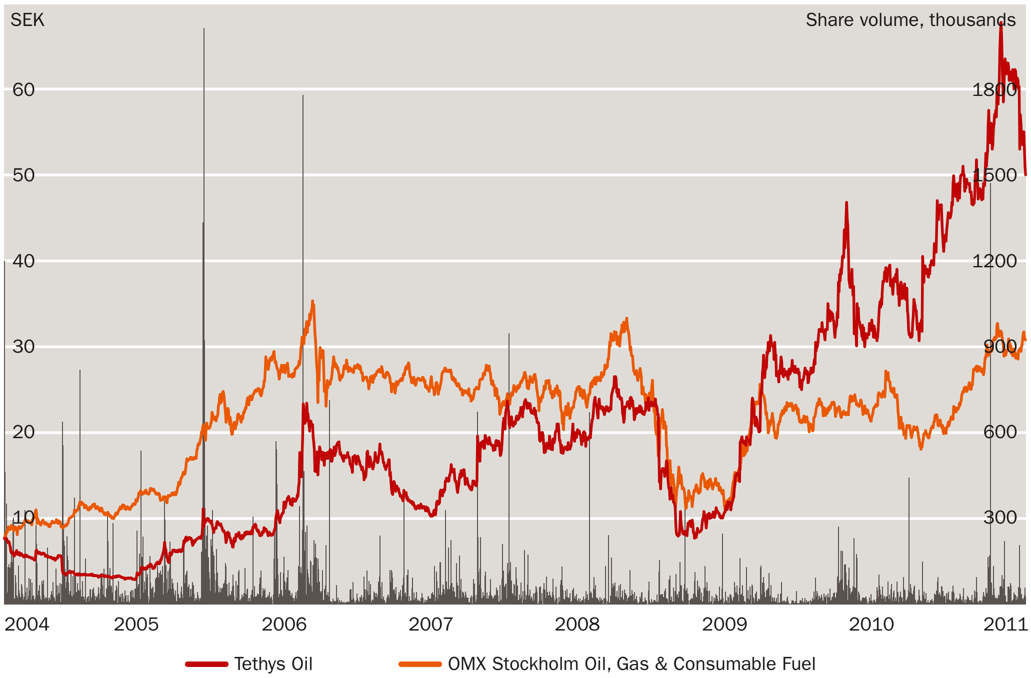
Size categories as per 31 March 2011	Number of shares	Percentage of shares	Number of shareholders	Percentage of shareholders
1 – 1,500	544,003	1.7%	1,283	71.0%
1,501 – 30,000	2,947,603	9.1%	455	25.1%
30,001 – 150,000	3,455,040	10.6%	48	2.7%
150,001 – 300,000	752,912	2.3%	7	0.2%
300,001 –	24,804,931	76.3%	22	1.1%
Total	**32,504,489**	**100.0%**	**1,815**	**100.0%**

Source: Euroclear Sweden AB and Tethys Oil AB

Share price development and turnover October 2009 – March 2011



Share price development and turnover since inception, 6 April 2004



Share statistics 2010

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

Ticker name	TETY
Year high	59.25 (10 December 2010)
Year low	29.40 (10 February 2010)
Average turnover per day, shares	39,554
Period turnover, shares	10,007,069
Period turnover/outstanding shares	32.4%

Source: First North

Key financial data

Group	2010	2009	2008	2007	2006
Items regarding the income statement and balance sheet					
Gross margin, TSEK	n.a.	n.a.	n.a.	n.a.	n.a.
Operating result, TSEK	100,661	-28,985	-31,748	-23,533	-30,976
Operating margin, %	n.a.	n.a.	n.a.	n.a.	n.a.
Result before tax, TSEK	80,144	-42,446	-16,395	-24,704	-29,802
Net result, TSEK	80,069	-42,503	-16,426	-24,721	-29,802
Net margin, %	n.a.	n.a.	n.a.	n.a.	n.a.
Shareholders' equity, TSEK	380,055	202,770	177,077	103,196	95,230
Balance sheet total, TSEK	384,069	222,679	179,909	105,586	118,983
Capital structure					
Equity ratio, %	98.95%	91.06%	98.43%	97.74%	80.04%
Leverage ratio, %	n.a.	n.a.	n.a.	n.a.	n.a.
Adjusted equity ratio, %	98.95%	91.06%	98.43%	97.74%	80.04%
Interest coverage ratio, %	n.a.	n.a.	n.a.	n.a.	n.a.
Investments, TSEK	28,832	81,681	72,512	51,765	35,207
Profitability					
Return on shareholders' equity, %	21.07%	neg.	neg.	neg.	neg.
Return on capital employed, %	20.85%	neg.	neg.	neg.	neg.
Employees					
Average number of employees	9	10	10	9	5
Number of shares					
Dividend per share, SEK	n.a.	n.a.	n.a.	n.a.	n.a.
Cash flow used in operations per share, SEK	5.97	neg.	neg.	neg.	neg.
Number of shares at year end, thousands	32,504	28,049	23,980	19,179	17,226
Shareholders' equity per share, SEK	11.69	7.23	7.38	5.38	5.53
Weighted number of shares for the year, thousands	30,849	26,274	22,669	17,592	15,330
Earnings per share, SEK	2.60	-1.62	-0.72	-1.41	-1.94

Definitions of key ratios

Margins

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

Operating margin
Operating result as a percentage of yearly turnover.

Net margin
Net result as a percentage of yearly turnover.

Capital structure

Equity ratio
Shareholders' equity as a percentage of total assets.

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

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

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

Parent	2010	2009	2008	2007	2006
Items regarding the income statement and balance sheet					
Gross margin, TSEK	n.a.	n.a.	n.a.	n.a.	n.a.
Operating result, TSEK	-5,366	-5,366	-6,853	-3,996	-4,488
Operating margin, %	n.a.	n.a.	n.a.	n.a.	n.a.
Result before tax, TSEK	-18,717	-30,327	-12,389	-22,558	-28,178
Net result, TSEK	-31,903	-30,327	-12,389	-22,558	-28,178
Net margin, %	n.a.	n.a.	n.a.	n.a.	n.a.
Shareholders' equity, TSEK	262,901	226,005	187,035	113,197	100,945
Balance sheet total, TSEK	314,746	226,800	188,409	115,179	121,232
Capital structure					
Equity ratio, %	83.53%	99.65%	99.27%	98.28%	83.27%
Leverage ratio, %	n.a.	n.a.	n.a.	n.a.	n.a.
Adjusted equity ratio, %	83.53%	99.65%	99.27%	98.28%	83.27%
Interest coverage ratio, %	n.a.	n.a.	n.a.	n.a.	n.a.
Investments, TSEK	71,982	62,999	82,755	21,887	59,096
Profitability					
Return on shareholders' equity, %	neg.	neg.	neg.	neg.	neg.
Return on capital employed, %	neg.	neg.	neg.	neg.	neg.
Employees					
Average number of employees	6	6	5	5	4
Number of shares					
Dividend per share, SEK	n.a.	n.a.	n.a.	n.a.	n.a.
Cash flow used in operations per share, SEK	0.11	neg.	neg.	neg.	neg.
Number of shares at year end, thousands	32,504	28,049	23,980	19,179	17,226
Shareholders' equity per share, SEK	8.09	8.06	7.80	5.90	5.53
Weighted number of shares for the year, thousands	30,849	26,274	22,669	17,592	15,330
Earnings per share, SEK	-1.03	-1.15	-0.55	-1.28	-1.84

Investments
Total investments during the year.

Profitability

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

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

Other

Number of employees
Average number of employees full-time.

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

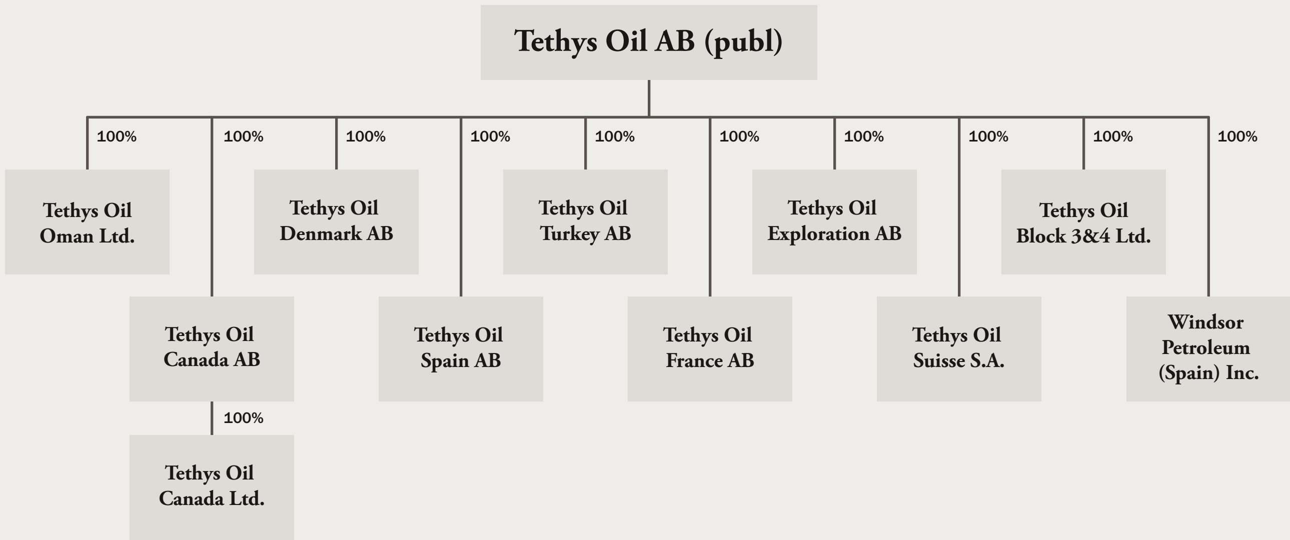
Weighted numbers of shares
Weighted number of shares during the year.

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

N.a.
Not applicable.

