



Offer to subscribe for shares in Tethys Oil AB (publ)



This document is essentially a translation of a Swedish prospectus prepared in accordance with Swedish regulations. In the event of any differences between this translation and the original Swedish prospectus, the Swedish prospectus shall govern.

On the front cover is a map of the Earth 152 million years ago. Tethys was huge ocean between continents of that time Laurasia and Gondwana 245-65 million years ago. Tethys has thereafter become the Mediterranean, the Atlantic Ocean and the Indian Ocean as the continents drifted apart.

This map is produced for the PALEOMAP project (www.scotese.com) and is used with kind permission by Christopher Scotese.



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Terms in brief

Offering price	SEK 26 per share
Application period	March 11 – 26, 2004
Minimum subscription	200 shares
Settlement date	In cash no later than April 2, 2004
Trading with shares	Trading at Nya Marknaden is expected to commence on or about April 6, 2004

Financial calendar

Interim report January-March 2004	May 5, 2004
Interim report January-June 2004	August 16, 2004
Interim report January-September 2004	November 5, 2004
Year-end report for 2004	February 15, 2005

Other

Ticker symbol at Nya Marknaden	TETY
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References to "Tethys Oil" or "the Company" in this prospectus shall be construed as to refer to the group in which Tethys Oil AB (publ) is parent company, unless otherwise clear from the context (for instance references to the Board of Directors, the shares and the shareholders in the Company shall mean Tethys Oil's Board of Directors shares or shareholders, respectively). References to "Kaupthing" are to Kaupthing Bank Sverige AB (publ). References to "Avanza" are to Avanza Fondkommission AB. References to "E*Trade" are to E*Trade Sverige AB. References to "Nordnet" are to Nordnet Securities Bank AB.

This prospectus includes various forward-looking statements and includes assumptions about future market conditions, operations and results. These statements appear in a number of places in this prospectus and include statements regarding the Company's intentions, beliefs or current expectations. The words "believe", "expect", "anticipate", "intend" or "plan" and similar expressions identify certain of such forward-looking statements. Others can be identified from the context in which the statements are made. Actual events or results may differ materially as a result of risks and uncertainties that the Company faces. Such forward-looking statements are not guarantees of future performance and thus involve risks and uncertainties.

This prospectus contains historical market data and industry forecasts, which have been obtained from industry publications, market research reports and publicly available information. The industry publications state that the historical information they provide has been obtained from sources, and through methods, believed to be reliable, but that they do not guarantee the accuracy and completeness of this information. Similarly, industry forecasts and market research, while believed to be reliable, have not been independently verified. Neither Kaupthing, nor the Company represents that this historical information is accurate. Industry forecasts are, by their nature, subject to significant uncertainty. There can be no assurance that any of the forecasts will be achieved.

This prospectus has been prepared in accordance with the Swedish Companies Act (SFS 1975:1385), the Swedish Financial Instruments Trading Act (SFS 1991:980), the Swedish Financial Supervisory Authority's (Sw: "Finansinspektionen") prospectus regulations (FFFS 1995:21) and the rules (1999) for preparing prospectuses issued by the Swedish Industry and Commerce Stock Exchange Committee (Sw: "Näringslivets Börskommitté").

This prospectus has been prepared in Swedish and English. The Swedish and English language prospectuses contain substantially the same information. In the event of any discrepancies between the different language versions, the Swedish language version shall prevail.

The Swedish prospectus has been approved by and registered with the SFSA in accordance with the provisions of Chapter 2, Section 4 of the Swedish Financial Instruments Trading Act (SFS 1991:980). The approval and registration does not imply that the SFSA guarantees that the facts stated in the prospectus are accurate or complete.

The shares being offered in accordance with this prospectus have not been and will not be registered under the United States Securities Act of 1933, as amended (the "US Securities Act") or provincial legislation in Canada and may not be offered for sale or sold within the US or in Canada or to persons residing in these countries, or on behalf of such person, except pursuant to an exemption from the registration requirements of the US Securities Act or applicable Canadian provincial legislation.

Furthermore, the offer pursuant to this prospectus is not directed at persons whose participation requires further prospectus, registration or other measures in addition to those that result from Swedish rules and regulations. This prospectus may not be distributed in any country where distribution or the offer requires any measures in accordance with the above or violates regulations in that country. Subscription to acquire shares in contravention of the above may be considered invalid.

This prospectus shall be governed by Swedish law. Any disputes arising out of the contents of this prospectus, or in connection therewith shall be settled exclusively by proceeding in Swedish courts.

An investment in Tethys Oil, a company established relatively recently and operating within the oil and gas industries, is connected with a higher risk compared to an investment in a more mature and established company listed on a stock exchange. Readers of this prospectus are encouraged to particularly pay attention to the risks described in the section "Risk Factors".



Tethys Oil in brief

INTRODUCTION AND BACKGROUND

Tethys Oil is a Swedish independent oil and natural gas company. The Company focuses on upstream (i.e. exploration and development) oil and natural gas projects. Tethys Oil, to large extent, builds its operations on industry knowledge and important relationships within the oil and natural gas community, as well as with renowned international exploration and production companies.

STRATEGY

Geographical focus

Tethys Oil's geographical focus is on the EU and its candidate countries. The Company believes that this area offers attractive geological structures, a stable political and economic environment and a well-developed oil and natural gas infrastructure. In addition, the Company will evaluate and consider areas outside the core area on an opportunistic basis.

Size of prospects, infrastructure and advances in technology

Tethys Oil's primary focus is on smaller but potentially valuable areas. In Tethys Oil's opinion, such areas are often considered to be too small to be developed, or in some cases have been abandoned, by major oil

and natural gas companies. The Company is convinced that smaller fields can be profitable, provided that infrastructure is available and/or consumers are located in near proximity. Consequently, the Company primarily focuses on areas with pre-existing infrastructure. Tethys Oil will further exploit technological developments that are applied in geophysical analysis and drilling, which can reduce expenses and make it possible to evaluate and develop interesting areas that have previously been considered sub-economic.

Asset portfolio

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

LICENCES

Tethys Oil has direct interests in two exploration licenses in Denmark, indirect interests in one production license, two exploration licenses and one application for an exploration license in Spain, as well as indirect interests in three exploration licenses in Turkey that are conditioned upon Tethys Oil financing certain work commitments.¹

¹ For definitions of the terms direct, indirect and conditional interests, see "Glossary".



License		Country	Tethys Oil ¹⁾	Total area	Partner	Tethys Oil's commitments
1/02	Zealand exploration license	Denmark	70 %	533 km ²	DONG, Odin ²⁾	15 km of 2D seismic
1/03	Jutland and Zealand exploration license	Denmark	70 %	1,655 km ²	DONG, Odin ²⁾	Geological & geophysical study
La Lora	Ayoluengo production license	Spain	22.5 %	106 km ²	Northern, Teredo Oils och Petroleum Oil and Gas España ³⁾	Tethys Oil has no financial commitments in the license apart from expenses from the on-going operations as well as abandonment liability
Valderredible	Huidobro exploration license	Spain	50 %	241 km ²	Northern ³⁾	Geological & geophysical study
Huermeces	Hontomin exploration license	Spain	50 %	121 km ²	Northern ³⁾	Geological & geophysical study
Basconillos-H	Exploration license application filing	Spain	50 %	194 km ²	Northern ³⁾	Geological & geophysical study
3784	Hoto exploration license	Turkey	10 % – 45 %	15 km ²	AME ⁴⁾	Geological & geophysical study
3794 and 3795	Ispandika exploration license	Turkey	10 % – 45 %	965 km ²	AME ⁴⁾	Geological & geophysical study
Total area				3,830 km²		

¹⁾ Direct, indirect and conditional interests. For further information, see "Tethys Oil's operations".

²⁾ Dansk Olie og Naturgas A/S ("DONG") is a state-owned Danish oil and natural gas company. Odin Energi A/S ("Odin") is a private Danish oil company.

³⁾ Northern Petroleum Exploration Ltd., is a subsidiary of Northern Petroleum plc, a listed UK oil and natural gas company, Teredo Oils Ltd. and Petroleum Oil and Gas España S.A.

⁴⁾ AME consists of Aladdin Middle East Ltd. and companies that are part of the Sayer Group.

ORGANISATION

Tethys Oil's head office is located in Stockholm, Sweden. After the completion of the Offering, the Company will have three employees, of which two persons operating out of Stockholm and one person operating out of the Company's technical office in Geneva, Switzerland. The Company plans to hire additional employees to the Stockholm office in the short-term to assist the Chief Executive Officer and the Chief Financial Officer. The Chief Operating Officer is based at the Company's technical office in Geneva. The Company has and will in the future contract independent consultants in specialised technical fields.



Invitation to subscribe for shares in Tethys Oil

In order to facilitate Tethys Oil's ongoing development and expansion, the Annual General Meeting in Tethys Oil on February 27, 2004 decided to issue a minimum of 2,308,000 and a maximum of 2,884,800 new shares, each with a nominal value of SEK 0.50. The new share issue will result in an increase of the Company's share capital by a minimum of SEK 1,154,000 and a maximum of SEK 1,442,400 from SEK 750,000 to a minimum of SEK 1,904,000 and a maximum of SEK 2,192,400. The total number of shares will amount to a minimum of 3,808,000 and a maximum of 4,384,800 shares after the new share issue.

The new shares are being offered to the general public in Sweden, institutional investors and the current shareholders of the Company. The Annual General Meeting held on February 27, 2004, where all twelve shareholders of Tethys Oil were represented, unanimously decided to allocate the equivalent of 95 percent of the total number of shares to be issued to the general public in Sweden and institutional investors, and to allocate the remaining five percent to current shareholders, who are offered to subscribe for shares pro rata based on their existing shareholdings in Tethys Oil. Among the current shareholders, the Chief Executive Officer Magnus Nordin, the Chairman of the Board of Directors and Chief Operating Officer Vincent Hamilton have made a commitment to subscribe for their pro rata shares, and in addition to subscribe for shares up to the five percent level described above should the current owners not subscribe. In addition, Lorito Holdings Ltd., a company owned by a foundation whose main beneficiary is Adolf H. Lundin, has declared that it intends to subscribe for its pro rata shares. Subject to the new share issue being fully subscribed, whereby the lower subscription level is reached, Kaupthing intends to subscribe for the remaining 95 percent of the newly issued shares to be sold to the general public in Sweden and to institutional investors in accordance with the terms and conditions in this prospectus.¹

The new share issue described above constitute the offering ("the Offering").

The Offering price is SEK 26 per share, which means that Tethys Oil will receive proceeds of between SEK 60,008,000 and SEK 75,004,800 before issue and transaction expenses.

The new shares in the Offering comprise between 60.6 and 65.8 percent of the share capital and votes in Tethys Oil.

The Company has a contract with Kaupthing concerning the commencement of trading in the Company's share at Nya Marknaden.² The trading at Nya Marknaden is expected to commence on or about April 6, 2004 subject to the fulfilment of the terms and conditions of the Offering.

Shareholders with total holdings in Tethys Oil amounting to at least five percent of Tethys Oil's share capital before the Offering, the members of the Board of Directors, management and shareholders participating in the Offering, have agreed not to divest any shares in Tethys Oil for a period of nine months from the first day of trading at Nya Marknaden ("Lock-up"), without prior written consent from Kaupthing.

The general public in Sweden, institutional investors and current shareholders of the Company are hereby invited to subscribe for shares in Tethys Oil in accordance with the conditions in this prospectus, which has been prepared by the Board of Directors of Tethys Oil in conjunction with the Offering and the expected trading in the Company's share at Nya Marknaden.

Stockholm March 4, 2004
Tethys Oil AB (publ)
The Board of Directors

¹ For further information, see "Plan of distribution – Placing agreement".

² For further information about Nya Marknaden, see "Supplementary information".



Background and reasons

Tethys Oil was founded three years ago in order to take advantage of oil and natural gas exploration and production opportunities. The Company primarily intends to focus on the EU and its candidate countries, which are considered to offer a potential for oil and natural gas exploration based on interesting geological pre-requisites for oil and natural gas, a well-developed infrastructure, political and economical stability as well as the fact that there is less competition in Europe than in, for example North America.

The Company's strategy is to focus on projects, which are often considered too small for larger oil and natural gas companies. The Company will use new and improved analytical tools for geology in combination with the latest drilling techniques in order to successfully pursue oil and natural gas exploration and production activities. The purpose of the strategy is to create financial values for Tethys Oil's shareholders by building up a balanced portfolio with different risk exposures in the form of direct and indirect interests in both exploration and production licenses.

In accordance with the Company's strategy, the Company has during its first three years of operation built up a portfolio consisting of different types of interests in a total of nine licenses in Denmark, Spain and Turkey. Tethys Oil has thereby reached a stage where additional financing is required to further develop the Company's assets. As a consequence, the Annual General Meeting in Tethys Oil has made a decision to issue new shares. The Company has further contracted with Kaupthing concerning the commencement of trading in the Company's share at Nya Marknaden. The Offering will comprise a minimum of 2,308,000 shares and a maximum of 2,884,800 shares through which the Company will receive proceeds of SEK 60–75 million before issue and transaction expenses, which are estimated at approximately SEK 5 million.

The Company's intentions are, in consultation with its partners and provided that the necessary approvals are received, to partly use the proceeds from the issue as follows:

- in Turkey seismic works are planned for 2004, and if these provide positive indications the intention is to commence an exploration drilling before year-end;
- in Denmark additional seismic acquisitions are planned, which could be followed up by an exploration drilling during the current or the following year;
- in Spain discussions are taking place with partners regarding geological and geophysical studies which could result in several drillings over a three-year period.

The Company will further systematically analyse and evaluate opportunities in the Company's geographical core area with the intention to acquire additional direct and indirect interests in both exploration and production licenses. Tethys Oil opines, based on the business plan for the forthcoming three-years period, that the aforementioned activities will require investments of about SEK 60 million. The Company's financial flexibility would increase if the proceeds from the new share issue would be larger.

The estimated expenses for an exploration drilling is between SEK 7.5–15 million (1–2 MUSD). The proceeds from the issue are estimated to suffice to finance the aforementioned activities and the Company's administration costs as well as the cost to analyse and evaluate exploration opportunities in the Company's core area. Any commercial discovery of oil or natural gas may require investment in facilities and additional financing, which may result in changes in the business plan. The issue proceeds will, prior to usage in the aforementioned activities, be invested in liquid interest-bearing securities with low risk.

The reasoning behind the Offering and the proposed trading in the Company's share at Nya Marknaden are to:

- receive capital to finance geological and geophysical analysis and drillings;
- facilitate the Company's future possibilities to raise capital;
- improve the Company's standing as a valuable partner on the European oil and natural gas market; and
- enable the use of the Company's share to acquire companies or assets and as a means to attract and retain key personnel.

For further information, please refer to the explanation in this prospectus, which has been prepared by the Board of Directors of Tethys Oil in conjunction with the Offering and the proposed trading in the Company's share on Nya Marknaden. The Board of Directors accepts responsibility for the information contained in this document. Hereby is assured that, so far as the Board of Directors is aware, the information contained in this document is in accordance with the facts and no material information, which could affect the presentation of Tethys Oil, has been omitted from this document.

Stockholm, March 4, 2004
Tethys Oil AB (publ)
The Board of Directors



Terms and conditions

THE OFFERING

The Offering comprises a minimum of 2,308,000 and a maximum of 2,884,800 shares, equivalent to a minimum of 60.6 and a maximum of 65.8 percent of the total number of capital and votes in Tethys Oil conditioned upon completion of the Offering.

PRICING

The Offering share price is SEK 26 per share. The sales commission amounts to 0.3 percent with a minimum sales commission of SEK 99.

APPLICATION PERIOD

An application to subscribe for shares shall be submitted between March 11, 2004 up to and including March 26, 2004. The Board of Directors in Tethys Oil reserves the right to extend the application period.

APPLICATION

The retail offering

The retail offering is directed to the general public in Sweden as described in this prospectus. An application in the retail offering shall be for a minimum of 200 shares, or more, in even multiples of 200 shares.

Applications from the general public in Sweden shall follow the following guidelines:

Application shall be made on a pre-printed application form, which can be obtained from Kaupthing (address below).