Administration report

(An English translation of the Swedish original)



Operations

Tethys Oil AB (publ) ("the Company" is a Swedish company, which together with subsidiaries (together the "Group" or "Tethys Oil") focused on exploration for and production of oil and natural gas. Tethys Oil aims to maintain a well balanced portfolio of high risk/high reward exploration opportunities coupled with lower risk exploration and appraisal development assets. The company's strategy is twofold: to explore for oil and natural gas near existing and developing markets; and to develop proven reserves that have previously been sub-economic due to location or technological reasons. As at year end 2010 the company had interests in licences in Oman, France and Sweden.

Oman

Tethys Oil has interest in two licence areas in Oman, Block 15 and Blocks 3 and 4. Tethys Oil holds 40 per cent interest in Block 15 and 30 per cent interest in Blocks 3 and 4.

Block 15

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

In the summer 2008, Tethys Oil spudded JAS-2, a step out well 1.2 kilometres from JAS-1. By 20 August 2008, JAS-2 was finished after the well had reached

Country	Licence name	Tethys Oil, %	Total area, km²	Partners (operator in bold)	Book value 31 Dec 2010	Book value 31 Dec 2009
Oman	Block 15	40%	1,389	**Odin Energi**, Tethys Oil	92,682	99,064
Oman	Block 3,4	30%	33,125	**CCED**, Tethys Oil, Mitsui	66,573	102,212
France	Attila	40%	1,986	**Galli Coz**, Tethys Oil	9,238	3,628
Sweden	Gotland Större	100%	540	**Tethys Oil**	1,628	1,142
New ventures					16	174
Total			**37,040**		**170,135**	**205,623**

* *Odin Energi became operator as of 1 January 2011.*

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

During August and September 2008, a total of 285 square kilometres of 3D seismic data was collected, covering the entire hydrocarbon bearing Jebel Aswad structure. Previous seismic over the Jebel Aswad structure was 2D seismic with relatively low resolution and with sparse coverage over parts of the structure. The new seismic lines cover the whole structure, and are acquired with a geophone spacing of 15 x 15 metres.

Processing, interpretation and preliminary results of the Jebel Aswad 3D seismic survey was completed in the first quarter 2009. The data is of excellent quality and the 3D seismic revealed a smaller structure compared to the previous 2D based structure.

In late 2010, a new logging programme, based on Schlumberger technology, was conducted in the JAS-2 well. The logging confirmed some 700 metres of oil saturated reservoir along the horizontal section. It was also established that the water producing fault was located in the end of the horizontal section.

Tethys has agreed with the partner Odin Energi, to resume the work programme on Block 15 with Odin as operator from January 2011. The main aim with the suggested programme is to launch a long term production test on JAS-1 and -2 wells in 2011.

Blocks 3 and 4

The two blocks covers an area of more than 30,000 square kilometres in the eastern part of Oman. Tethys Oil acquired its interest in the blocks in December 2007. On the blocks, the Farha South and East Saiwan structures have been of particular interest.

A comprehensive appraisal programme was carried out in 2010 on Block 3 and 4. A total of four new wells were drilled. An extensive 3D seismic survey covering the Saiwan East structure on Block 4 and the Farha trend on Block 3 was also conducted.

In the third quarter, an Early Production System ("EPS") for a long term production test of the Farha South structure was launched. The aim with the EPS is to gain more information about the reservoir in order to optimize future production volumes. Produced and sold volumes under the EPS will differ substantially over time. In 2010, a total of 139,213 barrels were produced from the Barik layer in Farha South 3, 4 and 5 wells. Tethys' share of the test production oil amounts to 30 per cent, or 41,764 barrels before government take. The produced volume was partly lifted and sold in the fourth quarter. Tethys' net share of the sales, after government take, amounted to MUSD 1.5 (corresponding to MSEK 11).

A field development plan for the development of the Barik and Lower Al Bashair reservoir sections in the Farha South area on Block 3 and for the development of the Khufai reservoir section in the Saiwan East area on Block 4 has been presented by the operator. The plan is now being discussed in the partner group and with the Ministry of Oil and Gas of the Sultanate of Oman.

A two year extension, from December 2010 to December 2012, has been granted by the Government for the Blocks 3 and 4 licence area for the purpose of conducting further exploration activities in line with a proposed high level exploration plan and schedule.

In 2010, Tethys also announced the result of the company's first independent third party resource audit of Blocks 3 and 4.

The Farha South structure of Block 3

Farha South-4 well flowed 3,079 bopd

The Farha South-4 well ("FS-4") in Block 3 was spudded in mid-August 2010 and was completed in October. The FS-4 well was drilled 740 metres to the south southeast of the Farha South-3 well. The pilot hole was drilled to a depth of 2,039 metres. Both the Barik and the Lower Al Bashair formations were penetrated with oil shows. Electrical logs were run over these sections, but no testing was conducted in the vertical pilot hole. Two cores from the Barik formation and one core from the Lower Al Bashair formation were extracted. The Barik formation was found at 1,272 metres below ground level and was penetrated with an 820 metres horizontal section. The horizontal section was logged during drilling. A pump was installed and production testing was conducted on the horizontal section. The maximum rate achieved with pump during the tests was 3,079 barrels of 43 degree API gravity oil through an 80/64ths (31.75 mm.) choke size.

Farha South-5 well flowed in excess of 1,500 bopd

The Farha South-5 well ("FS-5") in Block 3 was spudded in early October 2010 and was completed in December. The FS-5 well was drilled as a stepout exploration well 6.8 kilometres northeast of the discovery well FS-3. The pilot hole was drilled to a depth of 2,370 metres. Both the Barik formation and the Lower Al Bashair formation were penetrated with oil shows. Electrical logs were run. Subsequently, a horizontal sidetrack was drilled 160 metres within the Barik formation, which lies at 1,240 metres below ground level. A pump was installed and the well was placed on production. The average daily production rate is in excess of 1,500 BOPD of 44 degree API gravity. The well was completed as a producer and is now producing into the Farha South Early Production System for a long term production test.

The Saiwan East structure on Block 4

The Saiwan East-3 well flowed 10,714 bopd

The Saiwan East-3 ("SE-3") well was drilled in the beginning of the summer 2010 to appraise and further develop the 2009 oil discovery in the Khufai formation made in the Saiwan East-2 ("SE-2") well. The SE-3 was drilled 1.2 kilometres to the southeast of SE-2.

The appraisal pilot hole was drilled to a total depth of 1,800 metres. The well penetrated a 61 metres gross oil column in the Khufai reservoir. When the pilot hole was completed, a horizontal sidetrack was drilled and the well was tested. The maximum rate achieved during the test was 10,714 barrels per day of 32.4 degree API gravity oil through a 38 millimetre choke size. The SE-3 well also encountered shows of 'heavy' oil in the Buah, Amin and Miqrat formations.

The Saiwan East-4 encounters different quality oil from previous Saiwan wells

The Saiwan East-4 ("SE-4") was drilled 2.9 kilometres to the southeast of the SE-3 well in August 2010. SE-4 was drilled to a total depth of 2,463 metres. The well was tested in late 2010 and early 2011. The test results suggest that the oil in this part of Block 4 is of a different quality from the oil encountered in previous Saiwan wells. The data also suggests that considerably larger parts than previously believed of the more than 400 metres thick Khufai section could contain oil of various qualities. The oil encountered in SE-4 could range in density from the 33 degree API oil produced from SE-2 and SE-3 to the heavy oil encountered above the Khufai in these wells. In the previous Saiwan wells, SE-2 and SE-3, oil was only confirmed in the upper parts of the Khufai section. The extensive log and core data obtained from SE-4 when drilled last summer was expanded by data from six production tests spanning more than 400 metres of separate intervals principally in the Khufai limestone. No flows were established and some hole conditions resulted in encountering water bearing fractures in the top part of the Khufai interfering with test data from this zone. The actual production capability of SE-4 therefore remains undetermined.

The Saiwan East-6 finalized in first quarter 2011

The Saiwan East-6 well ("SE-6") have in first quarter 2011 been finalized. SE-6 was drilled 4.8 kilometres North from the SE-4 well. Heavy oil was found in the Miqrat and Buah formations above the Khufai formation which was found 1,617 meters below ground. The well was drilled to a total depth of 1,720 meters with intermittent shows of heavy oil also in the Khufai formation. The well has been logged and a drill stem test-run in the open hole to test the top 30 metres of the Khufai formation yielded formation water with oil skim on surface. The well has been suspended.

The properties of the SE-6 well suggest that it was drilled at the margin of the potential Saiwan East oil field. The Saiwan East program will now continue with a horizontal section at the Khufai level in SE-2, to be drilled as a producer, before appraisal drilling will continue further south in the SE-1 area later this spring.

3D seismic study on Blocks 3 and 4

During the end of 2009 and spring of 2010, a comprehensive 3D seismic survey was conducted over both the Saiwan East structure on Block 4 and the Farha trend on Block 3. The study covered a total of 400 square kilometres on Block 4 and 742 square kilometres on Block 3. The seismic acquisition was conducted by BGP Oil and Gas Services of China.

Independent third party resource audit

Tethys announced in May the result of Gaffney, Cline & Associates' (GCA) independent third party resource audit of Blocks 3 and 4. The resource report is based on data available as at 1 May 2010 and covers the Farha South structure on Block 3 and the Saiwan East structure on Block 4.

The Best Estimate (2C) of Gross Contingent Resources on Block 3, Farha South, is estimated to amount to 8.9 million barrels in the Barik layer and 12.2 million barrels in the Lower Al Bashair. On Block 4, Saiwan East, the 2C Gross Contingent Resources within the Khufai layer is estimated to amount to 20.8 million barrels. In addition the Miqrat and Amin heavy oil layers in Saiwan East are estimated to hold 2C Contingent Resources of 32.7 million barrels gross. Contingent Resources net to Tethys are 30 per cent of the gross number before government take.

France

Tethys Oil holds a 40 per cent interest in the Attila licence, located in the eastern part of the oil and natural gas producing Paris basin adjacent to the Gaz de France operated Trois – Fontaines natural gas field. The 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 exploration well Pierre Maubeuge 2 (PLM-2) on the Attila licence in France proved the presence of natural gas. Wireline logging confirmed the indications of gas while drilling in 2007. In 2008, well completion and production tests were conducted. Subsequent analysis of the results suggested the PLM-2 well to be non-commercial in its current state.

In 2010, additional tests and analyses have been carried out. The results of this work suggest that too heavy drill mud was used when drilling PLM-2, resulting in the well suffering from skin damage. The true flow potential of the well has therefore not been established. The operator has proposed to drill a side track in PLM-2 with lighter mud in order to test an undamaged section of the gas reservoir.

Sweden

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

Tethys has been granted an extension of the licence Gotland Större until end of 2011. Since Tethys was awarded the licence, a comprehensive study of the existing data over the licence area has been conducted. More than 300 km of seismic data has been digitalized and reprocessed with modern computer technology. The seismic data has been combined with gravimetric information and topographic data from newly acquired airborne surveys with a view to identify as yet undrilled Ordovician mounds that could contain oil. After completing the database and study, to date more than 40 possible reefs have been identified each one being potentially oil bearing.

The next step is to conduct a soil sample survey over the best located reefs and to analyse the soil and compare it to soil samples taken above previously known oil bearing reefs in order to further determine the oil bearing potential of undrilled reefs before a possible drilling decision is made. This geochemical survey will be conducted during the spring.

Significant agreements and commitments

In Tethys Oil's oil and natural gas operations there are two main categories of agreements; one that governs the relationship with the host country; and one that governs the relationship with partners.

The agreements that govern the relationship with host countries are referred to as licences or Exploration and production sharing agreements (EPSA). Tethys Oil holds its interest directly through aforementioned agreements in Oman, France and Sweden. The agreements with host countries have a time limit and are normally divided into periods. Financial commitments and or work commitments normally relates to the different periods. Tethys Oil has fulfilled its commitments on Block 15 and Blocks 3 and 4 in Oman for the current period. In the other areas of operations the commitments are either fulfilled or there are no commitments of which Tethys Oil can be held liable for. In some of Tethys Oil's areas of interest there are requirements of work to be done or minimum expenditures in order to retain the licences, but no commitments of which Tethys Oil can be held liable for.

The agreements that govern the relationship with partners are referred to as Joint Operating Agreements (JOA). Except for Sweden where Tethys Oil is the sole licence holder, Tethys Oil has JOAs with its partners in all areas of operation.

Other than the aforementioned agreements, there are no individual agreements or similar circumstances relating to the business which are of crucial significance for the group's operations or profitability.

RESULT, FINANCIAL POSITION AND CASH FLOW

The consolidated financial statements of the Tethys Oil Group (hereafter referred to as "Tethys Oil" or the "Group"), where Tethys Oil AB (publ) (the "Company") with organisational number 556615-8266 is the parent company, are hereby presented for the twelve months period ended 31 December 2010. The amounts relating to the comparative period (equivalent period of last year) are shown in parenthesis after the amount for the current period. Segments of the Group are geographical markets.

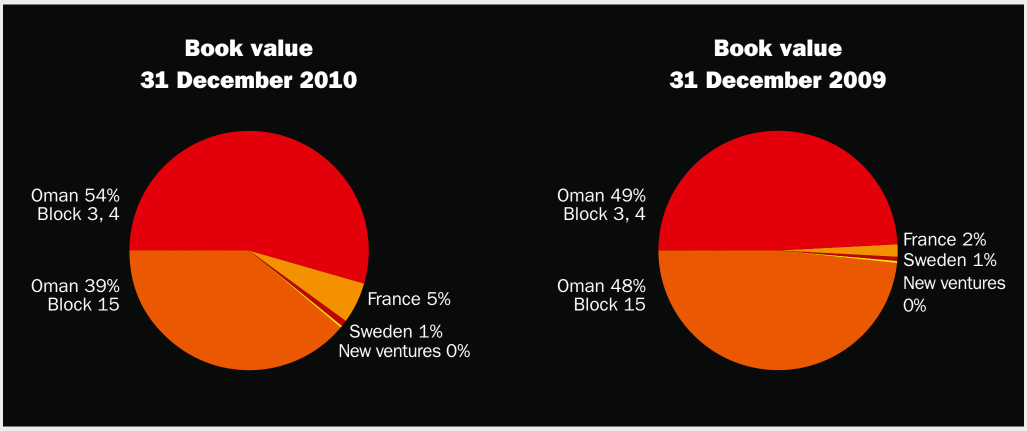
Result for the period and sales

During the fourth quarter 2010, Tethys Oil sold 18,899 barrels of oil after government take from the Early Production System on Block 3 Oman, resulting in net sales of TSEK 11,066 (TSEK –).

Tethys Oil reports a result for the full year 2010 of TSEK 80,069 (TSEK -42,503 for last year), representing earnings per share of SEK 2.60 (SEK -1.62) for the full year 2010.

The result has been significantly impacted by the farmout of 20 percentage points of Blocks 3 and 4 to Mitsui E&P Middle East B.V. ("Mitsui"). In consideration for the farmout, Tethys Oil received MUSD 20, equivalent to TSEK 144,114, of which 40 per cent (the percentage of Tethys Oil's assets that were farmed out) of the book value as per 31 December 2009 amounting to TSEK 40,879 is offset against the book value of Blocks 3 and 4. The remainder of the consideration received, TSEK 103,236, is recorded as a capital gain in the income statement under other income in the subsidiary Tethys Oil Block 3&4 Ltd.

The result for the full year 2010 has furthermore been significantly impacted by net foreign exchange losses. The currency exchange effect of the group amounts to TSEK -20,517 and almost all of the effect relates to the weaker US dollar in relation to the Swedish krona. The background to this is that the majority of Tethys Oil's assets relate to Block 15 and Blocks 3 and 4 in Oman which are held through two foreign subsidiaries and financed through intercompany loans from the parent company denominated in US dollar. These



currency translation differences between the parent company and subsidiaries are non cash related items. The currency exchange loss effect is part of net financial result amounting to TSEK -20,517 for the full year 2010.

Write downs of oil and gas properties amount to TSEK 311 (TSEK 15,872) for the full year 2010. Cash flow from operations before changes in working capital during the full year 2010 amounted to TSEK -1,944 (TSEK -12,856).

There has been no depletion of oil and gas properties since no reserves have been established. When reserves are established, Tethys Oil will present depletion of oil and gas properties in accordance with the Accounting Principles.

Other income, administrative expenses

Administrative expenses amounted to TSEK 15,247 (TSEK 15,343) for the full year 2010. Depreciation amounted to TSEK 349 (TSEK 285) for the full year. Administrative expenses are mainly salaries, rents, listing costs and external services. These costs are corporate costs and are accordingly not capitalised. Depreciation is referable to office equipment. The administrative expenditures during twelve months of 2010 are in line with the equivalent period last year. Part of the administrative expenses in Tethys Oman Ltd. is charged to the joint venture in Block 15 in Oman where the expenditures are capitalised and, in line with the Exploration & Production Sharing Agreement, recoverable. These administrative expenditures are, through the above, also funded by the partner in Block 15 in Oman by 60 per cent. The chargeout to the joint venture is presented in the income statement as Other income. Part of the remaining administrative expenses are capitalised in the subsidiaries and if Tethys is the operator theses expenses are funded by partners. In the consolidated income statement these internal transactions are eliminated.

Movement in oil and gas properties

Tethys Oil's oil and gas properties consist of interests in licences in Oman, France and Sweden. Oman account for the largest part of the book values of oil and gas properties, around 94 per cent as per 31 December 2010 compared to 97 per cent as per 31 December 2009.

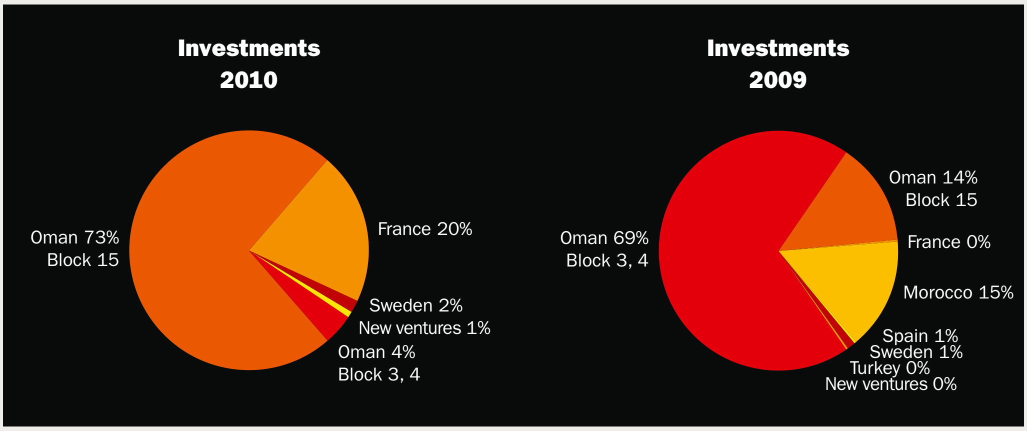
Oil and gas properties as at 31 December 2010 amounted to TSEK 170,135 (TSEK 205,623). Investments in oil and gas properties of TSEK 27,428 (TSEK 81,480) were incurred for the twelve month period ending 31 December 2010.

During 2010, Tethys Oil through its wholly owned subsidiary Tethys Oil Blocks 3&4 Ltd. entered into an agreement with Mitsui E&P Middle East B.V. ("Mitsui"), whereby Mitsui acquired 20 percentage points in Blocks 3 and 4 onshore Oman. In consideration for the 20 per cent interest acquired from Tethys Oil, Mitsui paid Tethys Oil upon closing of the transaction MUSD 20 cash, and undertook to fund Tethys Oil's share of non exploration related capital expenditure up to MUSD 60 on Blocks 3 and 4 effectively from January 1st 2010. Tethys Oil estimates that MUSD 15 has been paid on Tethys Oil's behalf under the Carry Agreement during 2010. In addition Mitsui will pay to Tethys Oil a production bonus amounting to MUSD 10 in the event combined future production from the two Blocks come to exceed 10,000 barrels of oil per day for a period of 30 days. The production bonus is not recorded in the financial accounts in this report.