A completed application form shall be submitted to Kaupthing's office on Stureplan 19 in Stockholm, or sent to:

Kaupthing Bank Sverige AB
Emissionsavdelningen - Tethys Oil
107 81 Stockholm

The application form shall be received by Kaupthing no later than 15.00 CET on March 26, 2004.

Direct application on the Internet for Avanza, E*Trade and Nordnet clients.

Further information is available on the Internet on the following websites:

www.avanza.se
www.etrade.se
www.nordnet.se

Direct application on the Internet shall be submitted to Avanza, E*Trade and Nordnet no later than 15.00 CET on March 26, 2004.

**The institutional offering**

Applications from institutional investors shall in accordance with special instructions be submitted to Kaupthing no later than 15.00 CET on March 26, 2004.

The offering to present shareholders

Applications from existing shareholders shall in accordance with special instructions be submitted to Kaupthing no later than 15.00 CET on March 26, 2004.

Only one application form per subscriber will be considered. Application forms sent by fax will not be accepted. No amendments or changes can be made to pre-printed text on the application form. Incomplete or incorrect application forms will not be considered. The application is binding.

ALLOCATION

The allocation of shares in Tethys Oil will be decided by the Board of Directors of Tethys Oil in consultation with Kaupthing. The primary objective is to obtain a sufficient ownership base among the public in order to achieve regular trade and satisfactory stock liquidity of Tethys Oils shares at Nya Marknaden as well as achieving an institutional ownership base.

The retail offering

Allocation is not affected by when, during the application period, the application is submitted. In the event of over subscription, the applicant may be allocated fewer shares than specified on the application form or no shares at all. Allocation may further be wholly or partially determined by random selection. Applications from clients of Kaupthing, Avanza, E*Trade and Nordnet may be given priority. Avanza, E*Trade and Nordnet will receive a guaranteed number of shares for allocation to their respective clients.

Employees in Tethys Oil may be prioritised in the allocation of shares. In order to subscribe,

employees shall observe special instructions as provided by the Company. The maximum allocation to any employee of Tethys Oil shall amount to no more than SEK 30,000.

Employees of Kaupthing, Avanza, E*Trade and Nordnet may be allocated shares. In those cases, allotment will take place according to Swedish Financial Supervisory Authority's regulation (FFFS 2002:7) and Swedish Securities Dealers Association's regulation.

The institutional offering

Priority will be given to applications submitted by institutional investors who are expected to become long-term shareholders in Tethys Oil. No individual institutional investor is guaranteed allocation.

The offering to current shareholders

The Board of Directors will, in accordance with the decision made at the Annual General Meeting held on February 27, 2004, allocate five percent of the total number of shares to be issued to current shareholders, who are offered to subscribe for shares pro rata based on their existing shareholdings before the Offering.

SETTLEMENT AND ALLOCATION**The retail offering**

As soon as the allocation of shares has been determined, a settlement note will be sent out, indicating the number of allocated shares in Tethys Oil and the terms of payment will be sent to those who have received allocation. Allocation is estimated to take place around March 29, 2004. Full payment for the allocated shares shall be made in cash no later than April 2, 2004. If full payment is not made when due, the shares may be allocated to another party. If the sale price in such case falls below the Offering price, the party that first received allotment may be required to compensate the difference. Those not receiving an allotment in the retail offering will not be notified.



The institutional offering

Institutional investors are expected to receive notice of allocation around March 29, 2004, from Kaupthing, after which a settlement note will be sent out. Full payment for allocated shares shall be made in cash no later than April 2, 2004. If full payment is not made when due, the shares may be allocated to another party. If the sale price in such case falls below the Offering price, the party that first received allotment may be required to compensate the difference.

The offering to current shareholders

Current shareholders are expected to receive notice of allocation around March 29, 2004, from Kaupthing, after which a settlement note will be sent out. Full payment for allocated shares shall be made in cash no later than April 2, 2004. If full payment is not made when due, the shares may be allocated to another party. If the sale price in such case falls below the Offering price, the party that first received allotment may be required to compensate the difference.

REGISTRATION

When payment has been made for allocated shares, VPC AB ("VPC") will issue a VP notice which indicates the number of shares in Tethys Oil that has been registered on the recipient's VP account. This is expected to take place on or about April 2, 2004. Notification to shareholders whose shares are registered in the name of a nominee will be given in accordance with procedures applied by the nominees, respectively.

TRADING

The Company has a contract with Kaupthing concerning the commencement of trading in the Company's share at Nya Marknaden. Trading is expected to commence on or about April 6, 2004, conditioned upon the completion of the Offering.

RIGHT TO DIVIDENDS

The holders of Tethys Oil's shares will be eligible for any dividends declared by Tethys Oil in respect of the fiscal year 2004 and subsequent periods. Payment of dividends is effected by VPC or, if the shares are registered in the name of a nominee, payments are effected, in accordance with the procedures of the respective nominee. Tethys Oil has been established recently and is expected to be in an expansive investment phase in the coming years whereby any potential profits available for distribution to the shareholders in the form of dividends will most likely be reinvested in the operations. In accordance herewith, the Board of Directors of Tethys Oil opines that the Company will not make any cash dividends to the shareholders of Tethys Oil over the next couple of years.

CONDITIONS FOR THE COMPLETION OF THE OFFERING

The Board of Directors in Tethys Oil retains the right not to complete the Offering up to and including the allocation date, which is expected to be on or about March 29, 2004. The Offering is conditional upon the new share issue to the general public in Sweden and institutional offering fully subscribed (up to the minimum level for the new share issue) and that a sufficient distribution of ownership is achieved, that the placing agreement is entered into and that the agreement is not cancelled.



Comments from the CEO

FRIENDS AND INVESTORS,

In your hand you hold the first public document published by Tethys Oil – a prospectus inviting you to become an owner in Tethys Oil. As is evident from the name Tethys Oil, our business is oil. What is not evident from the name is that Tethys Oil is an upstream company focused on that part of the oil industry, which is active in the exploration and production of oil and natural gas.

Among the first questions that come to mind are of course: why invest in a new oil company? Is there a need for more exploration and production companies, and can an investor really get a decent return from such an investment?

The petroleum industry, which supplies energy to the people of this world, is and remains one of the largest industries in the world. Oil and natural gas seem destined to remain the world's most important sources of energy for the foreseeable future. The business opportunities within this industry are enormous – and the upstream segment in particular offers great possibilities for small aggressive, innovative companies and for their investors.

Petroleum products are simple commodities that are traded in well functioning markets with transparent pricing. The oil price trend over the long-term seems to point upwards. Older fields, that no longer are profitable for larger companies, may work out quite well for companies with a lower cost base. Inertia in price forecasting and in the analysis of external forces and relations, found in larger companies can create opportunities for smaller more aggressive firms to identify and realise value. Several parts of the world are not sufficiently explored for oil and natural gas, especially as regards smaller to midsize discoveries – a fact that fits very well with a smaller company. Changes and new trends

within politics and environmental thinking create additional niches and possibilities that can be followed up by quick footed and modern oil companies. Consider for example the environmentally driven change to replace coal with natural gas. And last but not least let us not forget the opportunities following from the privatisation of state-owned oil and natural gas interests.

There is no shortage of possibilities, if anything there are too many and thus there is a need for certain strategic limitations. We do not believe that a small company can be everywhere at the same time. However, oil is found where it is found and certain flexibility is a must. Were an invitation to participate in a bid round for prospective acreage in Libya to arrive, this would of course be accepted. But in general, Tethys Oil will limit its operations to one geographical core area.

A small company cannot be everywhere at the same time, nor can it manage a large number of projects at the same time. Tethys Oil will aim for strategic limitations also in this respect. All eggs should not be put in one basket and Tethys Oil will seek to maintain a diversified and balanced portfolio of assets. Several criteria are important. How mature is the asset? – where in the development cycle can it be placed? What level of exploration risk is involved? What are the fiscal terms? What political risks must be considered in this particular area? What environmental considerations are important and how can these best be managed? What is the balance between risks, size of investment needed and possible return on capital invested?

These and similar considerations have resulted in the formulation of Tethys Oil's main strategy:

1. Tethys Oil core area shall be Europe, or more precisely the European Union and its candidate countries.

2. Tethys Oil shall maintain a balanced portfolio of assets regarding geographic diversity and political risk, which from a geological and technical point of view will offer participation in the various phases of the upstream sector.

WHY EUROPE?

Several answers are obvious:

- Relatively low political risk;
- proximity to markets;
- well-developed infrastructure, which is being opened up and privatised as the European Union develops and expands;
- relatively small geographical area;
- well-defined laws concerning ownership and agreements as well as a functional legal system.

Less obvious may be the fact that the geological conditions also onshore Europe are not at all bad and that the competition from other oil companies, at least for now, is surprisingly limited. The geology of Europe is such that the probability of finding elephants with billions of barrels of oil or trillions of cubic feet of natural gas is limited. Such reserves can be found in the giant basins of the Middle East, North Africa, Siberia and in the North Sea. The result has been that the big oil companies of the world have shown only a limited interest in continental Europe. But smaller accumulations, of approximately 5 to 50 million barrels of oil or the equivalent amounts of natural gas have been found onshore Europe in the Baltic countries, in England, in France, in Romania, in Spain, in Holland and elsewhere. But Europe has never been subjected to that systematic exploration which has taken place for example in North America.

To this date Tethys Oil has been able to ascertain that not even areas with known reserves have been thoroughly investigated – not even within producing fields. The Spanish La Lora field, where Tethys Oil has an indirect partici-

pation and surrounding areas is one example. There exists over the field modern 3D-seismic that has never been interpreted or mapped in connection with the producing wells. Nor have deeper layers below the producing horizons been drilled, in spite of gas indications in the seismic data.

As part of our main strategy, Tethys Oil will over the next years systematically survey technical studies and existing data bases, and seek to find local experts in particularly interesting areas in Europe.

The world is changing rapidly. But the importance of oil and natural gas increases. The possibilities for a small and focused dynamic oil and natural gas oriented company may never have been bigger than they are today.

Let us not forget however that the risks are always biggest at the beginning. But high risk can of course also result in high returns – if all works out.

We are setting out on a journey – welcome aboard!



Magnus Nordin
Chief Executive Officer



Oil and natural gas exploration

OIL AND NATURAL GAS

Oil and natural gas consist of compounds of carbon and hydrogen, so called hydrocarbons. Hydrocarbon compounds are created through the heating up of organic carbon material at high pressure in sedimentary rocks. The least complex hydrocarbon consists of one carbon atom and four hydrogen atoms and is called methane (CH_4), which is a gas at normal temperature and pressure. Methane has a high-energy content and is the most abundant component in natural gas. More complex compounds between carbon and hydrogen create hydrocarbon chains, whose weight is dependent on the length of the chain. As chains get heavier, the hydrocarbons are transformed from gases into liquids.

Hydrocarbons occurring in a discovery can be divided into five main categories, including heavy oil, light oil, condensate, wet gas and dry gas.

Crude oil and natural gas found in nature consist of different mixtures of hydrocarbon compounds, which have to be separated in order to be useable. The separation process for crude oil is called refining, which somewhat simplified is accomplished through the successive heating of crude oil. At every different level of heat a specific hydrocarbon is separated. The refining process continues until all hydrocarbons in the original crude oil mixture have been separated. Light crude oil has more useable hydrocarbons compared with heavy crude oil, implying a higher market value. The lighter mixes being gasoline and the heavier ones fuel oil and asphalt. Gas is processed in one or several stages of washing and filtration whereby condensate, helium, sulphur and water are separated from the gas.

PROPERTY RIGHTS TO OIL AND NATURAL GAS DISCOVERIES

In general, oil and natural gas resources are the property of the government of the country in which they are located. One exception is the US, where oil and natural gas is usually owned by the landowner. As a consequence, an oil company outside the US generally does not own the rights to discovered oil and gas but instead receives permissions to explore for and produce oil from the government of the country in question. These permissions are typically called concessions, permits, production sharing contracts and licenses (hereafter referred to as licenses).

A license is usually divided into two parts - an exploration license and a production licence. The award of a license is often done through an auction, a.k.a. a licensing round, where companies are provided with an opportunity to present their offers which contain a description of the type of commitments they are prepared to undertake in a specific area within a certain time frame. In some cases, a fee has to be paid to the government in order to receive an exploration licence. However, the most common procedure is that oil companies pay indirectly by investing in exploration and development. An alternative system used by some countries is the open application system, in which oil companies can apply directly for unlicensed areas.

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

DEVELOPMENT OF GEOLOGICAL MODELS TO LOCATE OIL AND NATURAL GAS PROSPECTS

The aim of a geological model is to locate potential reserves of oil and natural gas by the development of a hypothesis, which explains why an area contains an appropriate geological prospect. A geological model sets out to verify a number of critical parameters, including establishing the presence of:

- (1) rocks capable of holding oil and/or natural gas – the reservoir;
- (2) rocks capable of keeping oil and/or natural gas in the reservoir – the seal; and
- (3) rocks capable of generating oil and/or natural gas in the first place – the source rock.

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

EXPLORATION

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

Seismic is acquired onshore or offshore by geophysical crews or seismic vessels, respectively. Single linear lines of seismic provide information about the subsurface rocks directly beneath the seismic equipment. This type of seismic data is referred to as two-dimensional, or 2D-seismic, because it provides data along two

axes, length and depth. If seismic acquisition is done across multiple lines simultaneously, the third dimension of width is gained, hence referred to as three-dimensional seismic, or 3D-seismic. 3D-seismic offers much greater density of information about the subsurface but is much more costly and covers a smaller area.

Potential discoveries of oil and natural gas are called prospects and the presence of oil and natural gas must be confirmed by drilling. During the drilling, rock and fluid are recovered from the hole at the surface for analysis. At the completion of drilling, the hole is logged whereby electrical sensors are lowered into the hole and measurements are made of the rock and of fluids and gases contained in the rock. If the analysis of the drilled rocks and the logging shows positive indications, a production test of the drilled hole is executed, whereby potential oil and natural gas zones are allowed to flow into the hole and up to the surface for measurement and analysis. Both the production rate and the amount of reserves can be calculated through logging and testing.

CALCULATION OF RESERVES

The reserves are an estimate of the volume of crude oil and natural gas of a discovery that is viewed as commercially recoverable under present economical conditions. The reserves are divided into two groups, proven and unproven reserves. In turn, the unproven reserves are divided into probable and possible reserves.

Proven reserves are located in areas where drilling has been completed with positive test results, and in areas surrounding where drilling has not been done, but based on geophysical and geological data are considered commercially recoverable. Probable reserves are less certain than proven reserves, but the probability of producing commercially recoverable reserves are still in excess of 50 percent, which is to be compared with possible reserves where the probability of discovering commercially recoverable reserves is estimated to be less than 50 percent.

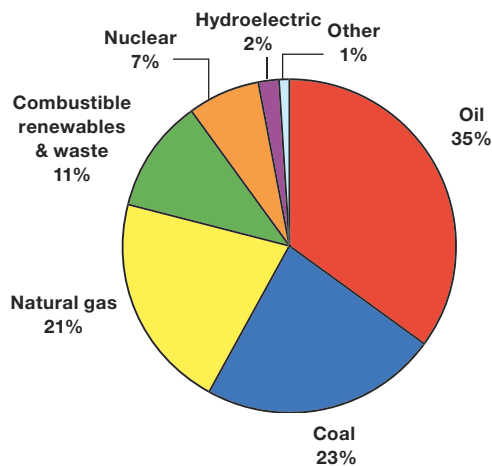
The market for oil and natural gas

The oil market is global, which is why it will be described from a global perspective. In contrast to the oil market, the market for natural gas is local due to relatively high transportation costs and the need for transportation systems, which is why it can be divided into regions. As Tethys Oil intends to be mainly active in Europe, only the European market for natural gas will be described below.

PRIMARY SOURCES OF ENERGY

Energy comes from a number of sources, the dominant ones being oil, coal and natural gas. The relative importance of primary sources of energy in 2002 was as follows: oil 35 percent, coal 23 percent, natural gas 21 percent, combustible renewables & waste 11 percent, nuclear 7 percent, and hydroelectric 2 percent. Alternative energy sources such as wind and wave power, solar energy and biofuels are relatively insignificant. Thus, oil and natural gas account for more than half of all primary energy sources.

Primary sources of energy globally in 2002



Source: International Energy Agency – Key World Energy Statistics, 2003.