As a consequence of the above, Tethys Oil was reimbursed almost all investments made during 2010 on the blocks. Furthermore, the consideration of MUSD 20, equivalent of TSEK 144,114, for the acquisition made by Mitsui has been accounted for in the following:

- TSEK 40,879 is offset against the book value of Blocks 3 and 4, in the subsidiary Tethys Oil as it represents 40 per cent of the book value as per 31 December 2009, where 40 per cent is the interest farmed out to Mitsui
- TSEK 103,236 is recorded as capital gain in the income statement in Tethys Oil Blocks 3&4 Ltd.

Operations on Blocks 3 and 4 have, during 2010, been concentrated on the two separate structures; Saiwan East and Farha South. A 3D seismic survey was



conducted over the two areas in the first part of 2010. During 2010 Tethys Oil and partners have drilled four new wells and made four production tests. The wells and production tests have confirmed the productivity and increased the reservoir extension. Pilot production has furthermore commenced on Farha South. The focus for the 2011 work programme will be to continue to appraise the Khufai reservoir on Block 4 and to bring the Barik and Lower Al-Bashair reservoirs into production in Farha South on Block 3.

Investments made on Block 15 amounting to TSEK 1,184 have mainly been related to licence administration, supervision and geological studies. In France, investments of TSEK 5,610 have regarded evaluation of the exploration well PLM-2. The book value of oil and gas properties includes currency exchange effects of TSEK -21,727 during 2010, which are not cash related items and therefore not included in investments. For more information please see above Result for the period and sales.

Liquidity and financing

Cash and bank as at 31 December 2010 amounted to TSEK 190,512 (TSEK 13,620). The liquidity was significantly strengthened by the farmout on 20 percentage points of Blocks 3 and 4 to Mitsui E&P Middle East B.V. As consideration for the farmout, Tethys Oil received MUSD 20 in August and reimbursement of investments made on Blocks 3 and 4 during 2010.

During 2010, Tethys Oil received proceeds of TSEK 90,974 from 3,955,398 exercised warrants, which equivalently increased the total number of shares.

Based on an authorization from the AGM held 20 May 2009, the Board of Directors resolved to issue 500,000 shares through two private placements. The private placements were made in March 2010 at SEK 30.75 and SEK 33.75 per share, which were in line with the prevailing market price at the time. The total proceeds from these issue amounted to TSEK 15,820 before issue costs. The newly issued shares in the private placement were registered in April 2010.

Current receivables

Current receivables amounted to TSEK 20,789 (TSEK 1,810) as at 31 December 2010. Current receivables mainly regard receivables on the sale of oil. Payment for these receivables were received in January 2011. Furthermore current receivables regard receivables from partners in oil and gas operations.

Current liabilities

Current liabilities as at 31 December 2010 amounted to TSEK 4,014 (TSEK 19,911), of which TSEK 1,199 (TSEK 1,080) relates to accounts payable, TSEK 481 (TSEK 18,448) relates to other current liabilities and TSEK 2,334 (TSEK 383) relates to accrued expenses. To a large extent the reduction of current liabilities regard payments made for incurred investments on Blocks 3 and 4. These payments were made in the beginning of the first quarter 2010.

Parent company

The Parent company reports a result for the full year 2010 amounting to TSEK -31,903 (TSEK -30,327). Administrative expenses amounted to TSEK -8,386 (TSEK -7,934) for the full year 2010. Net financial income amounted to TSEK -13,351 (TSEK -24,961) during the full year 2010. The weaker US dollar has had a negative impact on net financial result. The exchange rate losses regard translation differences and are non cash related. Investments during the full year 2010 amounted to TSEK 71,982 (TSEK 98,400). Financial investments are financial loans to subsidiaries for their oil and gas operations. The income in the Parent company relates to chargeouts of services to subsidiaries.

Subsequent events

Tethys has entered into an agreement with Mouvoil S.A. whereby Tethys will acquire a 37.5 per cent interest in an exploration and production licence covering 215 square kilometres in the department of Gard in southern France. Tethys will pay 39,261 newly issued Tethys shares and EUR 250,000 in cash in for the 37.5 per cent interest in the licence. In addition

Tethys has undertaken to fund 100 per cent of the statutory work programme of collecting new seismic and drilling one well within two years. The estimated total cost of Tethys commitment amounts to MUSD 1.5. Tethys has the option to also earn an additional 37.5 per cent against funding the cost to drill a second well. Tethys can earn up to a 75 per cent interest in the licence. Mouvoil S.A. is a private Swiss company that was awarded the licence during 2010. Their principals have many years of experience with French multi-national oil companies. The licence "Permis du Bassin D'Alès" covers part of the Alès basin including the Maruejols heavy oil field discovered in 1947. The field is delineated by nine wells and has produced small amounts of 14 degree API oil, during 1947–1950 and 1980–1982. The licence also covers at least two prospects with potential for conventional oil at respective depths of 1,400 and 2,000 metres.

In April 2011 it was announced that the well SE-7 on Block 4 onshore the Sultanate of Oman was completed. The well encountered several intervals of heavy oil, but no flows were established. SE-7 successfully reached a total depth of 1,890 metres, where the main target was to test the presence of oil in the Khufai section in the southern part of the Saiwan East structure. The well identified a more than 90 meter thick column of intermittent heavy oil saturation in the upper parts of the Khufai. A limited test programme was run, using a wireline MDT tool, but no flows were established. As expected heavy oil was also encountered in the shallower Buah, Miqrat and Amin formations. SE-7 has been temporarily suspended for possible testing and further study.

In March 2011, Tethys announced that the horizontal sidetracking in the SE-2 well on Block 4 was completed. The well was completed as a producer and was connected to testing equipment for a planned long term production test. In addition to confirming oil in the Khufai reservoir, open hole logs also confirmed the presence of heavy oil in the Miqrat, Amin and Buah formations.

In February 2011, Tethys announced the result from production tests of the SE-4 well on Block 4. SE-4 was drilled in the summer of 2010, but was not tested at the time. Results from the testing suggest that the oil in this part of Block 4 is of a different quality from the oil encountered in previous Saiwan wells. The data also suggests that considerably larger parts than previously believed of the more than 400 metres thick Khufai section could contain oil of various qualities. The oil encountered in SE-4 could range in density from the 33 degree API oil produced from SE-2 and SE-3 to the heavy oil encountered above the Khufai in these wells.

Derivative financial instruments

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

Board of Directors and Management

At the Annual General Meeting of shareholders on 19 May 2010 Håkan Ehrenblad, Vincent Hamilton, John Hoey, Magnus Nordin and Jan Risberg were re-elected members of the Board. Jonas Lindvall declined re-election. No deputy directors were appointed. At the same meeting Vincent Hamilton was appointed Chairman of the Board.

The work of the Board is subject to an established work procedure that defines the distribution of work between the Board and the Managing Director. The work procedure is evaluated each year and revised if deemed appropriate. The Board had 11 meetings during 2010. Most importantly the Board has adopted the interim reports of the year as well as the budget of 2011.

The five member board consists of two executive and three non-executive directors. Vince Hamilton has acted both as Chairman of the Board and as Chief Operating Officer. The three non-executive directors are also members of the Audit committee which had 4 meetings during 2010. Chairman of the Audit committee is Jan Risberg. Furthermore, the three non-executive directors are also members of the Remuneration committee, where Jan Risberg also is Chairman.

Group structure

Tethys Oil AB (publ), with organizational number 556615-8266, is the parent company in the Tethys Oil Group. The wholly owned subsidiaries Tethys Oil Oman Limited, Tethys Oil Block 3&4 Limited, Windsor Petroleum (Spain) Inc, Tethys Oil Denmark AB, Tethys Oil Canada AB, Tethys Oil Spain AB, Tethys Oil Turkey AB, Tethys Oil France AB, Tethys Oil Suisse S.A. and Tethys Oil Exploration AB are part of the group. The Tethys Oil Group was established 1 October 2003.

Share data

As per 31 December 2010, the number of outstanding shares in Tethys Oil amount to 32,504,489 (28,049,091), with a quota value of SEK 0.17 (SEK 0.17). All shares represent one vote each. Tethys Oil does not have any incentive programmes for employees.

As per 1 January 2010, Tethys Oil had 28,049,091 shares. During the first seven months of 2010, 3,955,398 warrants were exercised and accordingly an equivalent number of shares were issued by Tethys Oil. Tethys Oil received proceeds of TSEK 90,974 before issue costs. The share issues from the exercised warrants have been registered continuously mainly during the first half of 2010. Furthermore, two private placements have been made during 2010, based on an authorization from the AGM held 20 May 2009. These two private placements of 500,000 shares together were made in March 2010 at SEK 30.75 and SEK 33.75 per share, which were in line with the prevailing market price at the time. The total proceeds from these issues amounted to TSEK 15,820 before issue costs. The issued shares in the private placement were registered in April 2010.

Risk and uncertainties

A statement of risks and uncertainties are presented in note 1, page 50.

Dividend

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

Proposed disposition of unrestricted earnings

The Board of Directors propose that the unrestricted earnings of SEK 186,412,925, of which the loss for the year, SEK 31,902,899, be brought forward.

The result of the group's and parent company's operations and the financial position at the end of the financial year is shown in the following income statement, balance sheet, cash flow statement and related notes. Balance sheet and income statement will be resolved at the AGM, 25 May 2011.

The Board of Directors and the Managing Director declare that the consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU and give a true and fair view of the Group's financial position and results of operations. The financial statements of the Parent Company have been prepared in accordance with generally accepted accounting principles in Sweden and give a true and fair view of the Parent Company's financial position and results of operations. The statutory Administration Report of the Group and the Parent Company provides a fair review of the development of the Group's and the Parent Company's operations, financial position and results of operations and describes material risks and uncertainties facing the Parent Company and the companies included in the Group.