THE OIL MARKET

The oil industry

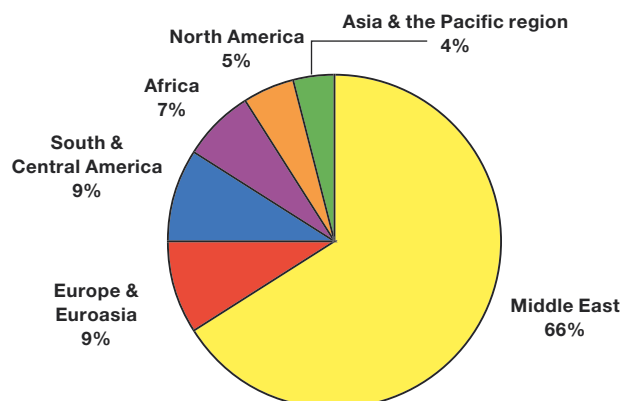
The oil industry is divided into two main segments, upstream and downstream. Upstream includes operations such as exploration and

the production of crude oil and natural gas, while downstream includes operations such as refining and distribution of petroleum products in the form of fuel, heating oil or as raw material for the petrochemical industry. Oil companies can specialise within one individual segment or operate businesses in both segments. Oil companies of the latter kind are known as integrated companies, and examples of these are Royal Dutch/Shell, Exxon Mobil and ChevronTexaco. Tethys Oil focuses on exploration and production, and is thus a pure upstream company.

Global oil reserves

At the end of 2002, total global proven oil reserves amounted to 1,048 billion bbls, of which 686 billion bbls in the Middle East, 99 billion bbls in South and Central America, 98 billion bbls in Europe and Eurasia¹ and 165 billion bbls in the rest of the world. OPEC's² total proven oil reserves amounted to approximately 819 billion bbls at the same time.

Percentage breakdown of proven oil reserves 2002



Source: BP Statistical Review of World Energy, 2003.

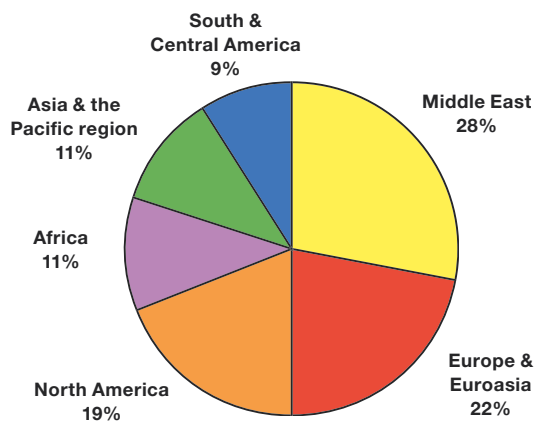
¹ Eurasia includes the countries that were formerly part of the Soviet Union.

² OPEC is described in the section below.

Production of crude oil

In 2002 global oil production totalled 74 million bbls/d. The most important production region was the Middle East, with a share of 28 percent, followed by Europe and Eurasia and North America, with a share of total oil production of 22 percent and 19 percent, respectively.

Production of crude oil in 2002

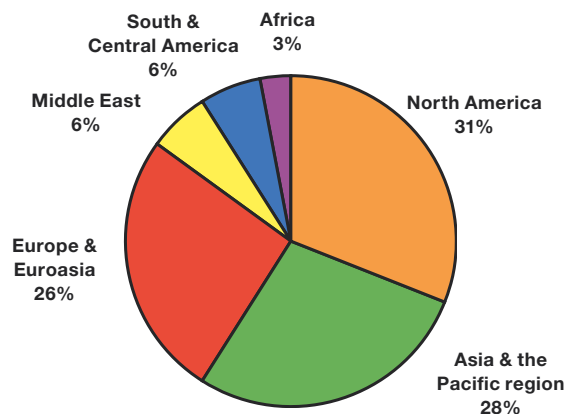


Source: BP Statistical Review of World Energy, 2003.

Consumption of crude oil

In 2002 global oil consumption was 76 million bbls/d. The largest consumers were North America, Asia and the Pacific region, and Europe and Eurasia with a total consumption of 64 million bbls/d, corresponding to 85 percent of the global consumption of crude oil.

Consumption of crude oil in 2002



Source: BP Statistical Review of World Energy, 2003.

Driving forces and forecasts

Oil is expected to be the most important source of energy in the world for the foreseeable future. According to the EIA, global demand for oil is expected to rise from 76 million bbls/d in 2002 to 119 million bbls/d in 2025, corresponding to an increase from 37 percent of global energy consumption to 38 percent.

The most significant driving force behind the increased demand for oil is economic growth. Consequently, the expansive economies in Asia are expected to account for a significant proportion of the increase in demand, with a rise to 30 million bbls/d in 2025 compared to 15 million bbls/d in 2001. In this region China and India are expected to have the highest average GNP growth until 2025, with 6.2 percent and 5.2 percent, respectively.

Demand in the industrialised countries¹ is expected to increase from 44 million bbls/d in 2001 to 60 million bbls/d in 2025, which means that their share of global oil demand is expected to decline from 57 percent in 2001 to 50 percent in 2025. In the industrialised countries it is primarily with the transportation sector that is expected to continue to account for a high demand for oil in the future, according to the EIA. In absolute terms the largest regional increase in oil demand among the industrialised countries is expected to be in North America, where it is expected that demand will increase from approximately 23 million bbls/d in 2001 to approximately 36 million bbls/d in 2025.²

¹ The industrialised countries in this context are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Great Britain, Greece, Iceland, Ireland, Italy, Japan, Luxemburg, Mexico, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland and the USA.

² The statistics regarding 2001 and 2025 originates from BP Statistical review of World Energy, 2003, and Energy Information Administration, "International Energy Outlook 2003", www.eia.doe.gov.

OPEC

The Organisation of Petroleum Exporting Countries (“OPEC”) is an international collaborative organisation founded in 1960. To become a member of OPEC, a country must be a significant exporter of oil and also support the organisation’s objectives. At present OPEC consist of eleven member states, which are Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela. The member states of OPEC represent approximately 40 percent of global oil production and around three-quarters of the proven global oil reserves. OPEC’s main purpose is to strive to achieve price stability in the oil market by balancing the supply of oil. Representatives of OPEC’s member states meet twice a year to define the organisation’s production level.¹

The price of oil

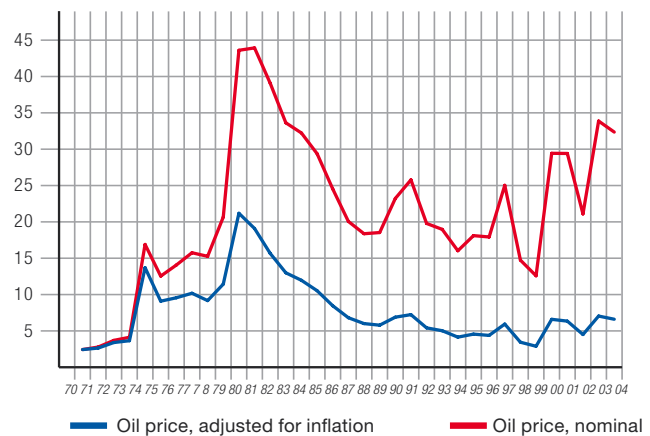
The price of different crude oils depends on the quality of the oil (weight and degree of sulphur), transportation costs and the type of products gained from refining the crude oil. Price is expressed in USD per barrel, where one barrel of oil corresponds to approximately 159 litres. When trading different types of crude oils, a reference oil, which is traded on an oil exchange, is used as a benchmark. The most common reference oil in Western Europe is called Brent, after the giant Brent field in the North Sea, whereas the corresponding benchmark in the US is the West Texas Intermediate.

The price of oil has been highly volatile during the last 30 years. The volatility of the price of oil is mainly due to the growth rate of the global economy, the level of investment in oil exploration and production, and political events, mainly in the oil-producing countries. The price of oil is also affected by the price of alternative sources of energy. In the short term, the level of oil stocks and weather conditions, e.g. cold winters in the Northern Hemisphere, can also affect the price of oil.

During the last three decades a number of political events have had an impact on both production levels and the price of oil, including the two oil crises during the 1970s, which were caused by OPEC’s production cuts. The price of oil then fell gradually after the two oil crises in the 1970s due to significant investments in new production capacity. Apart from the significant rise when Iraq invaded Kuwait in 1990, the price continued to fall until the beginning of 1999, after which the price of oil has risen once more. The price of oil was USD 33.30 per bbl of Brent as of March 3, 2004.

The price of oil adjusted for inflation provides a different picture of the price trend. As a result of high global inflation during the 1970s and 1980s, the current price is well below the level during the two oil crises.

Oil price since 1970 in nominal and real terms, USD/bbl of Brent



Source: EcoWin

Transportation of oil

Oil is transported mainly via pipelines and oil tankers. Oil consumed in Europe originates mainly from local production, as well as from Russia, the Middle East and North Africa.

¹ www.opec.com

The natural gas market in Europe

Natural gas has become an increasingly important source of energy in Western Europe accounting for 24 percent of total primary energy supply in 2002. If current trends continue, natural gas is expected to continue to increase in relative importance in the EU compared with other energy sources.¹

Natural gas market reform in the EU

Until recently, legal or de facto monopolies had control of the natural gas markets within their respective countries. Reform in the EU was initiated with the EU Gas Directive (98/30/EC) (the "1998 EU Gas Directive"), adopted in 1998, which required a phased approach to market liberalisation for all members of the EU.

In 2003, the EU adopted Directive 2003/55/EC (the "2003 EU Gas Directive") repealing the 1998 EU Gas Directive with the aim to establish common rules and promote the creation of a single European natural gas market. In summary, the 2003 EU Gas Directive provides:

- (i) that markets opens for the choice of supplier as from 2004 (i.e. industrial and commercial), and from July 2007 with regard to all customers;
- (ii) third-party access and legal separation of transmission activities (i.e. the operation of pipelines, etc) from July 2004 and of distribution activities (i.e. the delivery of natural gas to customers) from July 2007;
- (iii) legal but not ownership unbundling; and
- (iv) provisions concerning public service obligations, customer protection and security of supply.

The liberalisation of the EU natural gas and power markets will improve market access, which is expected to create business opportunities for independent natural gas producers.

Natural gas reserves

The proven natural gas reserves in Western Europe of 7,350 bcm at the beginning of 2002 represents 4.5 percent of total global reserves.

About 80 percent of the region's reserves are located in Norway, the Netherlands and the United Kingdom. The reserves-to-production ratio has been stable for about 20 years despite rising production in the North Sea. This is primarily due the addition of major new discoveries in the North Sea and the Norwegian Sea and by higher recovery rates in existing fields due to improved recovery techniques.²

Natural gas demand and supply

Consumption in Western Europe³ in 2002 amounted to 488 bcm, of which local production was 310 bcm or 64 percent of total demand compared with 83 percent in 1980.

European demand of natural gas is projected to reach 901 bcm representing about 33 percent of the total primary energy demand in 2020, compared with 482 bcm in 2000 or 22 percent of the total primary energy demand. Most of the increase in demand is expected to come from power generation, where natural gas is particularly cost-effective. The residential sector is currently the largest source of demand, followed by the commercial, electricity and industrial sectors.

Natural gas production in Europe is expected to amount to approximately 300 bcm a year until 2020 and then decrease slightly to 276 bcm in 2030. However, production could turn out to be higher depending on technological developments and price. Nevertheless, given the stable production of natural gas and the prospect of rising demand, the European imports are expected to continue to increase for the foreseeable future.

Russia is the largest external supplier to Europe, providing about a quarter of total supply or 117 bcm by pipeline. Algeria, with 55 bcm, is the second largest exporter of natural gas to Europe via pipeline and as liquefied natural gas. In the future other regions, such as North Africa, the Caspian Sea and the Middle East are expected to increase exports to Western Europe.⁴

¹ Eurogas annual report 2002-2003. Eurogas is the European association of the natural gas industry and represents the natural gas industries of 19 European countries.

² IEA/OECD, Flexibility in Natural Gas Supply and Demand, Paris 2002.

³ Western Europe includes all current EU countries plus Norway and Switzerland.

⁴ Eurogas annual report 2002-2003.

Pricing of natural gas

The price of natural gas is partly determined by the energy content. Price is expressed in USD per thousand cubic feet (USD/mcf) or in euros per thousand cubic meters (€/mcm), where one normal cubic meter of natural gas is equivalent of 37.2 standard cubic feet. Transportation of natural gas is more difficult and costly than transporting oil. As a consequence, natural gas is often priced in the local markets whereto it can be transported.

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

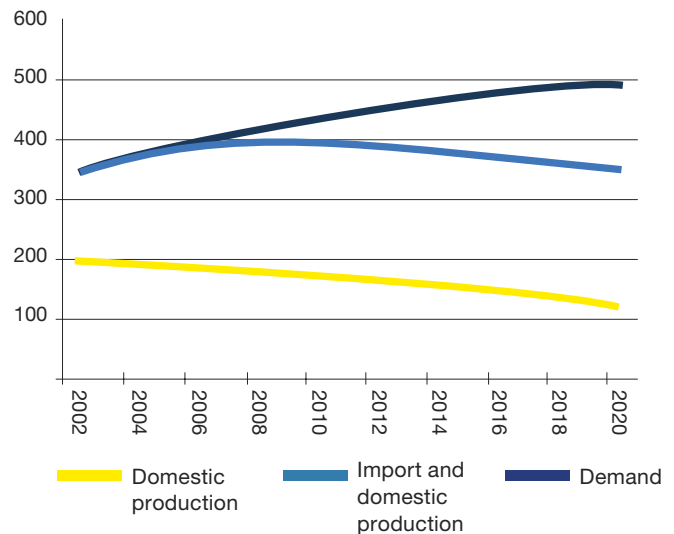
Industrial consumers across the EU spent an average of €203 per mcm of natural gas in 2002. The price received by producers is less due to transportation and marketing costs. Details of natural gas sales contracts between producers and buyers are normally held confidential for commercial reasons. Therefore, it is difficult to estimate what producers of natural gas could expect to receive for their production. However, in general this number is believed by the Company to be approximately €115 per mcm.¹

Transportation of natural gas

The geographical extent of the natural gas distribution network of pipelines in Europe has increased dramatically over the last twenty years. EU legislation has provided for both third party access to transportation networks and transparency of transport tariffs.

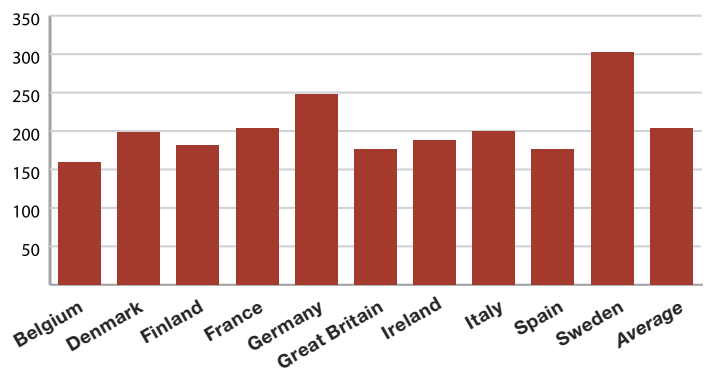
Natural gas can be converted into a liquid form called liquefied natural gas through a cooling and compression process. Liquefied natural gas is transported in special ocean tankers for re-gasification in consuming countries.

EU Natural Gas Supply and Demand Outlook 2002 –2020, mtoe



Source: Eurogas annual report, 2002–2003

Average natural gas price paid by industrial consumers in the EU excluding tax, €/ mcm



Source: EUROSTAT

¹ For example, Lundin Petroleum receives €113 per mcm for its natural gas production in the Netherlands according to Lundin Petroleum annual report 2002.

Natural gas transmission pipelines in Europe



Source: Eurogas annual report, 2002–2003



Tethys Oil's operations

INTRODUCTION AND BACKGROUND

Tethys Oil is a Swedish independent oil and natural gas company. The Company focuses on upstream (i.e. exploration and development) oil and natural gas projects. Tethys Oil, to large extent, builds its operations on industry knowledge and important relationships within the oil and natural gas community, as well as with renowned international exploration and production companies.

STRATEGY

Geographical focus

Tethys Oil's geographical focus is on the EU and its candidate countries. The Company believes that this area offers attractive geological structures, a stable political and economic environment and a well-developed oil and natural gas infrastructure. In addition, the Company will evaluate and consider areas outside the core area on an opportunistic basis.

Size of prospects, infrastructure and advances in technology

Tethys Oil's primary focus is on smaller but potentially valuable areas. In Tethys Oil's opinion, such areas are often considered to be too small to be developed, or in some cases have been abandoned, by major oil and natural gas companies. The Company is convinced that smaller fields can be profitable, provided that infrastructure is available and/or consumers are located in near proximity. Consequently, the Company primarily focuses on areas with pre-existing infrastructure. Tethys Oil will further exploit technological developments that are applied in geophysical analysis and drilling, which can reduce expenses and make it possible to evaluate and develop interesting areas that have previously been considered sub-economic.

Asset portfolio

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

LICENCES

Tethys Oil has direct interests in two exploration licenses in Denmark, indirect interests in one production license, two exploration licenses and one application for an exploration license in Spain, as well as indirect interests in three exploration licenses in Turkey that are conditioned upon Tethys Oil financing certain work commitments.¹

ORGANISATION

Tethys Oil's head office is located in Stockholm, Sweden. After the completion of the Offering, the Company will have three employees, of which two persons operating out of Stockholm and one person operating out of the Company's technical office in Geneva, Switzerland. The Company plans to hire additional employees to the Stockholm office in the short-term to assist the Chief Executive Officer and the Chief Financial Officer. The Chief Operating Officer is based at the Company's technical office in Geneva. The Company has and will in the future contract independent consultants in specialised technical fields.

¹ For definitions of the terms direct, indirect and conditional interests, see "Glossary".

DENMARK

Denmark, a country of 5.3 million people, has been a member of the European Union and its predecessors since 1973. Denmark is a net exporter of oil and natural gas. All current production is offshore in the Danish sector of the North Sea. Denmark is Europe's third largest hydrocarbon producer after Norway and Great Britain.

RESERVES, PRODUCTION AND CONSUMPTION

Oil

Oil was first discovered offshore in the Danish section of the North Sea in 1966. In 2002, oil production amounted to 371,000 bbls/d from a total of 17 fields - with the majority coming from the Dan, Gorm, Halfdan, Siri, Skjold and South Arne fields. Domestic consumption of oil amounted to 205,000 bbls/d.

Oil reserves, production and consumption in 2002

Oil production:	371,000 bbls/d
Oil consumption:	205,000 bbls/d
Proven oil reserves:	1,300 million bbls

Source: BP Statistical Review of World Energy, June 2003.

Natural gas

Production of natural gas from the Danish section of the North Sea amounted to 8.4 bcm in 2002. Denmark also exports natural gas to neighbouring countries. Export of natural gas reached 3.6 bcm in 2002 of which 2.6 bcm to Germany and 1.0 bcm to Sweden via a pipeline from Copenhagen to Mamö. Natural gas consumption in Denmark amounted to 5.1 bcm in 2002, which represented 25 percent of the country's total energy requirements compared with close to zero in 1980.¹ Most of the natural gas is consumed by the power and combined heat and power generation sector.

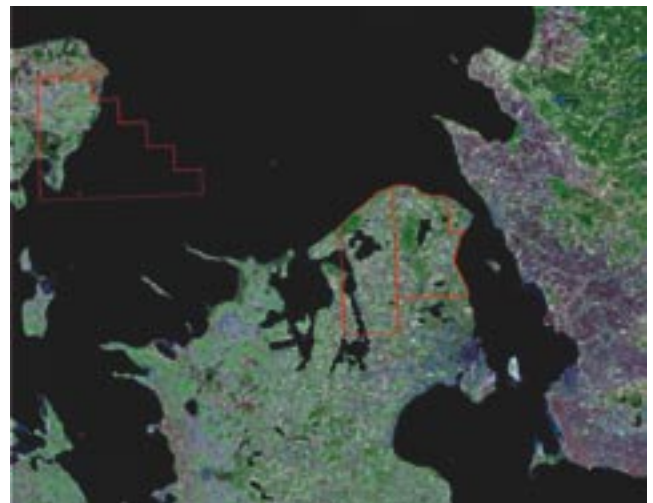
Natural gas reserves, production and consumption in 2002

Natural gas production:	8.4 bcm
Natural gas consumption:	5.1 bcm
Proven natural gas reserves:	0.8 trillion cm

Source: BP Statistical Review of World Energy, June 2003.

Natural gas is transported from offshore production platforms to the western coast of Denmark via sub-sea high-pressure pipelines. From the coast the natural gas is distributed through high-pressure pipelines which are connected to low-pressure pipelines for final distribution to consumers.

Satellite photo over licenses in Denmark



A few words should be mentioned about Sweden in this prospectus due to Sweden's proximity to Tethys Oil's prospect in Zealand. Sweden has a small but growing natural gas market of 1.0 bcm in 2002, of which the majority is imported from Denmark. Natural gas exported to Sweden is transported in a long high-pressure pipeline running along the western coast of Sweden from Malmö to Gothenburg. Along the main pipeline, the natural gas is distributed to consumers through a low-pressure distribution pipeline network. Imported gas corresponds to about one percent of the total energy consumption in Sweden¹.

¹ BP Statistical Review of World Energy, 2003.

NATURAL GAS MARKET REFORM IN DENMARK

The natural gas market reform in Denmark was initiated through the 1998 EU Gas Directive. The Natural Gas Supply Act entered into force on July 1, 2000.¹

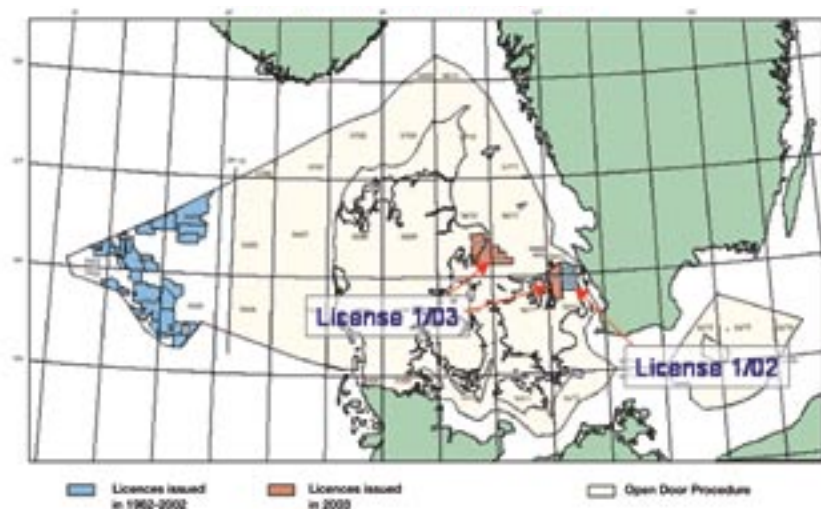
The Natural Gas Supply Act stipulates that consumers of natural gas, provided that certain conditions are fulfilled, including payment, shall have access to the transmission and distribution network. With effect as of January 1, 2004, Danish consumers have the right to choose a natural gas supplier.²

THE PETROLEUM INDUSTRY IN DENMARK

The A.P. Moller-Maersk Group (“Maersk”) has been the dominant participant in the Danish petroleum exploration and production sector since the company was awarded the first license in 1962. Maersk is the operator of the Danish Underground Consortium, which holds the remainder of the original concession in the North Sea, with a share of 39 percent together with Royal Dutch/Shell and ChevronTexaco. The Danish Underground Consortium is the largest license holder in the Danish section of the North Sea.

The state-owned company Dansk Olie og Naturgas A/S (“DONG”) controls the majority of the production and distribution of natural gas in Denmark.

Map of licenses in Denmark



LICENSING PROCEDURE

The Danish Energy Authority administrates the licenses for exploration and production of hydrocarbons granted by the Danish Ministry of Economic and Business Affairs through auctions, the first of which was held in 1984. In 1996, the Danish government introduced a special procedure according to which companies can apply for licenses on a regular basis (so called “Open door procedure”). Open door procedure is applied in the parts of Denmark, which are not subject to the auction procedure. Licenses are generally granted for an exploration term of six years with a right to a 30-year extension for fields where production is initiated.

FISCAL TERMS AND SHARING OF PRODUCTION

Government participation is accomplished via mandatory participation of the state-owned company DONG, which gains a 20 percent interest from the time of the license award and finances its corresponding share of exploration, field development and production costs. The corporate tax rate is 30 percent. Oil and natural gas producers pay no royalties in Denmark. In 1982 a hydrocarbon tax was introduced with the aim of taxing profits exceeding certain levels, for example as a result of high oil prices. In the case of a new investment, an uplift of 25 percent per year is deductible from the hydrocarbon tax base for

¹ Consolidated act 2003-02-27 no. 130 regarding supply of natural gas.

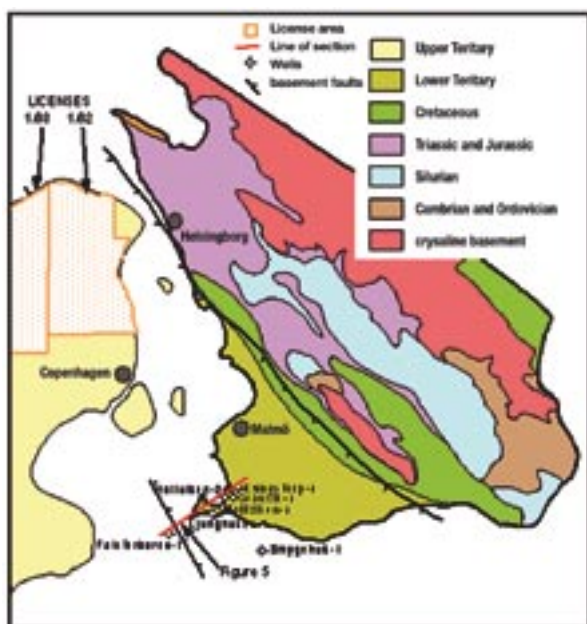
² Order 2003-05-20 no. 359 concerning the right of consumers of natural gas to choose supplier.

a maximum of ten years. For example, if an oil company invests SEK 100 million in the development of a field, the company would be credited with 25 percent, or SEK 25 million per year, in capital expenditure for a period of ten years rather than the actual amount of SEK 10 million per year. Thus a company would be able to deduct SEK 250 million for tax purposes rather than SEK 100 million. The hydrocarbon tax rules have been changed which would affect any license granted after January 1, 2004.

REGIONAL GEOLOGY – PETROLEUM GEOLOGY OF THE NORWEGIAN–DANISH BASIN

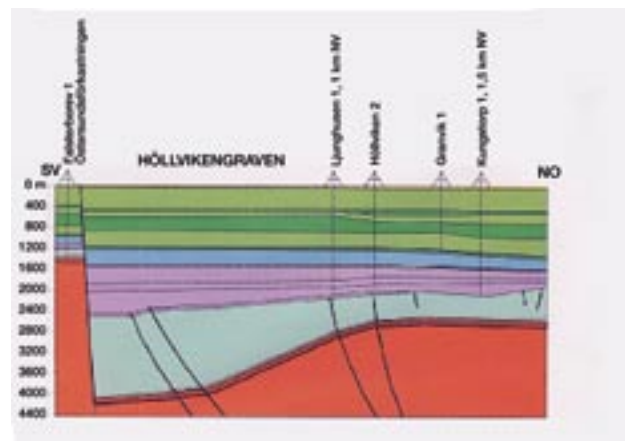
The geology of north-eastern Denmark, Zealand, Öresund and Kattegatt, is dominated by the northwest-southeast trending Törnquist fault zone, which forms the border between the Baltic shield to the north and the European basins to the south. Underlying the whole region is a crystalline basement of Precambrian age. Fault trends within this basement rock are parallel to the Törnquist zone and control local structural features. In northern Zealand the geology is similar to and on trend with the outcropping rocks in south-western Sweden.

Geological map of south-western Sweden



The rocks at the surface in the south-western part of Sweden contain Cambrian age oil source rocks. The same rocks were encountered in some of the wells drilled around Malmö, offshore south and west of Falsterbo in 1972 and offshore in the Falsterbovallen well drilled in 1973. By correlating the wells to regional seismic lines, this source rock is predicted to be present in the subsurface in northern Zealand. Unlike south-western Scania, the source rocks are buried at sufficient depth for the potential generation of oil and natural gas to have occurred.

Geological cross-section through Falsterbo



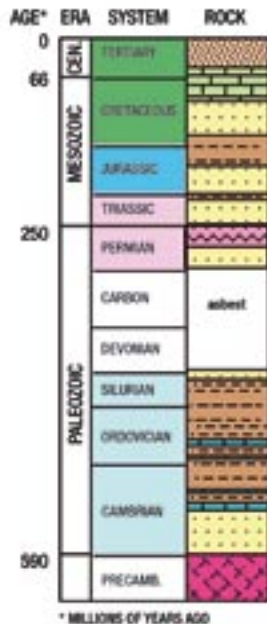
Stratigraphy

The complete stratigraphic column in northern Zealand accounting for all layers of sediments deposited in the northern Zealand region since the Cambrian time period, some 500 million years ago, is interpreted to be the same as that which outcrops in south-western Sweden.

Sediments include Cambrian sandstone and younger organic rich marine shale and limestone. The Mesozoic time period, some 350 million years ago, recorded deposition of among other elements, salt, followed by sandstone and shale deposits of Triassic age.

Moving up the sediment layers marine shale and sandstone are encountered that were deposited over the area during the Jurassic time period as well as the later Cretaceous time period. During late Cretaceous and early Tertiary time further sea-level rise resulted in the deposition of thick layers of chalk. This chalk is present at the surface through south-western Scania, but it is covered up in the northern Zealand region by glacial deposits.

Stratigraphic column of region



TETHYS OIL'S GEOLOGICAL MODEL - THE CASE FOR OIL OR NATURAL GAS IN THE DANISH LICENSES

Reservoirs

The Company's primary reservoir objective is layers of sandstone deposited during the lower Cretaceous time period. Cretaceous sandstone deposits in nearby regions including the North Sea and Irish Sea Basins are of high quality and currently produce oil and natural gas. Secondary reservoir objectives are sandstone deposited during Jurassic times, which primarily produce natural gas in northern Germany, and the Triassic sandstone, which had gas shows in the Ljunghusen well, and an oil show in the Höllviken well, both of which are located in south-western Sweden. In the Lavo-1 well located in the 1/02 license area, Cretaceous, Jurassic and Triassic sandstone were encountered with good porosity (around 20 percent).

Seals

For any reservoir a seal made up of an almost impermeable rock layer is necessary to prevent oil or natural gas from leaking out of the reservoir. Tethys Oil believes that the seal, for the Lower Cretaceous sandstone reservoir

would be chalk deposited later during Cretaceous times. Chalk is an excellent seal due to its density and very low porosity. Seals for other potential reservoirs would according to the Company be formed by impermeable shale overlying the sandstone.

Source rocks and maturity

There are a number of potential source rocks in this area including the Cambrian alun shale, Triassic coal and Jurassic marine shale.

The extremely organic-rich Cambrian alun shale outcrop in southern Sweden. The alun is the primary oil source rock in the Baltic area, i.e. Gotland, Lithuania, Kaliningrad and north-western Poland.

Jurassic source rock is present in the region but has so far not been encountered at sufficient depth to have generated oil. However, some recent work carried out by the Company indicates that it may have been buried at sufficient depth in the region during Tertiary times, i.e. some 10 to 60 million years ago, to have generated oil or more likely natural gas.

Traps and timing

Both simple closures without tectonic movements in the earth interference and fault traps are possible traps in the license areas. Normal downthrown faults could have formed traps in the region at various times given that these basement features have existed since Precambrian times and have been reactivated. The simple closure identified on the Karlebo prospect is interpreted by Tethys Oil to have resulted from compressive forces related to the Laramide orogeny (mountain formation) in the latest Cretaceous and Early Tertiary periods. Therefore this trap would have been formed prior to peak gas generation that was taking place in the deeper parts of the license area. The Company's primary prospect, called Karlebo, is a simple closed structure at a depth interpreted to correspond to the base of the chalk layers. This closure, and others on trend, is controlled by movement along deeper fault splays starting from the regional basement fault. In the areas around the Hans and Terne wells



located offshore Denmark, north of Zealand, greater seismic coverage has allowed for the mapping of this type of fault. Based on a depth conversion of the seismic time-structure map, it is calculated that the Karlebo prospect has at least 60 meters of simple closure at the base of Cretaceous chalk, which overlies reservoir sandstone.