Stockholm, 29 April 2011

Vincent Hamilton
Chairman of the Board

Håkan Ehrenblad
Director

John Hoey
Director

Jan Risberg
Director

Magnus Nordin
Managing Director

Consolidated statement of comprehensive income

TSEK	Note	2010	2009
Net sales of oil and gas	4	11,066	–
Depreciation of oil and gas properties	6	–	–
Write off of oil and gas properties	6	-311	-15,872
Other income	5	105,016	2,287
Other losses/gains, net	7	138	-56
Administrative expenses	8-10	-15,247	-15,343
Operating result		**100,661**	**-28,985**
Financial income and similar items	11	19,984	2,234
Financial expenses and similar items	12	-40,501	-15,696
Net financial income		**-20,517**	**-13,461**
Result before tax		**80,144**	**-42,446**
Income tax	13	-75	-57
Result for the year		**80,069**	**-42,503**
Other comprehensive income			
Currency translation differences		-8,533	-1,103
Other comprehensive income for the period		**-8,533**	**-1,103**
Total comprehensive income for the period		**71,536**	**-43,607**
Number of shares outstanding	16	32,504,489	28,049,091
Number of shares outstanding (after dilution)	16	32,504,489	32,073,935
Weighted number of shares	16	30,849,461	26,274,023
Earnings per share, SEK	16	2.60	-1.62
Earnings per share (after dilution), SEK	16	2.60	-1.62

Consolidated balance sheet

TSEK	Note	31 Dec 2010	31 Dec 2009
ASSETS			
Fixed assets			
Oil and gas properties	6	170,135	205,623
Office equipment	14	2,100	1,045
Total fixed assets		**172,235**	**206,668**
Current assets			
Other receivables	15	20,789	1,810
Prepaid expenses		533	583
Cash and bank		190,512	13,620
Total current assets		**211,834**	**16,011**
TOTAL ASSETS		**384,069**	**222,680**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	16	5,417	4,675
Additional paid in capital		436,608	331,601
Other reserves		-7,740	794
Retained earnings		-54,230	-134,300
Total shareholders' equity		**380,055**	**202,770**
Non interest bearing current liabilities			
Accounts payable		1,199	1,080
Other current liabilities		481	18,448
Accrued expenses		2,334	383
Total non interest bearing current liabilities		**4,014**	**19,911**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**384,069**	**222,680**
Pledged assets	18	500	500
Contingent liabilities	19	–	25,804

Consolidated statement of changes in equity

TSEK	Share capital	Paid in capital	Other reserves	Retained earnings	Total equity
Opening balance 1 January 2009	**3,997**	**262,982**	**1,897**	**-91,799**	**177,077**
Comprehensive income					
Net result 2009	–	–	–	-42,505	**-42,505**
Net result for the year	**–**	**–**	**–**	**-42,505**	**-42,505**
Other Comprehensive income					
Currency translation differences 2009	–	–	-1,103	–	**-1,103**
Total other comprehensive income	**–**	**–**	**-1,103**	**–**	**-1,103**
Total comprehensive income	**–**	**–**	**-1,103**	**-42,503**	**-43,606**
Transactions with owners					
Private placement February	217	12,783	–	–	**13,000**
Issue costs	–	-83	–	–	**-83**
Private placement June	333	39,667	–	–	**40,000**
Issue costs warrant issue	–	-1,307	–	–	**-1,307**
Warrant exercise July	29	4,023	–	–	**4,052**
Warrant exercise October	99	13,536	–	–	**13,536**
Total transactions with owners	**678**	**68,619**	**–**	**–**	**69,297**
Closing balance at 31 December 2009	**4,675**	**331,601**	**794**	**-134,300**	**202,770**
Opening balance 1 January 2010	**4,675**	**331,601**	**794**	**-134,300**	**202,770**
Comprehensive income					
Net result 2010	–	–	–	80,069	**80,069**
Net result for the year	**–**	**–**	**–**	**80,069**	**80,069**
Other Comprehensive income					
Currency translation differences 2010	–	–	-8,533	–	**-8,533**
Total other comprehensive income	**–**	**–**	**-8,533**	**–**	**-8,533**
Total comprehensive income	**–**	**–**	**-8,533**	**80,069**	**71,536**
Transactions with owners					
Subscription of warrants February	65	8,894	–	–	**8,959**
Subscription of warrants March	126	17,238	–	–	**17,364**
Subscription of warrants April	80	11,018	–	–	**11,098**
Subscription of warrants May	31	4,242	–	–	**4,273**
Subscription of warrants June	14	1,940	–	–	**1,954**
Subscription of warrants July	343	46,983	–	–	**47,326**
Issue costs warrant issue	–	-1,050	–	–	**-1,050**
Private placement March	83	15,742	–	–	**15,825**
Total transactions with owners	**742**	**105,007**	**–**	**–**	**105,749**
Closing balance 31 December 2010	**5,417**	**436,608**	**-7,739**	**-54,231**	**380,055**

Consolidated cash flow statement

TSEK	Note	1 Jan 2010– 31 Dec 2010	1 Jan 2009– 31 Dec 2009
Cash flow from operations			
Operating result		100,661	-28,985
Interest received	11	1	67
Interest paid	12	–	-5
Income tax	13	-75	-57
Adjustment for write down of oil and gas properties	6	311	15,872
Adjustment for depreciation and other non cash related items	5,14	-102,842*	251
Total cash flow used in operations before change in working capital		**-1,944**	**-12,856**
Decrease/increase in receivables		-18,929	5,691
Decrease/increase in liabilities		-15,897	1,752
Cash flow used in/from operations		**-36,770**	**-5,413**
Investment activity			
Proceeds from farmout	5	144,114	–
Investment in oil and gas properties	6	-27,428	-81,480
Investment in other fixed assets	14	-1,404	-200
Cash flow used for investment activity		**115,282**	**-81,681**
Financing activity			
Share issue, net after issue costs	16	105,750	69,297
Return on short term investments		–	4
Cash flow from financing activity		**105,750**	**69,301**
Period cash flow		**184,262**	**-17,793**
Cash and cash equivalents at the beginning of the period		13,620	29,886
Exchange gains/losses on cash and cash equivalents		-7,369	1,524
Cash and cash equivalents at the end of the period		190,512	13,620

* *The capital gain from the farmout, TSEK 103 236, is transferred from the operational cash flow to investments activities where all proceeds from the farmout is presented. The remaining part is depreciation and other non cash related items of TSEK 394.*

Parent Company income statement

TSEK	Note	2010	2009
Net sales of oil and gas		–	–
Depreciation of oil and gas properties	6	–	–
Write off of oil and gas properties	6	–	–
Other income		2,883	2,625
Other losses/gains, net	7	138	-56
Administrative expenses	8-10	-8,386	-7,934
Operating result		**-5,366**	**-5,366**
Financial income and similar items	11	28,058	7,962
Financial expenses and similar items	12	-40,478	-15,641
Write down of shares in group company	17	-932	-17,282
Net financial income		**-13,351**	**-24,961**
Result before tax		**-18,717**	**-30,327**
Income tax	13	-13,186	–
Result for the period and total comprehensive income		**-31,903**	**-30,327**
Number of shares outstanding	16	32,504,489	28,049,091
Number of shares outstanding (after dilution)	16	32,504,489	32,073,935
Weighted number of shares	16	30,849,461	26,274,023

Parent Company balance sheet

TSEK	Note	31 Dec 2010	31 Dec 2009
ASSETS			
Fixed assets			
Oil and gas properties	6	–	–
Other fixed assets	14	264	225
Total fixed assets		**264**	**225**
Financial assets			
Shares in subsidiaries	17	26,456	26,456
Long term receivables to group companies		235,877	187,326
Total financial fixed assets		**262,333**	**213,782**
Current assets			
Other receivables	15	302	209
Pre paid expenses		331	306
Cash and cash equivalents		51,517	12,278
Total current assets		**52,149**	**12,793**
TOTAL ASSETS		**314,746**	**226,800**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	16		
Restricted equity:			
Share capital		5,417	4,675
Statutory reserve		71,071	71,071
Unrestricted equity:			
Share premium reserve		365,537	260,530
Retained earnings		-147,221	-79,944
Net result		-31,903	-30,327
Total shareholders' equity		**262,901**	**226,005**
Non interest bearing current liabilities			
Accounts payable		1,107	536
Other current liabilities to group companies		50,618	209
Accrued expenses		120	49
Total non interest bearing current liabilities		**51,845**	**794**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**314,746**	**226,800**
Pledged assets	18	500	500
Contingent liabilities	19	–	25,804

Parent Company statement of changes in equity

TSEK	Restricted equity: Share capital	Restricted equity: Statutory reserve	Unrestricted equity: Share premium reserve	Unrestricted equity: Retained earnings	Unrestricted equity: Net result	Total equity
Opening balance at 1 January 2009	**3,997**	**71,071**	**191,911**	**-67,555**	**-12,389**	**187,035**
Transfer of prior year net result	–	–	–	-12,389	12,389	**–**
Comprehensive income						
Loss for the year 2009	–	–	–	–	-30,326	**-30,326**
Net result for the year	**–**	**–**	**–**	**–**	**-30,326**	**-30,326**
Transactions with owners						
Private placement March	217	–	12,783	–	–	**13,000**
Issue costs	–	–	-83	–	–	**-83**
Private placement June	333	–	39,667	–	–	**40,000**
Issue costs warrant exercise	–	–	-1,307	–	–	**-1,307**
Warrant exercise July	29	–	4,023	–	–	**4,052**
Warrant exercise October	99	–	13,536	–	–	**13,635**
Total transactions with owners	**678**	**–**	**68,619**	**–**	**–**	**–**
Closing balance 31 December 2009	**4,675**	**71,071**	**260,530**	**-79,944**	**-30,327**	**226,005**
Opening balance 1 January 2010	**4,675**	**71,071**	**260,530**	**-79,944**	**-30,327**	**226,005**
Transfer of prior year net result	–	–	–	-30,327	30,327	**–**
Comprehensive income						
Loss for the year 2010	–	–	–	–	-31,903	**-31,903**
Net result for the year	**–**	**–**	**–**	**–**	**-31,903**	**-31,903**
Other comprehensive income						
Group contribution	–	–	–	-50,137	–	**-50,137**
Tax effect on group contribution	–	–	–	13,186	–	**13,186**
Total other comprehensive income	**–**	**–**	**–**	**-36,951**	**–**	**-36,951**
Total comprehensive income	**–**	**–**	**–**	**-36,951**	**-31,903**	**-68,854**
Transactions with owners						
Subscription of warrants February	65	–	8,894	–	–	**8,959**
Subscription of warrants March	126	–	17,238	–	–	**17,364**
Subscription of warrants April	80	–	11,018	–	–	**11,098**
Subscription of warrants May	31	–	4,242	–	–	**4,273**
Subscription of warrants June	14	–	1,940	–	–	**1,954**
Subscription of warrants July	343	–	46,983	–	–	**47,326**
Issue costs warrant issue	–	–	-1,050	–	–	**-1,050**
Private placement March	83	–	15,742	–	–	**15,825**
Total transactions with owners	**742**	**–**	**105,007**	**–**	**–**	**105,749**
Closing balance 31 December 2010	**5,417**	**71,071**	**365,537**	**-147,221**	**-31,903**	**262,901**

Parent Company cash flow statement

TSEK	Note	2010	2009
Cash flow from operations			
Operating result		-5,366	-5,366
Interest received	11	8,075	6,857
Interest paid	12	–	-5
Adjustment for depreciation	14	165	-17,140
Total cash flow from/used in operations before change in working capital		**2,874**	**-15,654**
Increase/decrease in receivables		-117	240
Increase/decrease in liabilities		914	-580
Cash flow from/used in operations		**3,671**	**-15,994**
Investment activity			
Acquisition of subsidiary, net of cash acquired	17	–	109
Investment in oil and gas properties	6	–	35,569
Investment in long term liabilities		-71,777	-98,400
Investment in other fixed assets	14	-205	-168
Cash flow used for investment activity		**-71,982**	**-62,999**
Financing activity			
Share issue, net after issue costs		105,750	69,297
Return on short term investments		–	4
Cash flow from financing activity		**105,750**	**69,301**
Cash flow for the year		**37,438**	**-9,692**
Cash and cash equivalents at the beginning of the period		12,278	28,342
Exchange gains on cash and cash equivalents		1,801	-6,372
Cash and cash equivalents at the end of the period		51,517	12,278

Notes

General information

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

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

These consolidated financial statements have been approved for issue by the Board of Directors on 29 April 2011.

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 2009 and have been consistently applied to all the years presented, unless otherwise stated. The Annual report of the Group has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, the Annual Accounts Act and RFR 1 "Supplementary rules for groups". The Annual report for the Parent company has been prepared in accordance with the Annual Accounts Act and Swedish Financial Accounting Standards Council's RFR 2 "Accounting for legal entities". RFR 2 means that the parent company in the annual report for the legal entity shall apply IFRS' rules and statements as adopted by the EU, so far this is possible within the framework of the Annual Accounts Act and with regard to the connection between accounting and taxation. The recommendation states which exceptions and additions that shall be or are allowed to be made from IFRS. The accounting principles of the Parent company are the same as for the Group. The accounting principles of the Parent company are the same as for the Group, except in the cases specified below in the section entitled "Parent Company accounting principles".

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. These areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 1.

Accounting standards, amendments and interpretations effective in 2010 and adopted by the Group

The following standards or amendments issued by The International Accounting Standards Board (IASB) were applied as from January 1, 2010. None of the new standards has had a significant impact on the financial result or position.

IFRS 3 Business Combinations (Revised)

The amendment has an effect on how business combinations are accounted for, i.e., the accounting of transaction costs, possible contingent considerations and business combinations achieved in stages. The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. The amendment to the standard has not had any impact on previous business combinations.

IAS 27 Consolidated and Separate Financial Statements (Revised)

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

Accounting standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following new standards and amendments to standards have been issued but are not effective for the financial year beginning January 1, 2011, and have not been early adopted. No significant impact on the financial result or position is expected upon their eventual application.

IFRS 7 Financial instruments: Disclosures – Transfers of Financial Assets (Amendment)

The change will provide users with more information about an entity's exposure to the risks of transferred financial assets, particularly those that involve securitisation of financial assets. The standard is not expected to have any impact on Tethys Oil´s financial results or position. The standard is effective for annual periods beginning on or after July 1, 2011.

IFRS 9 Financial instruments

This standard addresses the classification and measurement of financial instruments and is likely to affect the Group's accounting for its financial assets and liabilities. The Group is yet to assess IFRS 9's full impact. The standard is effective for annual periods beginning on or after January 1, 2013.

New interpretations of accounting standards

None of the new interpretations by The International Financial Reporting Interpretation Committee (IFRIC), which are applicable to Tethys Oil, have, or are expected to have, a significant impact on neither financial result, nor position.

Principles of consolidation

Subsidiaries are all entities (including special purpose companies) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

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

Foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Swedish Kronor (SEK), which is the parent company's functional currency and presentation currency.

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- all assets and liabilities are translated at the balance sheet date rates of exchange.
- income and expenses are translated at average exchange rates
- all resulting exchange differences are recognised as a separate component of equity.

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

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

Currency	2010 Average	2010 Period end	2009 Average	2009 Period end
SEK/USD	7.235	6.845	7.665	7.373
SEK/CHF	6.942	7.157	7.029	6.974

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

Operating segments are based on geographic perspective and reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

Income taxes

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

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

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

Fixed assets other than oil and gas

Fixed assets are presented at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on fixed assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Office equipment	5 years

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

Cash flow statement

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

Cash and cash equivalents includes cash and short term investments which are exposed to a minimum of risk and traded on an open market with listed official prices or invested in instruments with shorter duration than 3 months from the time of the investment.

Valuation principles financial items

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

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

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

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

b) Loans, receivables and other receivables

Loans, receivables and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet.

Loans, receivables and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Assets are also measured less provision for impairment.

c) Other liabilities

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

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 basis, where a field (or a group of fields) represents a cash generating unit, in accordance with IFRS 6 Exploration for and Evaluation of Mineral Resources. Each cash-generating unit or group of units to which an exploration and evaluation asset is allocated shall not be larger than an operating segment. In a production phase net capitalized costs, together with anticipated future costs to be capitalized 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. The Company is deemed to be in a production phase when reserves are established, commerciality has been declared and a field development pland has been approved. Up until 31 December 2010, there has been no depletion of oil and gas properties in the Company as no assets are considered to be in a production phase.

Proved reserves are those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods and governmental regulations. There should be at least a 90 per cent probability that the quantities actually recovered will equal or exceed the sum of estimated proved reserves. Proved reserves can be categorized as developed or undeveloped.

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

Proceeds from the sale or farm-out of oil and gas concessions are offset against the related capitalized costs of each cost centre in the exploration stage with any excess of net proceeds over all costs capitalized included in the income statement.

b) Revenues

Revenues from the sale of oil and gas are recognized in the income statement net of royalties taken in kind. Sales are recognized upon delivery of products and customer acceptance or on performance of services. All revenues from the production of oil and gas are recognized in the income statement. In cases where no reserves have been established or where a field development plan has not been approved by the host country, depletion of oil and gas properties will not be calculated or presented in the income statement.

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 and jointly owned assets in the form of licences

Jointly controlled entities

The Group's interests in jointly controlled entities are accounted for by proportional consolidation. Oil and gas operations are conducted by the Group as co-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.

Jointly owned assets in the form of licences

The Group´s interests in jointly owned assets in the form of licences are based on the share in the licence. The licences held by the Group are considered to be wholly or jointly owned assets.

The Group's financial reports reflect the Group's share of production and capital costs less write downs in the jointly-owned licences. See Note 6 for jointly owned assets in the form of licences

e) Impairment tests

Impairment tests are carried out on a field by field basis where a field (or a group of fields) constitutes a cash generating unit. Impairment tests are carried out when there are facts and circumstances that suggests that impairment can exist and at least annually to determine that the net book amount of capitalized costs within each field less royalties and deferred production or revenue related taxes is covered by the anticipated future net revenue from oil and gas reserves attributable to the Group's interest in related fields. An impairment loss is recognised for an amount by which the net book amount exceeds the recoverable amount. The recoverable amount is the higher of the net realisable value less the cost to sell and the value in use. The value in use represents the estimated future discounted net cash flows using prices and cost levels used by Group management in their internal forecasting. If the Group decides not to continue with a field specific exploration programme then the capitalized costs will be expensed.

f) Site restoration costs
On fields where the Group is required to contribute to site restoration costs, a provision is created to recognize the future liability. At the date of acquisition of the field, at first production or when significant facilities or installations are made in the exploration phase, an asset is recognized to represent the discounted value of the anticipated site restoration liability and depleted over the life of the field on a unit of production basis. The corresponding accounting entry to the creation of the asset recognizes the discounted value of the future liability. The discount applied to the anticipated site restoration liability is subsequently released over the life of the field and is charged to financial expenses.

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

h) Interest
Interest on borrowings to finance the acquisition of producing oil and gas properties is charged to income as incurred. Interest on borrowings to finance fields under development is capitalized within oil and gas properties until production commences.

Leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. The Group only acts as lessee and all leasing agreements are categorized as operating leases.

Share capital
Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

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

Pension obligations
The majority of the pension obligations of the Group are governed by legally required social costs. Additional pension schemes exists which are funded through payments to insurance companies. These are defined contribution plans. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions should this legal entity not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods.

Severance pay
Severance pay is payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for the severance pay. The Group recognises severance pay when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing severance pay as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

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

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

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

Note 1, Risk management

The Group's activities expose it to a number of risks and uncertainties which are continuously monitored and reviewed. Presented below are the main risks and uncertainties of the group as identified by the directors and how the group handles these risks.

Operational risk management
Technical and geological risk
At its current stage of development Tethys Oil is mainly exploring for oil and natural gas and appraising undeveloped known oil and/or natural gas accumulations. The main operational risk is that the interest the group has in oil and gas assets will not evolve into commercial reserves of oil and gas. There are no methods to establish with full certainty how much oil and gas there is in a geological layer situated a couple of kilometres under the earth's surface. Probabilities that commercial oil reserves will not be found are highest before and during exploration drilling. Even when the presence of oil and gas reserves are established during exploration drilling, significant uncertainty remain as to when and how these reserves can be extracted. As per 31 December 2010 the group held interest in 4 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 attract-

ing and engaging, both externally and internally, highly skilled technical professionals.