Tethys Oil's licenses in Denmark

License	Tethys Oil's shares	Total area	Partner	Tethys Oil's commitments
1/02 in Zealand	70 %	533 km ²	DONG ¹ , Odin ²	15 km of 2D seismic ³
1/03 in Jutland and Zealand	70 %	1,655 km ²	DONG ¹ , Odin ²	Geological & geophysical study ⁴
Total area		2,188 km²		

¹⁾ Dansk Olie og Naturgas A/S (“DONG”) is a state-owned Danish oil and natural gas company. DONG has a statutory 20 percent working interest in the licenses.

²⁾ Odin Energi A/S (“Odin”) is a private Danish oil company. Odin has a 10 percent working interest in the licenses. Odin's primary activity is oil production in Lithuania through its ownership of an interest in Minjos Nafta, which produces approximately 6,000 bbls/d from several fields in Lithuania.

³⁾ Tethys Oil's minimum financial commitment in License 1/02 in Zealand is estimated by the Company, in accordance with the license agreement, at SEK 775,000.

⁴⁾ Tethys Oil's minimum financial commitment in License 1/03 in Jutland and Zealand are estimated by the Company, in accordance with the license agreement, at SEK 650,000.

REVIEW OF LICENSES AND WORK PROGRAMME

Tethys Oil has a direct interest in two licenses in Denmark, license 1/02 in Zealand and license 1/03 in Jutland and Zealand. License 1/02 was awarded by the Danish government during the summer of 2002 and license 1/03 was awarded by the end of 2003. Both licenses were awarded in accordance with the so called open door procedure. The licenses are valid for two years (the “initial period”) with an option for extensions. Tethys Oil is the operator of the licenses during the initial periods.

License 1/02 in Zealand

The license area is located in north-eastern Zealand. The work programme for the license is divided into three periods, each with a duration of two years, and comprises the following:

- Period 1: Geological studies to integrate all available data followed by a specialised 2D-seismic reprocessing. This will be followed

by a seismic survey collecting and interpreting a line of new 2D-seismic data with a minimum length of 15 kilometres.

- Period 2: The drilling of an exploration well to a depth of at least 2,500 meters or 50 metres below the bottom of the Triassic Gas-sum formation, whichever is reached first.
- Period 3: A second exploration well.

The work program is sequential, and consequently period 2 and 3 are contingent on the results of the previous phase(s). The license can be relinquished after the completion of the work programmes in period one and two, respectively. The license will be revoked if the conditions for an extension have not been met or the work programme has been renegotiated.

Tethys Oil has reprocessed 177 kilometres of old 2D-seismic data and have had the data interpreted by the Norwegian company Petroleum Geo-Services A/S. A main prospect has been identified in the Karlebo area with a good closure indicated from the seismic data. The quality of the interpretation may make additional seismic data acquisition



unnecessary in which case Tethys Oil may request a waiver of the seismic commitment and request to enter into the second phase of the work programme and drill one exploration well in the license area. The result of the conducted seismic studies and its consequences are currently discussed between Tethys Oil and partners.

If Tethys Oil elects to enter phase 2, the drilling of an exploration well will require high demands on the operator as well as on financing and insurance.

License 1/03 in Jutland and Zealand

License 1/03, awarded in December 2003, is composed of two sub-areas. The larger part covers the coastline in north-eastern Jutland and the smaller part is located in northern Zealand.

The work programme for the license is divided into three periods, each with a duration of two years, and comprises the following:

- Period 1: Geological studies to integrate all available data followed by a specialised 2D-seismic reprocessing in order to investigate the apparent direct hydrocarbon indications in the Kattegatt area. This will be followed by a surface geochemical survey aimed at establishing whether hydrocarbons are present in the area and to characterise the hydrocarbon types.
- Period 2: Acquisition of new seismic data. The quantity and location of seismic acquisition depends on the results of the activities of the first period. Acquisition of both onshore and offshore seismic data is therefore possible.
- Period 3: Drilling of an exploration well.

The work program is sequential, and consequently period 2 and 3 are contingent on the results of the previous phase(s). The license will be revoked if the conditions for an extension have not been met or the work programme has been renegotiated.

BRIEF DESCRIPTION ON FIELD DEVELOPMENT AND TRANSPORT OF OIL AND NATURAL GAS TO THE MARKET

To minimise the surface area covered by the field facilities, development wells would be drilled directionally from a central field location. Access to pipelines and other facilities and the terms for the use of these must be negotiated with concerned parties.

SPAIN

Spain, a country of 40 million people, has been a member of the European Union since 1986. Spain is highly dependent on imports of oil and natural gas with consumption far exceeding domestic production.

RESERVES, PRODUCTION AND CONSUMPTION

Oil

Oil plays a major role in the Spanish energy sector, although its relative share of primary energy is decreasing. In 2001, oil accounted for 51 percent of Spain's primary energy consumption compared with 73 percent in 1973. In the twelve-month period ending in August 2003, Spain consumed 1.2 million bbls/d of oil. Spain imports nearly all of its crude oil, mainly from Africa, Central America and the Middle East.¹

Spain has limited proven domestic oil reserves and oil production has decreased significantly during the last decade. Spain has five major offshore oil fields including Lora, Casablanca-Montanazo, Rodabello, Chipirón and Angula-Casablanca, of which Chipirón produced the most oil in 2002 with close to 3,000 bbls/d.

¹ US Department of Energy, Energy Information Agency 2002.

Oil reserves, production and consumption from August 2002 to August 2003

Oil production:	5,333 bbls/d
Oil consumption:	1.16 million bbls/d
Proven oil reserves :	157 million bbls

Source: *Statistic Bulletin of Hydrocarbons, Ministry of Economy, August 2003 and IEA.*

Natural gas

Natural gas consumption has increased rapidly in Spain, rising from two percent of total energy consumption in 1975 to 13 percent in 2001. In the twelve-month period ending August 2003 natural gas consumption increased by 13.5 percent. The National Energy Regulatory Commission in Spain predicts that demand for natural gas will increase to 88 million cm/d in 2005 and 128 million cm/d in 2010, all of which will have to be met by an increase in imports.

Domestic natural gas production only covers 1.5 percent of Spain's total consumption of natural gas. In the twelve month period ended August 2003, domestic production was 0.37 bcm, while total consumption was 25.2 bcm. Four natural gas fields - El Ruedo, Las Barreras, Maismas, and Poseidon – accounted for the production during this period. Spain is therefore very dependent on natural gas imports. Algeria accounts for about 60 percent of total Spanish of natural gas via a pipeline that crosses Morocco. Spain also imports liquefied natural gas and is Europe's second largest liquefied natural gas importer, after France.¹

Natural gas reserves, production and consumption from August 2002 to August 2003

Natural gas production:	1.0 million cm/d
Natural gas consumption:	68.8 million cm/d
Proven natural gas reserves:	2.5 bcm

Source: *Statistic Bulletin of Hydrocarbons, Ministry of Economy, August 2003; and EIA*

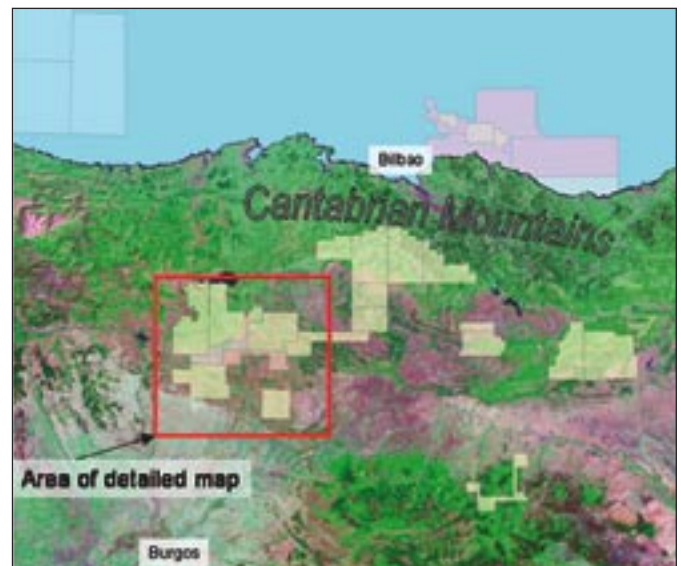
LEGISLATION AND NATURAL GAS MARKET REFORM

The Spanish Hydrocarbons Act of 1998 sets an indicative limit for maximum external supplies of natural gas from any single country at 60 percent. Spain has opted for regulated third-party access based on fixed published maximum tariffs. In 2003, the liberalised part of the market already accounted for nearly 69 percent of total natural gas sales.²

THE PETROLEUM INDUSTRY IN SPAIN

The country's first commercial oil field, the Ayoluengo field, in which Tethys Oil has an indirect share of 22.5 percent, was discovered in 1964 and went into production in 1966. In the early 1970s a number of offshore fields including the Amposta and Casablanca fields were discovered off the port of Tarragona on the Mediterranean coast. National output of crude oil peaked in 1983 at just over 21 million bbls according to the EIA and has generally followed a declining trend in subsequent years.

Satellite photo of license areas in Spain



¹ Statistic Bulletin of Hydrocarbons, Ministry of Economy, August 2003.

² Statistic Bulletin of Natural Gas, National Energy Commission, January 2004.



LICENSING PROCEDURE

Spain, in similarity to Denmark, has an open application system, whereby oil companies can file applications for unlicensed areas. Production licenses (“*concesiones de explotación*”) are granted and administrated by the Directorate General of Energy and Mines Policy of the Ministry of Economy. Exploration licenses (“*permisos de investigación*”) entirely located within one administrative region (“*comunidad autónoma*”), e.g. Castilla y Leon or La Rioja, are granted and the license process is administered by the regional government. All applications for exploration licenses that cross a boundary between two administrative regions are granted and administered by the central government in Madrid. Exploration licenses are generally granted for a term of six years, while production licenses are granted for a term of 30 years.

FISCAL TERMS

In Spain, oil companies are subject to a corporate tax between 25 and 35 percent, oil production taxes and taxes regarding transportation and environmental issues.

REGIONAL GEOLOGY - PETROLEUM GEOLOGY OF THE CANTABRIAN REGION

Tethys Oil’s interest areas are located south of the Cantabrian Mountains in northern Spain within the Duero basin between the cities of Burgos and Bilbao. The Cantabrian Mountains are made up of Paleozoic rocks, which extend southward underneath the interest areas. These are composed of limestone, sandstone and coal seams, which are important gas source rocks. Younger Mesozoic sandstone of Triassic age overlay the Paleozoic rock which are in turn covered by marine shale that is the source rock for the oil found in the Ayoluengo field, which is reservoirized in sandstone of Cretaceous age.

REVIEW OF LICENSES AND WORK PROGRAMME

Tethys Oil’s interests in Spain

In September 2003 Tethys Oil entered into an agreement with Windsor Petroleum Inc. (“Windsor”) under which it acquired all the share capital of Windsor Petroleum (Spain) Inc., a company incorporated under the laws of the British Virgin Islands (“Windsor Spain”).

In 2000 and 2002 companies within the Windsor Group were assigned rights, under certain joint venture agreements with companies within the Northern Petroleum Group (“Northern”), regarding Northern’s licenses in Spain. As a result of the acquisition of Windsor Spain, Tethys Oil received rights and obligations following from these agreements.

The agreements concerns (i) a 22.5 percent participation in the rights and obligations following from Northern’s production license La Lora covering the Ayoluengo field, (ii) a 50 percent participation in Northern’s two exploration licenses Huermeceles and Valderredible, and (iii) a 50 percent participation in the pending exploration license application for the Basconcillos-H area. The Windsor Group hold the right to, by funding the equivalent share of seismic or drilling, receive up to ten percent participation in the two exploration licenses and in the pending exploration license application. If the Windsor Group utilise its right, Tethys Oil’s participation in the licenses will decrease to 40 percent at the lowest.

Northern Exploration Ltd., a subsidiary of Northern Petroleum Plc. which is an oil and natural gas company listed on the Alternative Investment Market at the London Stock Exchange, is the operator of the four licenses. According to the operator, the previous operator of the La Lora license, the Spanish oil company Repsol/YPF, has an option to acquire up to a 13.5 percent interest in the La Lora concession for a payment of five times cost. This right is reduced to 6.65 percent if the new well is located within Ayoluengo in the La Lora concession.

Tethys Oil's interest in licenses in Spain

License		Tethys Oil's indirect shares	Total area	Partner	Tethys Oil's commitments
La Lora	Ayoluengo production license	22.5 %	106 km ²	Northern, Teredo Oils and Gas España ¹	Tethys Oil has no financial commitments in the license other than costs of ongoing operations and abandonment liability ³
Valderredible	Huidobro exploration license	50 %	241 km ²	Northern ²	Geological and Geophysical studies ⁴
Huermeces	Hontomin exploration license	50 %	121 km ²	Northern ²	Geological and Geophysical studies ⁴
Basconillos-H	Exploration license application	50 %	194 km ²	Northern ⁵	Geological and Geophysical studies ⁶
Total area			662 km²		

¹⁾ Northern is the operator and has a registered license share of 45 %, Teredo Oils Ltd., segunda sucursal en España., a British company has a registered license share of 30 % and Petroleum Oil and Gas España S.A., (following the acquisition of Locs Oil Company of Spain S.A.) has a registered license share of 25 %.

²⁾ Northern is the operator and has a registered license share of 100 %.

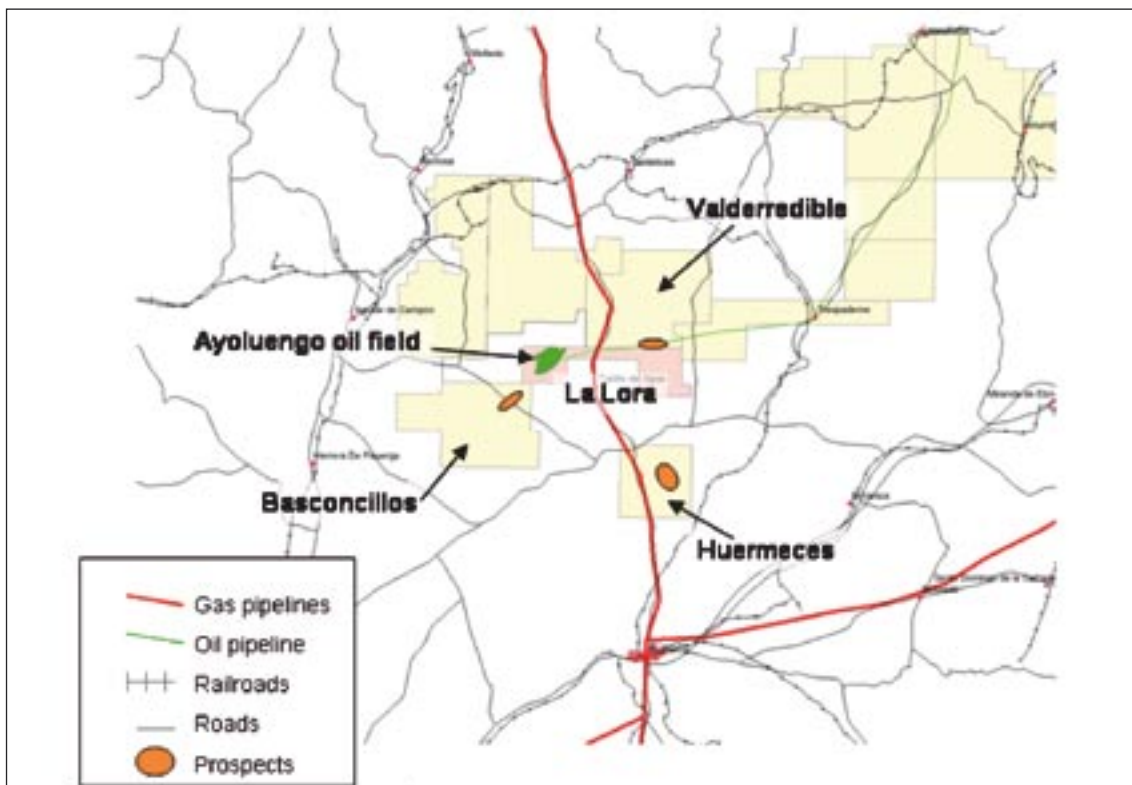
³⁾ Tethys Oil has made reservations regarding estimated costs of abandonment.

⁴⁾ Tethys Oil's work commitment includes technical studies. Tethys Oil's share of the costs for 2004 has been estimated by Northern to around SEK 280,000 for each of the two licenses.

⁵⁾ Northern is the operator of the license and solely responsible for the applied license application.

⁶⁾ Tethys Oil's share of work commitments for 2004 regarding technical studies is estimated by Northern to around SEK 280,000.

Map of infrastructure in the license areas





In accordance with the above, Tethys Oil is not registered as an owner of license shares but holds an indirect share through Northern. The Company is currently examining possible benefits of acquiring rights in its own name compared with holding rights based on third party agreements (Northern). Provided that Tethys Oil finds it more beneficial to be registered directly, Tethys Oil will apply to relevant Spanish authorities to be directly registered as shareholder of licenses.

La Lora - Ayoluengo production license

The Ayoluengo oil field was discovered by the US oil company Chevron in 1964. To date, the oil field has produced 16 million bbls of oil. The current oil reservoir is located at an average depth of 1,200 meters. In 2003 the production amounted to approximately 140 bbls/d. The produced oil is sold to Repsol/YPF.

Infrastructure at the Ayoluengo field consists primarily of oil and natural gas transportation and processing facilities. On site are four oil storage tanks, with a joint capacity of 21,000 bbls. The produced natural gas is used on site to generate all of the electricity used in the field operation. These facilities were designed to handle the 5,000 bbls/d peak production that was achieved by the field in the past.

Tethys Oil and partners are reviewing several measures to improve production including:

- Mechanical well workovers
- Chemical treatment of wells
- Identification of by-passed oil zones that have not been exploited by reworking existing data over the field.

Of particular interest in the license, according to the operator, is the exploration potential indicated from a preliminary examination of the existing 2D and 3D seismic data. These data suggests that undiscovered accumulations of oil or natural gas could be present under the existing producing horizons or in traps along the flank of the Ayoluengo structure.

Valderredible license

The Valderredible exploration license contains the Huidobro discovery that was made by Chevron in the 1960s. The operator Northern has proposed to re-drill the Huidobro anticline using modern technology and improved drilling practices aiming at achieving a commercially viable oil field. In a first step, the drilling is expected to be made at a depth of approximately 700 meters. In addition, deeper structural prospects have been identified based on existing seismic data with a particular highly pronounced structure at the level of the Jurassic limestone. These deeper horizons remain untested but two earlier shallow wells could prove to be suitable for re-entry in order to facilitate a deeper exploration well.

Huermeces license

The Huermeces exploration license contains the Hontomin discovery, which was drilled by Chevron in 1960s and produced an average of 113 bbls/d. It is noteworthy that although this well produced oil, it missed the original target and only penetrated the flank of the structure. This area is separated from the primary location by a geological fault that places the reservoir rocks at a shallower depth. In addition, the structural feature on the undrilled side of the fault is much larger than the one on the side where the well was drilled.

Basconillos-H license application

The Basconillos-H area is located to the south-west of the Ayoluengo field. The area includes the Tozo wells that were drilled from 1965 to 1967. These wells encountered oil saturated sandstone at shallow depths of less than 500 meters. Further technical studies need to be conducted in order to determine if new technology could be applied to produce oil economically, and to identify other prospects.

BRIEF DESCRIPTION ON FIELD DEVELOPMENT AND TRANSPORT OF OIL AND NATURAL GAS TO THE MARKET

In the case of additional oil discoveries in the Spanish license areas, the most likely situation is that only limited field facilities would have to be constructed at the well location. Oil could be transported by truck to the existing facilities at the Ayoluengo field, where it would be processed and sold. In the case of a natural gas discovery in Ayoluengo, a pipeline could be constructed to connect to the existing infrastructure of pipelines to the east of the field. Access to pipelines and other facilities and attached conditions would have to be negotiated with affected parties.

TURKEY

Turkey, a country of 68 million people, is an EU candidate country. Turkey is located near major petroleum producing countries and has a domestic petroleum industry. Domestic demand far exceeds local production making Turkey a net importer of oil and natural gas.

RESERVES, PRODUCTION AND CONSUMPTION

Oil

Oil consumption in 2002 was estimated at 635,000 bbls/d providing approximately 43 percent of Turkey's total energy requirements. The relative importance of oil is declining in favour of natural gas. In 2002, imports accounted for about 90 percent of Turkey's oil supplies. The country's largest suppliers are among others Saudi Arabia, Iran, Iraq, Syria and Russia.

Oil reserves, production and consumption in 2002

Oil production:	47 mbbls/d
Oil consumption:	635 mbbls/d
Proven oil reserves:	300 million bbls

Source: EIA 2003

Natural gas

The geological setting for natural gas generation in Turkey is limited. The country's natural gas reserves are estimated at 8.0 bcm. According to EIA the natural gas consumption in Turkey reached 18.8 bcm in 2002. Natural gas, which is mainly used by the power and residential sectors, make up some 17 percent of total energy demand.

Natural gas reserves, production and consumption in 2002

Natural gas production:	0.8 million cm/d
Natural gas consumption:	51.6 million cm/d
Proven natural gas reserves:	8.0 bcm

Source: EIA 2003

OIL AND NATURAL GAS MARKET REFORM

The domestic energy industry is heavily influenced by the central government. In 2001, the Turkish parliament passed an energy law aimed at liberalising the energy sector and attract foreign investment. The Natural Gas Market Law adopted in 2001 is expected to change the regulation of the natural gas industry in Turkey. The intention of the legislation is to gradually open up the natural gas industry to competition and to harmonise Turkish legislation with EU law. Accordingly, natural gas supply, transmission and distribution are to be unbundled.

THE PETROLEUM INDUSTRY IN TURKEY

Exploration by foreign companies began in 1954. Oil production in Turkey is primarily accounted for by the Turkish State Petroleum Company ("TPAO") and the foreign operators Royal Dutch/Shell and ExxonMobil. Currently, the producing companies include Amity Oil (Australia), Madison Oil (USA), Dorchester/PEMI Group (US-Turkish joint venture), Thrace Basin Natural Gas Corp. (USA), Perenco (France) and Tethys Oil's partner Aladdin Middle East Ltd. ("Aladdin"). Aladdin (through several consortiums)



is the second largest holder of Turkish licenses after TPAO. TPAO alone accounts for about 80 percent of the country's oil production of about 47,000 bbls/d in 2002. South-eastern Turkey is the most important area for oil and natural gas. Turkey also has prospects in other provinces, including the Black Sea shelf region and the Thrace basin near Istanbul.

Ongoing exploration projects are being pursued by BP, ChevronTexaco, El Paso and several other independent oil companies throughout the country.

LICENSING PROCEDURE

The General Directorate of Petroleum Affairs, within the Ministry of Energy and Natural Resources grants licenses for exploration and production of oil and natural gas in Turkey.

Exploration licences are generally granted for an exploration term of four years, with a right to a maximum extension of another four years. Production licenses are granted for an initial term of 20 years, with a right to a maximum extension of another 20 years. A fixed fee, calculated in proportion to the area in question, is payable to the Turkish state for the right to conduct operations. A licensee is liable for rent from the date of the granting of the exploration or production license until the termination or surrender of the license.

FISCAL TERMS AND SHARING OF PRODUCTION

Oil and natural gas producers in Turkey are subject to a corporate tax rate of 30 percent and royalties. An amended petroleum law, expected to be effective in the third quarter of 2004, is expected to reduce the current maximum royalty rate. For fields producing more than 10,000 bbls/d the maximum royalty is expected to be ten percent of gross production. Smaller fields will be subject to a royalty of between 0 and 7.5 percent of the gross production.

REGIONAL GEOLOGY – PETROLEUM GEOLOGY OF THE TAURUS THRUST AND FOLD BELT IN SOUTH-EASTERN TURKEY

Tethys Oil's interests are located within the south-east region on the flank of the Taurus-Zagros thrustbelt and within the folded zone to the south. The thrustbelt itself extends several thousands of kilometres into Iraq and Iran and is one of the most important petroleum provinces of the world. The license areas are bounded to the south by the Mardin High bordering Syria which is the north-east extension of the Arabian Plate, a highly oil reserve rich region extending across Iraq, Kuwait and Saudi Arabia. Within this region of the folded belt, oil fields are typically found in east-west trending surface anticlines with Cretaceous reservoirs. Although trapping mechanisms and reservoir rocks in this part of the thrustbelt are similar to those found in the regions to the south described above, substantially smaller amounts of oil have been encountered in Turkey to date. The two main differences that seem to affect the northern part of the Thrustbelt include the lack of substantial contact with the large source rock accumulations within the Arabian plate and the presence of post trap formation faulting which has adversely affected trap integrity. Oil discoveries in Turkey have therefore been smaller than in those discovered in Iraq and Kuwait.

Most of the oil fields in south-eastern Turkey have fractured limestone reservoirs of Cretaceous age. The oil is sourced from both Cretaceous and older Paleozoic marine shale. Overlying Cretaceous marls provide the seal to keep the oil trapped in the reservoirs. Recent exploration efforts in the region of Syria, southern Turkey and Iraq have focused on Paleozoic oil source rock, the distribution of which is less well understood than that of the Cretaceous source rocks. About 60 commercial oil fields have been discovered in the south-eastern region of Turkey close to where Tethys Oil's interests are located.¹

¹ General Directorate of Petroleum Affairs.



REVIEW OF INTERESTS AND WORK PROGRAMME

Tethys Oil's interests in Turkey

In November 2003 Tethys Oil entered into an agreement with a group of companies headed by Aladdin Middle East Ltd. ("Aladdin", jointly together with other parties referred to as "AME") covering three onshore exploration license areas in south-eastern Turkey. Aladdin is a US petroleum company based in Wichita, Kansas with operational headquarters in Ankara, Turkey. The company is associated with the Sayer Group, established in 1970 and consisting of several operating oil and service companies. According to the agreement Tethys Oil can earn up to a 45 percent indirect share in licenses 3784 and 3794 and 3795 covering the Hoto and Ispandika prospects, assuming that Tethys Oil funds certain costs of studies and work commitments that are described below.

Aladdin is the operator of license 3784, Hoto, and will hold the remaining share and is registered as license holder together with companies within the Sayer Group. Tethys Oil can, in license 3784, earn a share of ten percent by funding a geological and geophysical review

of existing data. If the results of the review are positive, Tethys Oil may elect to fund 60 percent of an exploration well on Hoto and earn an additional 35 percent share in the license. The Company has the same arrangement for the licenses 3794 and 3795, Ispandika, with the difference that Tethys Oil can elect to fund either 60 percent of the drilling of a well or a new seismic study to earn an additional 35 percent interest. Aladdin is the operator of the licenses 3794 and 3795 and is registered holder of the remaining part together with companies within the Sayer Group. Provided that Tethys Oil fulfils the geophysical and geological studies, Tethys Oil will earn its ten percent, even if Tethys Oil elects to not continue the process and make additional investments.

The Company has not applied for the agreement with AME to be authorised by relevant Turkish authorities, with the purpose of receiving a direct share in AME's licenses. Thus, the Company holds rights in Turkey based on the agreement with AME. The right of the Company to be directly registered as license holder is dependant on the Company's registration to relevant Turkish authorities, their approval of the agreement with AME

Map of Aladdin's/AME's license holdings in Turkey



Tethys Oil's interests in Turkey

License		Tethys Oil	Total area	Partner	Tethys Oil's commitments
3784	Hoto exploration license	10 % – 45 %	15 km ²	AME ¹	Geological and geophysical study ²
3794 and 3795	Ispandika exploration license	10 % – 45 %	965 km ²	AME ¹	Geological and geophysical study ²
Total area			980 km²		

¹⁾ AME consists of Aladdin Middle East Ltd. and companies that are part of the Sayer Group.

²⁾ Tethys Oil's interest will amount to 10 % - 45 % depending on the Company's investments in geological and geophysical studies and exploration wells. Based on the Company's commitments, the Company estimates costs for these studies of around USD 50,000 (approximately SEK 369,500) for the three licenses.

as well as the final contents of the Joint Operating Agreement, which the Company currently is negotiating with AME. The scope of Tethys Oil's financial commitments, in regard to the licenses, is dependent of the final structure of this agreement.

3784 – Hoto exploration license

License 3784 contains the Hoto prospect in the petroleum district XI-Diyarbakir. Hoto is adjacent to the Kurkan field in the Diyarbakir area within a trend of producing oil fields, which were discovered by the Royal Dutch/Shell Group in 1963 and has produced over 50 million bbls according to GDPA. The prospect is defined by a number of 2D seismic lines, which will be reinterpreted as part of the initial review.

Tethys Oil estimates, after an evaluation of the Hoto prospect, that there are up to six million of possible recoverable barrels of oil in the Cretaceous Mardin limestone, based on the similarity of the structure and the typical size of producing fields in the vicinity. The expected total depth of a test well in Hoto is 1,700 meters. The prospect is located close to a producing field and economically attractive due to adjacent infrastructure. Tethys Oil's partners, own and operate a number of drilling rigs in the area.

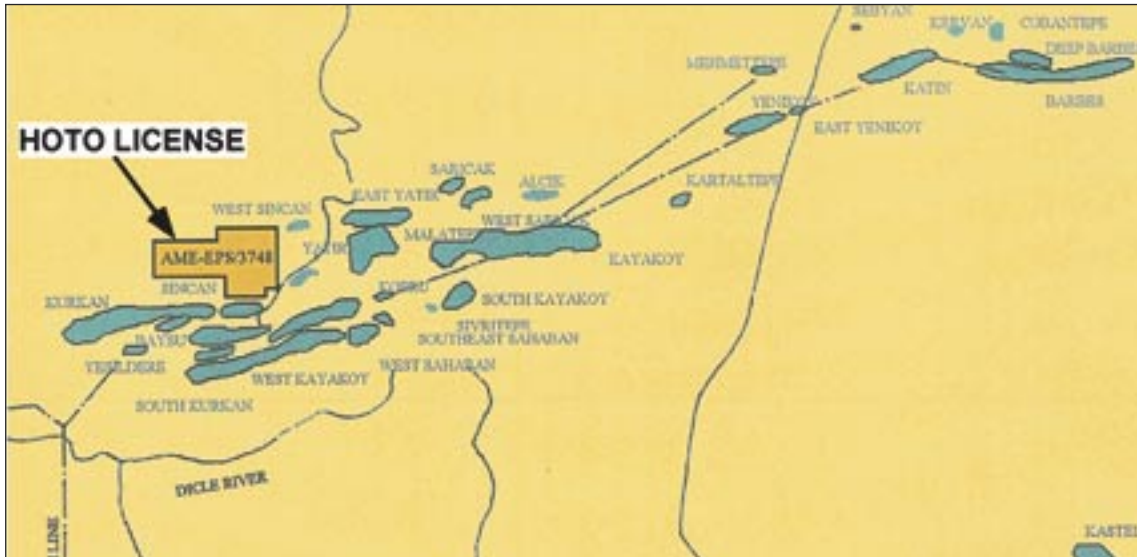
3794 and 3795 – Ispandika exploration license

Licenses 3794 and 3795 make up the Ispandika area in the petroleum district X-Siirt. The Ispandika area, which is a frontier exploration area, is to a large extent unexplored in terms of the presence of hydrocarbons and lies between the producing fields around Batman in Turkey and the producing fields in northern Iraq and northern Syria. The area has large surface anticlines related to thrust faults, and is an extension of the Zagros fold belt in Iran. The Ispandika anticline is visible on satellite photographs and is located about 50 kilometres east of the Raman fields, Turkey's largest oil fields. To date, a single well, Girdara-1, has been drilled in the license area. The well, which was drilled by Aladdin in 1965 to a depth of 2,233 meters, encountered oil shows in the Tertiary.