Oil and gas price

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

Access to equipment

An operational risk factor is access to equipment in Tethys Oil's project. Especially in the drilling phase of a project the group is dependent on advanced equipment such as rigs, casing, pipes etc. A shortage of theses supplies can present difficulties for Tethys Oil to fulfil projects.

Political risk

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

Environment

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

Key personnel

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

Financial risk management

The Group's activities expose it to a variety of financial risks, mainly categorized as exchange rate risk and liquidity risk. The Group's risks are continuously monitored and analysed by the Board of directors and management. The aim is to minimise potential adverse effects on the Group's financial performance.

Foreign currency risk

The Group is exposed to fluctuations in the foreign exchange markets as fluctuations in exchange rates can negatively affect the operating profit, cash flow and equity. The major proportion of the Group´s assets relate to international oil and gas discoveries valued in USD and which generate revenues in USD. The exchange risk effects the Group by transaction risk and translation risk.

Transaction risk

Transaction exposure arises in the cash flow when invoicing or the costs of invoiced goods and services are not in the local currency. By operating in several countries, Tethys Oil is exposed to fluctuations in a number of currencies. US dollars was the main currency with regard to invoices paid during 2010. Income will also most likely be denominated in foreign currencies, especially US dollars. Tethys Oil does not currently hedge exchange rates.

Translation risk

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

Liquidity risks and capital risk

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

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

Note 2, Critical accounting estimates and judgements

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

Impairment of oil and gas properties – The Group annually tests, on a field by field basis, oil and gas properties to determine that the net book amount of capitalized costs within each field less royalties and deferred production or revenue related taxes is covered by the anticipated future net revenue from oil and gas reserves attributable to the Group's interest in related fields (note 5). The Group will use its judgement and make assumptions to perform these tests.

The company has not recorded a deferred tax asset in relation to the tax losses carried forward since the company is in an exploration phase and there is uncertainty as to if the tax losses may be utilised (note 12)

Contingent liabilities – The Group is subject to agreements which specify work commitments. The work commitments regard the future and the amounts of these commitments have to be estimated (note 18). These work commitments are accounted for using historical experience and expectations regarding future events. The Group will use its judgment and make assumptions to value these work commitments. The expected cost of a specific work commitment can therefore change over time based on new information.

Note 3, Segment information

The Group´s accounting principle for segment describes that operating segments are based on geographic perspective and reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. As of 2010 the different segments in the group have no separate reporting based on the result for the separate segments that are moniotored by the chief operating decision-maker why no operating segment information is presented. The base for controlling the segments are the investments made in the segments which is presented in note 6. External revenue is presented in note 4.

Note 4, Net sales of oil and gas

During the fourth quarter 2010, Tethys Oil sold 18,898 barrels of oil after government take from the Early Production System on Block 3 in Oman. This resulted in net sales of TSEK 11,066. The selling price per barrel amounted to USD 80.56 per barrel.

Note 5, Other income

Other income has been significantly impacted by the farmout of 20 percentage points of Blocks 3 and 4 to Mitsui E&P Middle East B.V. In consideration for the acquisition, Tethys Oil received MUSD 20, equivalent of TSEK 144,114, of which 40 per cent (the percentage of Tethys Oil's assets that were farmed out) of the book value as per 31 December 2009 amounting to TSEK 40,879 is offset against the book value of Blocks 3 and 4. The remainder of the consideration received, TSEK 103,236, is recorded as a capital gain in the income statement in the subsidiary Tethys Oil Blocks 3&4 Ltd.

Note 6, Oil and gas properties

Country	Licence name	Tethys Oil, %	Total area, km²	Partners (operator in bold)
Oman	Block 15	40%	1,389	**Odin Energi**[1], Tethys Oil
Oman	Block 3,4	30%	33,125	**CCED**, Tethys Oil, Mitsui
France	Attila	40%	1,986	**Galli Coz**, Tethys Oil
Sweden	Gotland Större	100%	540	**Tethys Oil**
New ventures				
Total			**37,040**	

[1] *Odin Energi became operator as of 1 January 2011.*

TSEK Land, projekt	Book value 31 Dec 2010	Write downs 2010	Investments 2010	Book value 1 Jan 2010	Book value 31 Dec 2009	Write downs 2009	Investments 2009	Book value 1 Jan 2009
Oman Block 15	92,682[2]	–	1,184	99,064[3],	99,064[3]	–	11,480	98,729
Oman Blocks 3, 4	66,573[2]	–	19,995	101,615[3]	101,615[3]	–	56,401	34,867
France Attila	9,238	–	5,610	3,628	3,628	–	38	3,589
Morocco Bouanane	–	-73	73	–	–	-14,076	12,218	1,858
Turkey Ispandika	–	–	–	–	–	-1,364	75	1,289
Spain Cameros	–	–	–	–	–	-433	433	–
Sweden Gotland Större	1,628	–	486	1,142	1,142	–	712	429
New ventures	16	-238	80	174	174	–	122	52
Total	**170,135**	**-311**	**27,428**	**205,623**	**205,623**	**-15,872**	**81,480**	**140,811**

[2] *The book value of oil and gas properties include non cash items of TSEK 21,727 during the full year 2010 and part of the proceeds from the farmout to Mitsui amounting to TSEK 40,879. These adjustments, amounting to TSEK 62,606 are not part of investments.*

[3] *The book value of oil and gas properties include non cash items of TSEK -796 during the full year 2009, which are not included in investments.*

Oil and gas properties	Group		Parent	
TSEK	2010	2009	2010	2009
Investments in oil and gas properties				
Opening balance	290,168	209,485	–	34,867
Investments in France	5,610	38	–	–
Investments in Morocco	73	12,218	–	–
Investments in Oman	21,180	67,881	–	-34,867[3]
Investments in Spain	–	433	–	–
Investments in Turkey	–	75	–	–
Investments in Sweden	486	712	–	–
Other investments in oil and gas properties	80	122	–	–
Currency exchange differences	-62,606[2]	-796	–	–
Closing balance	254,990	290,168	–	–
Depletion				
Depletion	–	–	–	–
Write down				
Opening balance	84,546	68,674	–	–
Write down	311	15,872	–	–
Closing balance	84,857	84,546	–	–
Net book value	**170,135**	**205,623**	**–**	**–**

[3] *Oil and gas properties were transferred from the Parent company to a wholly owned subsidiary during 2009.*

Note 7, Other losses/gains, net

TSEK	Group		Parent	
Other losses/gains, net	**2010**	**2009**	**2010**	**2009**
Foreign exchange gains	237	23	237	23
Foreign exchange losses	-99	-80	-99	-80
Total	**138**	**-56**	**138**	**-56**

Note 8, Remuneration to company auditor

TSEK	Group		Parent	
Remuneration to company auditor include:	**2010**	**2009**	**2010**	**2009**
PwC:				
Audit fee	560	433	495	389
Audit-related fees	190	185	120	115
Tax consultation	–	–	–	–
Other	–	–	–	–
Total	**750**	**618**	**615**	**504**

Note 9, Administrative expenses

TSEK	Group		Parent	
Administrative expenses	**2010**	**2009**	**2010**	**2009**
Staff	-7,597	-8,445	-3,198	-3,040
Rent	-1,341	-1,119	-787	-707
Other office costs	-1,999	-601	-453	-353
Listing costs	-851	-590	-851	-590
Costs of external relations	-1,476	-1,575	-1,476	-1,173
Other costs	-1,634	-2,729	-1,455	-1,929
Depreciation	-349	-285	-165	-142
Total	**-15,247**	**-15,343**	**-8,386**	**-7,934**

Note 10, Employees

	2010		2009	
Average number of employees	**Total**	**Total men**	**Total**	**Total men**
Parent company	5	4	6	3
Subsidiaries	4	3	4	3
Total	**9**	**7**	**10**	**6**

TSEK	2010		2009	
Salaries, other remuneration and social costs	**Salaries, other remuneration**	**Social costs**	**Salaries, other remuneration**	**Social costs**
Parent company	2,520	678	2,339	702
Subsidiaries	3,981	418	4,992	413
Total	**6,501**	**1,096**	**7,331**	**1,115**

	2010		2009	
Salaries and other remuneration distributed between the board and other employees	**Board and Managing Director**	**Other employees**	**Board and Managing Director**	**Other employees**
Parent company	986	1,534	986	1,353
Subsidiaries	3,149	1,928	4,697	295
Total	**4,135**	**3,462**	**5,683**	**1,648**

The group currently has 9 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. There have furthermore during 2010 been no agreements regarding bonus or variable remuneration for the Managing Director or for the Chief Operating Officer.

Salaries and other remuneration to operative board members and executive management	Salaries	Bonus	Benefits	Total 2010	Total 2009
Vincent Hamilton	1,173	–	–	1,173	1,096
Magnus Nordin	976	–	10	986	986
Jonas Lindvall	1,665	–	311	1,976	3,601
Total	**3,814**	**–**	**321**	**4,135**	**5,683**

TSEK					
Salaries and other remuneration to board members (in their capacity as board members)	**Salaries**	**Remunera-tion**	**Total 2010**	**Total 2009**	**Attendance 2010**
Vincent Hamilton	–	–	–	–	11/11
Magnus Nordin	–	–	–	–	11/11
Jonas Lindvall	–	–	–	–	5/11
John Hoey	–	100	100	100	11/11
Håkan Ehrenblad	–	100	100	100	11/11
Jan Risberg	–	150	150	150	11/11
Total	**–**	**350**	**350**	**350**	

At the Annual General Meeting of shareholders on 19 May 2010 Håkan Ehrenblad, Vincent Hamilton, John Hoey, Magnus Nordin and Jan Risberg were re-elected members of the Board. Jonas Lindvall declined re-election. No deputy directors were appointed. At the same meeting Vincent Hamilton was appointed Chairman of the Board.

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

Note 11, Financial income and similar items

TSEK	**Group**		**Parent**	
	2010	**2009**	**2010**	**2009**
Interest income	1	67	8,075	6,857
Gain on currency exchange rates	19,983	2,162	19,983	1,101
Fair value adjustment of short term investments	–	4	–	4
Total	**19,984**	**2,234**	**28,058**	**7,962**

Note 12, Financial expenses and similar items

TSEK	**Group**		**Parent**	
	2010	**2009**	**2010**	**2009**
Interest expenses	0	-5	0	-5
Currency losses	-40,500	-15,690	-40,477	-15,636
Total	**-40,501**	**-15,696**	**-40,478**	**-15,641**

Note 13, Tax

The group's income tax charge of TSEK 75 (TSEK 57) relate to a tax negotiated in Switzerland by the Swiss subsidiary Tethys Oil Suisse S.A.

With regard to the farmout to Mitsui conducted during 2010, Tethys Oil's assessment is that no Swedish tax will be charged, and that the Company's tax losses will cover most of the possible tax.

The company has not recorded a deferred tax asset in relation to the tax losses carried forward since the company is in an exploration phase and there is uncertainty as to if the tax losses may be utilised. Non-recorded deferred tax claims amount to TSEK 32,351 (TSEK 26,706), regarding tax losses carried forward of TSEK 123,008 (TSEK 101,544).

Note 14, Office equipment

TSEK	Group		Parent	
Office equipment	**2010**	**2009**	**2010**	**2009**
Assets				
1 January	1,754	1,553	722	553
Additions	1,404	200	204	169
Disposals	–	–	–	–
31 December	3,157	1,754	926	722
Depreciations				
1 January	-709	-425	-497	-357
Depreciation charges of the year	-349	-285	-165	-142
Disposals	–	–	–	–
31 December	-1,057	-709	-662	-497
Net book value	**2,100**	**1,045**	**264**	**225**

Note 15, Other receivables

TSEK	Group		Parent	
Other receivables	**2010**	**2009**	**2010**	**2009**
VAT	665	437	300	209
Receivables Joint ventures	17,964	1,370	–	–
Other	2,160	3	2	–
Total	**20,789**	**1,810**	**302**	**209**

Note 16, Shareholders' equity

As per 31 December 2010, the number of outstanding shares in Tethys Oil amount to 32,504,489 (28,049,091), with a quota value of SEK 0.17 (SEK 0.17). All shares represent one vote each. Tethys Oil does not have any incentive programmes for employees.

As per 1 January 2010, Tethys Oil had 28,049,091 shares. During the first nine months of 2010, 3,955,398 warrants were exercised and accordingly an equivalent number of shares were issued by Tethys Oil. Tethys Oil received proceeds of TSEK 90,974 before issue costs. The share issues from the exercised warrants have been registered continuously mainly during the first half of 2010. Furthermore, two private placements have been made during 2010, based on an authorization from the AGM held 20 May 2009. These two private placements of 500,000 shares together were made in March 2010 at SEK 30.75 and SEK 33.75 per share, which were in line with the prevailing market price at the time. The total proceeds from these issues amounted to TSEK 15,820 before issue costs. The newly issued shares in the private placement were registered in April 2010.

Earnings per share
Earnings per share before dilution are calculated by dividing profit for the year attributable to ordinary shareholders of the Parent Company by weighted average number of ordinary shares outstanding during the year.

No dilution effects exist for 2010. Last year the effect would have been positive but when calculating the potential dilutive effect for warrants, this would have resulted in a positive effect on earnings per share. The applicable accounting policies (IAS 33) do not allow inclusion of a positive effect. The earnings per share are thus reported after dilution excluding the dilutive effect of outstanding warrants.

Note 18, Pledged assets

In the parent company, pledged assets as per 31 December 2010 amounted to TSEK 500 (TSEK 500). The pledged asset regards a bank guarantee for a rental lease. There have been no other pledged assets in the Group during the period 2009–2010.

Note 19, Contingent liabilities

The contingent liabilities amount to TSEK – (TSEK 25,804). The contingent liabilities as per 31 December 2009 regarded Blocks 3 and 4 where Tethys Oil had a work commitment, which was fulfilled during 2010.

Note, 20 Related party transactions

The Group receives income from the joint venture of Block 15 in Oman where it also holds 40 per cent interest. Tethys Oil is the operator of Block 15 and most of the administrative

Note 17, Shares in subsidiaries

Company	Reg. Number	Reg. office	Number of shares	Percentage	Nominal Value per share	Parent company Book amount 31 December 2010, TSEK	Parent company Book amount 31 December 2009, TSEK
Tethys Oil Denmark AB	556658-1467	Sweden	1,000	100%	SEK 100	100	100
Tethys Oil Spain AB	556658-1442	Sweden	1,000	100%	SEK 100	100	100
Tethys Oil Turkey AB	556658-1913	Sweden	1,000	100%	SEK 100	100	100
Tethys Oil Exploration AB	556658-1483	Sweden	1,000	100%	SEK 100	100	100
Tethys Oil France AB	556658-1491	Sweden	1,000	100%	SEK 100	100	100
Tethys Oil Canada AB	556788-2872	Sweden	1,000	100%	SEK 100	100	100
Tethys Oil Oman Ltd.	95212	Gibraltar	100	100%	GBP 1	25,280	25,280
Tethys Oil Block 3&4 Ltd.	101981	Gibraltar	1,000	100%	USD 1	9	9
Tethys Oil Suisse S.A.	660-1139007-2	Switzerland	100	100%	CHF 1 000	567	567
Windsor Petroleum (Spain) Inc.	549 282	British Virgin Islands	1	100%	USD 1	–	–
Total						**26,456**	**26,456**

TSEK	Parent	Parent
Shares in subsidiaries	**31 December 2010**	**31 December 2009**
1 January	26,456	26,347
Acquisitions	–	109
Shareholder's contribution	932	17,282
Write down of shares in group companies	-932	-17,282
31 December	**26,456**	**26,456**

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

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

During the year, Tethys Oil Suisse S.A., a wholly owned subsidiary of Tethys Oil AB, has paid rent to Mrs Mona Hamilton amounting to CHF 79,710. Mrs. Mona Hamilton is the wife of Vincent Hamilton, the Chairman and Chief Operating Officer of Tethys Oil. The rent of office space is a commercially based agreement between Tethys Oil Suisse S.A. and Mrs. Mona Hamilton.

Note, 21 Subsequent events

Tethys has entered into an agreement with Mouvoil S.A. whereby Tethys will acquire a 37.5 per cent interest in an exploration and production licence covering 215 square kilometres in the department of Gard in southern France. Tethys will pay 39,261 newly issued Tethys shares and EUR 250,000 in cash in for the 37.5 per cent interest in the licence. In addition Tethys has undertaken to fund 100 per cent of the statutory work programme of collecting new seismic and drilling one well within two years. The estimated total cost of Tethys commitment amounts to MUSD 1.5. Tethys has the option to also earn an additional 37.5 per cent against funding the cost to drill a second well. Tethys can earn up to a 75 per cent interest in the licence. Mouvoil S.A. is a private Swiss company that was awarded the licence during 2010. Their principals have many years of experience with French multi-national oil companies. The licence "Permis du Bassin D'Alès" covers part of the Alès basin including the Maruejols heavy oil field discovered in 1947. The field is delineated by nine wells and has produced small amounts of 14 degree API oil, during 1947-1950 and 1980-1982. The licence also covers at least two prospects with potential for conventional oil at respective depths of 1,400 and 2,000 metres.

In April 2011 it was announced that the well SE-7 on Block 4 onshore the Sultanate of Oman was completed. The well encountered several intervals of heavy oil, but no flows were established. SE-7 successfully reached a total depth of 1,890 metres, where the main target was to test the presence of oil in the Khufai section in the southern part of the Saiwan East structure. The well identified a more than 90 meter thick column of intermittent heavy oil saturation in the upper parts of the Khufai. A limited test programme was run, using a wireline MDT tool, but no flows were established. As expected heavy oil was also encountered in the shallower Buah, Miqrat and Amin formations. SE-7 has been temporarily suspended for possible testing and further study.

In March 2011, Tethys announced that the horizontal sidetracking in the SE-2 well on Block 4 was completed. The well was completed as a producer and was connected to testing equipment for a planned long term production test. In addition to confirming oil in the Khufai reservoir, open hole logs also confirmed the presence of heavy oil in the Miqrat, Amin and Buah formations.

In February 2011, Tethys announced the result from production tests of the SE-4 well on Block 4. SE-4 was drilled in the summer of 2010, but was not tested at the time. Results from the testing suggest that the oil in this part of Block 4 is of a different quality from the oil encountered in previous Saiwan wells. The data also suggests that considerably larger parts than previously believed of the more than 400 metres thick Khufai section could contain oil of various qualities. The oil encountered in SE-4 could range in density from the 33 degree API oil produced from SE-2 and SE-3 to the heavy oil encountered above the Khufai in these wells.

Auditor's report

To the Annual General Meeting of the shareholders of Tethys Oil AB (publ)

Corporate identity number 556615-8266

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the managing director of Tethys Oil AB (publ) for the year 2010.The board of directors and the managing director are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the managing director and significant estimates made by the board of directors and the managing director when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the managing director. We also examined whether any board member or the managing director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

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

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

Göteborg 29 April 2011

PricewaterhouseCoopers AB

Johan Rippe
Authorized Public Accountant
Lead partner

Johan Malmqvist
Authorized Public Accountant

Definitions and Abbreviations

General

AGM	Annual General Meeting
IPO	Initial Public Offering
SEK	Swedish krona
TSEK	Thousands of Swedish kronor
MSEK	Millions of Swedish kronor
USD	US dollar
TUSD	Thousands of US dollars
MUSD	Million US dollars
CHF	Swiss francs

Petroleum related abbreviations and definitions

bbl	Barrel
bbls	Barrels
boe	Barrels of oil equivalents
boepd	Barrels of oil equivalents per day
bopd	Barrels of oil per day
mbbl	Thousand barrels (in Latin mille)
mmbo	Million barrels of oil
mmboe	Million barrels of oil equivalents
mmboepd	Million barrels of oil per day

Gas related abbreviations and definitions

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

Industry specific terms

Barrel
1 barrel = 159 liters.
1cubic foot = 0.028 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.

Tethys Oil AB (publ)

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