Satellite photo of Ispandika in south-eastern Turkey



License map of Hoto area



BRIEF DESCRIPTION ON FIELD DEVELOPMENT AND TRANSPORT OF OIL AND NATURAL GAS TO THE MARKET

In case of discoveries in Hoto, oil could be transported to the nearest oil pipeline owned by Perenco, or sent by truck directly to the refinery in Batman. Alternatively, a pipeline could be built to the Kurkan field and a tariff paid for processing and transportation. In Ispandika, the development and transportation of the oil would depend on several factors such as total reserves, daily production and surface access. The operator Aladdin/AME allegedly already has established sales channels with the Batman Refinery designed to process crude oil produced in south-eastern Turkey. Access to pipelines and other facilities and relevant commercial terms will be negotiated with affected parties when necessary.

Map of the oil fields of the region



Source: James E. Fox and Thomas S. Ahlbrandt U.S. Geological Survey Bulletin 2202-E

OTHER POTENTIAL LICENSE AREAS

The Company is evaluating additional licenses in Spain, France and Equatorial Guinea. In Spain, the Company is evaluating additional exploration licenses in the region where the Company currently holds indirect interest in licenses. In France, an application is being evaluated for an onshore natural gas prospect. The discussions regarding Equatorial Guinea are a result of the Company’s acquisition of Windsor Spain, whereby the Company, besides the Spanish holdings, agreed to evaluate a prospect in Equatorial Guinea. Should such a license be acquired, the Company may have to compensate the Windsor Group, at the Company’s choice, by a payment amounting to SEK 600,000 or through issuing Tethys oil shares of the corresponding value. The discussions are currently at a preliminary stage.

ENVIRONMENTAL POLICY

Oil and gas operations require special consideration for the environment. Even if Tethys Oil, to date, neither has commenced onshore or offshore operations, it is the Company’s intention to do its utmost to protect the security and health of both people and environment in the Company’s future operations. In accordance with the values of Tethys Oil, Tethys Oil intends to conduct the operations in a responsible and ethically correct way in regard to the environment. To achieve this, the Company has resolved a policy, to govern the Company’s activities in these regards, so as to assure that when operations commence, they will be conducted in accordance with all applicable environmental laws, regulations and international standards and in accordance with the Company’s policy. Tethys Oil intends to implement and continuously supervise the compliance of the policy.



Risk factors

Investment in shares is associated with risks, and an investment in Tethys Oil can be deemed to be associated with typically higher risk, since the Company's operations are in an early stage of development. A number of factors outside the control of Tethys Oil could influence the Company's results and financial position. A number of potential risks are listed below. Investors should carefully consider the risk factors below, in addition to other information in this prospectus before making a decision to subscribe for shares in the Offering. The risk factors below are not presented in order of priority, nor do they claim to be fully comprehensive. Nor does this entail that there are no other risks than those mentioned below, which might affect Tethys Oil's business and results.

NEWLY STARTED OPERATIONS

Tethys Oil has been active in the oil and natural gas sector since 2001. At present, the Company, through its co-operation with Northern Petroleum, has a small-scale production in Spain. In other places where Tethys Oil has licenses or indirect interests in its partners licenses, only initial surveys have been carried out. Therefore, information concerning potential discoveries, whether financial, operational or of other character, is limited, which limits the possibility of assessing Tethys Oil's future prospects. For this reason, there is no guarantee that Tethys Oil's activities will be profitable, or that they will generate sufficient cash flow to cover the operation's needs for working capital. Furthermore, in order for Tethys Oil to be able to develop its oil and gas discoveries, the Company will be required to negotiate and enter into agreements regarding inter alia production and transport. Negotiations with respect to these agreements have not yet been initiated. The terms of the agreements may have material significance for the profitability of the Company.

ESTIMATED RESERVES

Forecasting of oil and natural gas reserves is associated with a number of uncertainty factors, most of which are outside the control of Tethys Oil. The Company's potential reserves, which are described in this prospectus, are estimates, mainly based on available geological, geophysical and technical data, the reliability

of which varies. For this reason it cannot be excluded that Tethys Oil's potential oil and natural gas reserves as described in this prospectus might turn out to be smaller than assumed, which could affect the result and financial position of the Company considerably negatively.

KEY PERSONNEL

Tethys Oil may be dependent on certain key personnel, some of whom have founded the Company at the same time as they are some of the existing major shareholders and members of the Board of Directors of the Company, important for the successful development of Tethys Oil's business. With respect to major shareholders and certain members of Tethys Oil's management, Tethys Oil has not, with the exception of the Lock-up agreement described in the section "Share capital and Ownership structure" in this prospectus, obtained assurances from these key personnel with respect to them retaining their shareholdings or their engagement in the Company in the long term. If key personnel leave Tethys Oil, this might have a negative effect on the Company's business, at least in the short term. Furthermore, the recruitment of personnel that can be successfully integrated into the organisation is of great importance to the continued development of Tethys Oil. There is no guarantee that Tethys Oil will be able to recruit or retain the personnel required to operate and develop Tethys Oil's activities.



CURRENCIES

By operating in several countries, Tethys Oil is exposed to fluctuations in a number of currencies, even though the greater part of the Company's income and costs are mainly in USD. Therefore, it cannot be excluded, that exchange rate fluctuations might affect the Company's finances and results negatively.

ENVIRONMENTAL REGULATIONS

Oil prospecting and oil production is subject to extensive regulatory control with respect 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. Environmental regulations are expected to become even more severe in the future, with the consequence that the costs of compliance in all probability will increase. If Tethys Oil fails to comply with applicable environmental rules, there is a risk that the Company will not obtain necessary permits to retain its existing, or acquire new licenses or interests in licenses and/or be obliged to pay fines or be subject to other sanctions, which could have a significant negative effect on the Company's operations, future prospects and results.

Combustion of fossil fuel, such as oil, creates among others carbon dioxide, sulphur and nitric oxides, increasing the total carbon dioxide level in the atmosphere, which may contribute to the so called greenhouse effect and might also cause acidification. With regard to these environmental aspects discharges of this kind may be subject to special fiscal regulations or fees. This could decrease the demand for oil and natural gas, which may have a negative effect on Tethys Oil's future revenues and result.

Environmental activists who do not share, or contest the Company's views on how the operations shall meet required environmental

considerations, may initiate procedures, which might interrupt, delay or otherwise negatively affect the Company's operations.

COMPETITION

The oil market is characterised by stiff competition, especially as regards acquisition of proven reserves. Many of Tethys Oil's competitors have larger financial reserves than Tethys Oil. This entails that Tethys Oil's ability to find new reserves in the future will depend on the Company's ability to exploit existing assets, select and acquire suitable oil and gas producing assets or prospecting licenses, which allow for future prospecting and cost-efficient distribution and sale of oil and natural gas. Development of alternative sources of energy, such as wind energy and fuel cells, which are equally or more cost-efficient compared to oil and natural gas may have a considerably negative effect on Tethys Oil's future operations and results.

OIL AND NATURAL GAS PRICES

Tethys Oil's income, and thus its profitability, will be dependent on the prevailing prices on oil and natural gas from time to time, which are influenced by a considerable number of factors outside the Company's control. Examples of such factors are market fluctuations, closeness to and capacity of oil and natural gas pipelines and decisions by public authorities. The prices of oil and natural gas have historically fluctuated considerably, and can be expected to continue to do so in the future. In whole, this entails that the possibility to forecast future oil and natural gas prices is limited. A significant, long-term decrease in the market prices of oil and natural gas would have a considerably negative effect on Tethys Oil's income and results.

Decreasing oil and natural gas prices may affect the financial conditions for oil production. A considerable price decrease might result in a reduction of Tethys Oil's oil and natural gas reserves, since it would no longer



be profitable to carry out prospecting and production in certain locations. This may entail both considerably lower income and results, and downsizing of the Company's potential prospecting and expansion projects. A considerable price decrease for oil and natural gas may also negatively affect Tethys Oil's ability to attract financing in the form of loans or issue of shares.

FINANCING

Tethys Oil's operations may also in the future require further financial resources for the Company to be able to continue pursuing prospecting and oil and natural gas extraction. This may lead to a need for further shareholder – or other financing to develop Tethys Oil in the best possible manner. Tethys Oil's ability to satisfy its future capital requirements is largely dependent on oil and/or natural gas discoveries. Positive developments could also lead to a future financing need. In this context, the general market situation with respect to access to risk capital is of great importance to Tethys Oil. A decreasing oil price may negatively affect Tethys Oil's turnover and results and thus create future capital need.

In order to acquire licenses or other permits it may be required that Tethys Oil issues certain financial guarantees. The costs and terms of such guarantees may affect Tethys Oil's operations and results.

ACCESS TO EQUIPMENT

Advanced drilling equipment and other supplies are required to carry out prospecting and development activities. It cannot be excluded that there might be a shortage of drilling equipment and/or other necessary equipment, or that such equipment would require additional investments which might cause delays and increased costs for the prospecting and development activities.

DEPENDENCY ON THIRD PARTY

In cases where Tethys Oil does not hold the licence and/or is the operator of the assets, the Company is not in control of operations and is thus dependent on the acts of its partners/operators, which may result in reduced flexibility on the part of the Company. In situations where the Company's rights originate from agreements with the Company's partners/operators, there may be a risk that licenses lapse, are discontinued or terminated due to negligence or omission by such partner/operator and without Tethys Oil's default.

FORWARD-LOOKING INFORMATION

This prospectus contains certain forward-looking information with regard to Tethys Oil's operations and the oil market in general. This information is aimed at facilitating the assessment of Tethys Oil and its future prospects. The descriptions have been based on both external sources, such as surveys and studies, and Tethys Oil's own assessments. Potential investors should observe that it is unavoidable that assessments of this kind, and statements about future performance in this prospectus are associated with a considerable degree of uncertainty, beyond Tethys Oil's control.

OWNERSHIP

Prior to each acquisition of concessions and before starting the drilling of holes, Tethys Oil carries out careful investigations about the ownership of each licence. Despite these investigations, it can not always be guaranteed that Tethys Oil has obtained a correct picture of the ownership, which could lead to the Company's rights being questioned in whole or in part. Should this occur, it could have a considerably negative effect on the Company's results and future prospects.



TAXATION

Tethys Oil will carry out operations in a number of different countries. Fiscal regulations in different countries are often complicated, and subject to changes over time. As a consequence it cannot be excluded that changes in taxation legislation may negatively affect Tethys Oil's result.

JOINT VENTURE – COLLABORATIONS

As previously described, Tethys Oil participates in joint ventures and other types of collaborations with different parties. The Company and its partners have undertakings and liabilities, which may entail joint and in some cases joint and several liability, which means that if a partner cannot fulfil its obligations or meet its liabilities, other partners are not relieved of their respective obligations and responsibilities and may even be responsible for the obligations of the defaulting partner. Furthermore, default by a partner towards its counterparts or other third parties may pose or result in hindrance for Tethys Oil to obtain or make use of its rights pursuant to agreement and/or involve a risk that Tethys Oil loses its rights.

At present, the Company negotiates with its partners in Spain and Turkey, in order to define the agreed rights and responsibilities of the respective parties in further detail in the so called Joint Operating Agreements. Furthermore, the activities that the Company will carry out, will require that agreements are reached with concerned parties with respect to for example development of assets, production, transport, and sale of products in the market. The final wording and the terms and conditions of these agreements may have considerable effect on the future operations and result of the Company.

POLITICAL RISKS

Tethys Oil has interests in licenses in several countries. Changes in legislation related to foreign ownership, state participation, taxes, allocation of licenses and concessions, royalties, environmental regulations, customs duties or exchange rates can affect the Company's operations. The Company's prospecting and expansion programme could be affected by political and financial risks. Risk factors such as internal conflicts, acts of war, terrorism and insurrection could also have a negative effect on the Company's turnover and future prospects.

INSURANCE

Tethys Oil will be required to obtain adequate insurance in order to fulfil applicable conditions for retaining or extending existing licenses, or acquire new licenses. It is uncertain how extensive such insurance-related requirements will be and whether Tethys Oil will be able to fulfil such requirements. Insurance requirements as well as the conditions upon which they are offered could become subject to future changes, which might adversely affect the Company's ability to retain or extend existing licenses or acquire new licenses.



Share capital and ownership structure

The share capital in Tethys Oil amounts to SEK 750,000 divided into 1,500,000 shares, each of which have a nominal value of SEK 0.50. Each share entitles to one vote. All shares are entitled to equal parts in Tethys Oil's assets and profits. At a General Meeting, each shareholder that is entitled to vote, may vote for his/her full voting power present at the General Meeting, without any limitation.

DEVELOPMENT OF THE SHARE CAPITAL

Since 2001, the share capital has developed according to the table set forth below.

Year	Transaction	Increase in number of shares	Total number of shares	Increase in share capital, SEK	Total share capital, SEK	Nominal value, SEK
2001	The Company is registered	1,000	1,000	100,000	100,000	100
2001	Share issue	4,000	5,000	400,000	500,000	100
2001	Split	495,000	500,000	–	500,000	1
2003	Share issue	250,000	750,000	250,000	750,000	1
2004	Split	750,000	1,500,000	–	750,000	0.50
2004	Share issue ¹	2,308,000 – 2,884,800	3,808,000 – 4,384,800	1,154,000 – 1,442,400	1,904,000 – 2,192,400	0.50

¹ Share issue according to the Offering.

OWNERSHIP STRUCTURE

The table below sets forth information regarding the beneficial ownership of Tethys Oil's shares as of February 15, 2004, as well as proforma assuming that the Offering is fully subscribed. The share issue in accordance with the Offering comprises 2,308,000 – 2,884,800 shares. The table is based on the assumption that 2,596,400 shares are subscribed for in the Offering, which is equivalent to the middle of the interval, and that the current shareholders subscribed for five percent of the Offering pro rata based on existing holdings in Tethys Oil. The Company currently has twelve shareholders.

				After the Offering	
	Number of shares	Capital and votes, %	New share issue	Number of shares	Capital and votes, %
Vincent Hamilton	321,430	21.43%	27,819	349,249	8.53%
John Hoey via company ¹	321,428	21.43%	27,819	349,247	8.53%
Magnus Nordin	257,142	17.14%	22,255	279,397	6.82%
Redon Trading S.A.	187,500	12.50%	16,227	203,727	4.97%
Adolf H. Lundin through foundation ²	125,000	8.33%	10,818	135,818	3.32%
Neptunus AB	100,000	6.67%	8,655	108,655	2.65%
Jan Risberg	62,500	4.17%	5,409	67,909	1.66%
Gustavus Capital AB	50,000	3.33%	4,327	54,327	1.33%
Christian Söderlund	50,000	3.33%	4,327	54,327	1.33%
Others	25,000	1.67%	2,164	27,164	0.66%
Sub-total – current shareholders	1,500,000	100%	129,820	1,629,820	39.79%
New shareholders	–	–	2,466,580	2,466,580	60.21%
Total	1,500,000	100%	2,596,400	4,096,400	100%

¹ Capge Ltd.

² Lorito Holdings Ltd.



AUTHORISATION

The Board of Directors in Tethys Oil is, according to a resolution by the Annual General Meeting on February 27, 2004, authorised to resolve, at one or more occasions until the next Annual General Meeting, to issue new shares with consideration in cash or in kind or by set-off or otherwise with conditions and thereby be able to resolve to disapply the shareholders pre-emption rights. The reason for disapplying the shareholders' pre-emption rights is to enable the company to raise capital at market terms for its business operations and to finance business acquisitions. The number of shares that are issued based on the authorisation may not exceed ten percent of the total number of shares in the Company after the Offering.

LOCK-UP AGREEMENT

Shareholders with total holdings in Tethys Oil for at least five percent before the Offering, all of the members of the Board of Directors, management and shareholders participating in the Offering have agreed, without written permission from Kaupthing, not to divest any shares for a period of nine months from the first trading day at Nya Marknaden.

THE TRADING AT NYA MARKNADEN

The Company has made an agreement with Kaupthing that trading with the Company's share will take place at Nya Marknaden. First trading day at Nya Marknaden is expected to be April 6, 2004. One trading lot has been proposed to be 200 shares.



Supplementary information

SIGNIFICANT AGREEMENTS

Tethys Oil has, inter alia, agreements regarding the operations in Denmark, Turkey, and Spain. The Board of Directors is of the opinion that, 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.

INSURANCE

Tethys Oil currently holds no insurance cover. The Company regularly analyses the risks in the operations both with respect to Tethys Oil's risks and the risks for the Company's partners in the various countries of operation. No part of the operations is deemed to be of such a nature that insurance cover cannot be obtained on reasonable terms. With respect to the oil and gas operations, the normal procedure is that the operator takes out insurance on behalf of all co-operation partners. Insurance is normally taken out when drilling and production commence since prior thereto the risks are not deemed to be of such a nature that insurance is required. At present, Northern Petroleum plc. has taken out insurance regarding the La Lora production licence.

The Board of Directors believes that this insurance provides adequate cover for the operations and that the insurance has been taken out on reasonable terms. In Turkey, where no operation is run today, it is the task of the operator and the license holder Aladdin/AME, to insure the operations when they consider such to be necessary. In those cases where Tethys Oil believes that the operator's insurance does not provide sufficient cover, Tethys Oil will take out, on its own behalf, insurance which provides the Company with adequate cover. For Tethys Oil, it is necessary to take out insurance in Denmark, where the Company is operator, when drilling and possible production commence.

DISPUTES

Tethys Oil is not a party to any dispute before courts of general jurisdiction or arbitration proceedings and the Board of Directors is not aware of any circumstances or claims which might be expected to result in litigation or arbitration proceedings that might conceivably have a material negative effect on Tethys Oil's results or financial position.

SHAREHOLDER AGREEMENTS

There are no shareholder agreements between the Company's shareholders.

TRANSACTIONS WITH CLOSELY-RELATED PARTIES

None of the shareholders, board members, senior executives, auditor or closely-related persons in Tethys Oil has participated directly or indirectly in any business transactions with the Company which are unusual as to their nature or contract terms. Nor has the Company provided any loans, issued guarantees or stood surety to or for the benefit of any of the shareholders, board members, senior executives, auditor, or closely-related persons in the Company.

ENVIRONMENT

Tethys Oil's operations require special permits regarding the impact on the environment according to the rules and regulations in the countries where the Company runs operation. To the best of Tethys Oil's knowledge, Tethys Oil and its co-operation partners conduct all operations in accordance with applicable environmental requirements and environmental programmes.



TAX SITUATION

Tethys Oil's deferred tax claims regarding losses carried forward amount in total to SEK 1,458,000. The claims are not reported as a deferred tax claim since the Company is still in a prospecting phase.

GROUP STRUCTURE

The group consists of the parent company, Tethys Oil AB, and the wholly-owned subsidiary, Windsor Petroleum (Spain) Inc., the registered office of which is situated in the British Virgin Islands.

OTHER

Tethys Oil AB is a public limited company, company number 556615-8266, which was registered at the Swedish Patent and Registration Office ("PRV") on September 6, 2001. The current operations have been conducted since October 12, 2001. Tethys Oil is a limited company and intends to conduct operations under this corporate form, which is governed by the Swedish Companies Act (1975:1385).

SALARIES AND COMPENSATION TO THE BOARD OF DIRECTORS AND SENIOR EXECUTIVES

During 2003, the Board of Directors did not receive compensation and the Company had no employees. The director Jan Risberg shall, provided that this share issue is completed, receive a compensation of SEK 375,000, for consultations in relation to the current share issue and intended trading on Nya Marknaden. Compensation to Company auditors amounted during 2003 to SEK 30,000, exclusively regarding audit fees.

During 2004 total compensation to the Board of Directors and management (including CEO) will amount to around SEK 2.1 million, of which the Board of Directors will receive a total of SEK 75,000 and management will receive a total of SEK 2.0 million. Of this amount the compensation to the CEO will amount to SEK 720,000. No performance related remuneration to the CEO.

PENSIONS

Tethys Oil has no pension commitments other than in accordance with law. Within the scope of their salaries, Tethys Oil's senior executives are entitled to reallocate their compensation between salary and pension provided such reallocation is cost-neutral as regards Tethys Oil.

INFORMATION ABOUT NYA MARKNADEN AND TETHYS OIL'S SPONSOR AT NYA MARKNADEN

Nya Marknaden is an unofficial marketplace where smaller companies' shares can be traded in Stockholmsbörsen's trading system, SAXESS. The trading is computerized in a simple cost efficient manner and is conducted in the same way as for exchange-listed companies. Information regarding prices, volumes and order depth is published in real time through the same canals as for exchange-listed shares.

Stockholmsbörsen is not responsible for monitoring the companies traded at Nya Marknaden. Instead each company must have a designated sponsor, a member at Stockholmsbörsen that has signed a special sponsor agreement with Stockholmsbörsen. The sponsor is responsible for monitoring that the company fulfils the requirements for trading at Nya Marknaden and also that it complies with certain information requirements.

The sponsors must also enter into agreements with the companies that they are responsible for at Nya Marknaden. This agreement specifies the requirements for trading at Nya Marknaden regarding distribution of shares, market value and information requirements.

According to the terms for trading at Nya Marknaden Kaupthing will act as sponsor for Tethys Oil.



Plan of Distribution – Placing Agreement

In connection with the sale of shares on the capital market it is customary for the issuer to enter into an agreement with the underwriters in respect of the distribution of the shares. Tethys Oil intends to enter into such an agreement with Kaupthing on or about March 26, 2004, when the Offering has been fully subscribed, which is considered to occur upon subscription for shares corresponding to a value of at least SEK 60,008,000. The main terms and conditions to be included in this agreement regarding the terms of the distribution of the shares (the "Placing Agreement") are summarised below.

Kaupthing will undertake, under certain conditions, to procure purchasers for a minimum of 2,192,600 shares to a maximum of 2,740,560 shares (corresponding to 95 percent of the total number of newly issued

shares) for placing in the Offering. In order to facilitate the quick registration of the new share issue, Kaupthing has entered into an agreement with Tethys Oil regarding a subscription of shares and a payment in advance of the proceeds herein.

The Placing Agreement will until and including the settlement date of the Offering be subject to certain conditions and Kaupthing will be released from its obligations, if, i.e. the Company does not provide sufficient representations and warranties according to the Placing Agreement, the shares of Tethys Oil are not admitted to listing at Nya Marknaden, upon changes in material circumstances relating to Tethys Oil if Tethys Oil breaches this Placing Agreement without duly curing the default as well as due to force majeure.



Tax issues in Sweden

This summary of certain tax effects related to the Offering is based on the laws and regulations in force as of the date of this offering memorandum and applies to persons who are subject to tax in Sweden on their world wide income, unless otherwise stated. The summary is only intended as general information and does not relate to shares held as current assets in a business or that are held by partnerships. The tax effects for each shareholder is dependent upon his or her situation. Certain tax effects not described below may arise for certain categories of tax payers. Each shareholder should consult his or her tax advisor regarding the tax effects that may be incurred as a consequence of the Offering.

ALLOCATION OF SHARES

There is normally no taxation in connection with the allocation of shares. However, employees of the Company may be subject to tax on a deemed benefit due to the allocation. However, there will be no tax if the employees (including members and deputy members of the Board of Directors), together with the present shareholders, and on the same terms as other purchasers, acquire no more than 20 per cent of the offered shares and the employee purchases shares for no more than SEK 30,000.

CAPITAL GAIN/CAPITAL LOSS

Capital gain or capital loss when selling shares in the Company is calculated as the difference between the sales price, after deduction of sales costs, and the tax basis (equals normally the purchase price). The tax basis shall be calculated according to the average method. This means that the tax basis for each share shall be the average tax basis for all shares of the same kind, calculated on the actual purchase price and with consideration taken to fluctuations of the holding.

In respect of quoted shares, the standard method may be used as an alternative to the average method. This means that the tax basis is deemed to correspond to 20 per cent of the sales price, after deduction of sales costs.

PRIVATE INDIVIDUALS

Income tax

Income from capital investments, such as dividends, interest and capital gains earned by private individuals and Swedish estates of deceased persons will be subject to a 30 per cent income tax within the income tax schedule capital. A withholding tax at the rate of 30 percent is imposed on dividends. This tax is normally withheld by VPC, or, in the event of shares held by a nominee, by the nominee.

Capital loss in connection with sale of quoted shares is deductible in its entirety, both against capital gains on quoted shares and other securities taxed as shares, and against capital gains on non-quoted shares in Swedish companies and in foreign legal entities, realised in the same fiscal year. Any exceeding capital loss is deductible at 70 per cent against other income from capital.

Shares in the Company, which at the time of quotation on Nya Marknaden are "qualified", meaning that a certain part of a dividend and capital gain should be taxed as income from employment under the provisions in Chapter 57 of the Income Tax Act, will normally continue to be qualified for five fiscal years after the quotation. This applies when the shareholder or a relative owned the share when the Company was quoted and the share was then qualified, or if the share was acquired by virtue of such share.



In the event of a deficit within the income tax schedule capital, a reduction of the tax on income from employment and from business and real estate tax will be granted. A tax reduction of 30 per cent will be granted on the part of the deficit that does not exceed SEK 100,000 and 21 per cent of the excess amount. A deficit may not be carried over to a later year.

Wealth tax

Shares in the Company quoted on Nya Marknaden are not subject to wealth tax.

Inheritance and gift tax

The tax base of shares in the Company is 30 percent of the quoted value. The inheritance and gift tax is progressive and the highest tax rate is 30 percent.

LEGAL ENTITIES

Corporations and other legal entities (with the exception of Swedish estates of deceased persons) are subject to tax on all income including dividends and capital gains as income from business at a rate of 28 percent. Capital losses on shares quoted on the market, such as shares in the Company, may be deducted only from capital gains on shares and other securities taxed as shares. A capital loss which cannot be deducted in a certain fiscal year may be carried forward to later years without limitation in time and be deducted from future capital gains. Under certain circumstances, a capital loss may be surrendered to another member of a group of companies, provided that the parties are able to exchange group contribution. Dividends and capital gains on shares quoted on the market are exempt from taxation, provided that the shares have been held for at least one year. It is also required that the shares represent at least ten percent of the votes, alternatively that the shares are held in the course of the shareholder's business. Capital losses on such shares may not be deducted.

When determining whether a dividend is exempt from tax, older rules are applicable to tax payers with a fiscal year that started before 1 January 2004.

Separate tax rules may apply for certain categories of enterprises, such as mutual funds and investment companies.

SHAREHOLDERS WITH LIMITED TAX LIABILITY IN SWEDEN

Non-resident shareholders are normally liable to pay dividend withholding tax in Sweden. The tax rate is 30 percent. This tax rate may be reduced by virtue of a tax treaty with the country where the shareholder is resident. In Sweden, VPC, or, in the event of shares held by a nominee, the nominee executes the deduction of the withholding tax. Dividends on shares quoted on the market received by a non-Swedish company are exempt from withholding tax, provided that the minimum holding period of at least one year has been observed and that the shares represent at least ten percent of the votes.

Non-resident shareholders who do not conduct business from a permanent establishment in Sweden, are normally not liable to pay tax in Sweden on capital gains arising from the sale of Swedish shares. However, they might be liable to pay tax in their country of residence.

Private individuals who have been residents of Sweden or have had their habitual abode in Sweden at any time during the year of sale or the ten calendar years preceding the year of sale, may be taxed in Sweden for capital gains on Swedish shares. This tax liability may be limited by virtue of a tax treaty with the country where the shareholder is resident.



Board of Directors, Executive Management and Auditors

BOARD OF DIRECTORS



VINCENT HAMILTON, born in 1963.
Chairman of the Board since 2004 and
member of the Board since 2001.
Number of shares in Tethys Oil: 321,430.

MAGNUS NORDIN, born in 1956.
Member of the Board since 2001.
Chief Executive Officer of Tethys Oil
since 2004.
Board member of Minotaurus AB and
deputy member of Vostok Oil Ltd.
Number of shares in Tethys Oil: 257,142.



JOHN HOEY, born in 1939.
Member of the Board since 2001.
Number of shares in Tethys Oil:
321,428 through company.

HÅKAN EHRENBLAD, born in 1939.
Member of the Board since 2003.
Board member of
NanoLight International Ltd.
Number of shares in Tethys Oil: 10,000.



JAN RISBERG, born in 1964.
Member of the Board since 2004.
Number of shares in Tethys Oil: 62,500.



MANAGEMENT

MAGNUS NORDIN, born in 1956.

Chief Executive Officer

Employed (by completion of the Offering) as from April 1, 2004.

CEO of Sands Petroleum 1993–1998. Deputy CEO

Lundin Oil 1998–2000, Head of investor relations 2001–2004, (acting CEO)

October 2002–2003 Vostok Oil Ltd., CEO of Sodra Petroleum 1998–2000.

Number of shares in Tethys Oil: 257,142.

VINCENT HAMILTON, born in 1963.

Chief Operating Officer

Employed (by completion of the Offering) as from April 1, 2004.

Active in the Company since 2001.

Geologist Shell 1989–1991. Geologist Eurocan 1991–1994.

President of Canadian Industrial Minerals 1994–1995,

General Manager of Sands Petroleum UK Ltd. 1995–1998.

President of Mart Resources 1999–2001.

Number of shares in Tethys Oil: 321,430.



MORGAN SADARANGANI, born in 1975.

Chief Financial Officer

Employed since January 2004.

Different positions within SEB and Enskilda Securities,

Corporate Finance, between 1998–2002.

Number of shares in Tethys Oil: 0.

AUDITOR

KLAS BRAND, born in 1956,
at **PricewaterhouseCoopers AB**,
is elected auditor since 2001.



Articles of association

Adopted at the Extraordinary General Meeting on February 9, 2004

§ 1 Name

The name of the Company is Tethys Oil AB. The Company is a public limited liability company (publ).

§ 2 Registered office

The board of directors shall have its registered office in Stockholm.

§ 3 Object of the Company

The object of the Company's business is to explore for and exploit gas and oil and activities compatible therewith, either directly, through its subsidiaries, associated companies or other forms of partnerships.

§ 4 Share capital

The share capital of the Company shall amount to no less than SEK 750,000 and no more than SEK 3,000,000.

§ 5 Nominal value of the Shares

Each Share shall have a nominal value of SEK 0.50.

§ 6 Financial year

The financial year of the Company shall be January 1 – December 31.

§ 7 Board of directors

The board shall consist of not less than three and not more than ten members with not more than three deputies.

The board shall be elected annually at the Annual General Meeting for the time until the end of the next Annual General Meeting.

§ 8 Auditors

With the duties to examine the company's annual report and financial statements as well as the management of the company by the board of directors and the managing director, one or two auditors with not more than two deputy auditors shall be appointed. The auditors are appointed for a term until the end of the Annual General Meeting of shareholders that is held on the fourth financial year after the election took place.

§ 9 Shareholders' meeting

At an Annual General Meeting the following matters shall be dealt with;

1. Election of a chairman at the meeting,
2. Preparation and approval of the voting list,
3. Election of at a minimum one person to attest the minutes,
4. Approval of the agenda,
5. Determination as to whether the meeting has been duly convened,
6. Presentation of the annual report and the auditor's report,
7. Resolutions in respect of
 - a) adoption of the profit and loss statement and the balance sheet and the consolidated profit and loss statement and consolidated balance sheet,
 - b) appropriation of the company's profit or loss according to the adopted balance sheet,
 - c) discharge from liability of the directors and managing director,
8. Resolutions in respect to the fees payable to the board of directors and, where applicable, to the auditors,
9. Election of the board members and, where applicable, of auditors,



10. Other matters which should be addressed by the Annual General Meeting according to the Swedish Companies Act (1975:1385) or the Articles of Association.

§ 10 Notice

Notice convening a General Meeting of shareholders shall be given through announcement in the Post- och Inrikes Tidningar (the Swedish Gazette) and in Svenska Dagbladet or other Swedish daily newspaper with nation-wide coverage.

Notice of Annual General Meeting and any Extraordinary General Meeting at which a proposal for amendment of the Articles of Association is to be considered shall be given no earlier than six weeks and no later than four weeks before the meeting. Notice of other Extraordinary General Meeting shall be given no earlier than six weeks and no later than two weeks before the meeting.

Shareholders, who wish to attend a General Meeting, shall be registered in the share register of the company pertaining to conditions ten days prior to the General Meeting, and shall notify the company on the same date stated in the notice. That day shall not be a Saturday, Sunday, other public holiday, Midsummer Eve, Christmas Eve, New Year's Eve and not occur earlier than the fifth working day before the General Meeting.

§ 11 Record date provision

Persons who, on the recorded date, are registered in the share register or in a schedule in accordance with Chapter 3 section 12 of the Swedish Companies Act (1975:1385) shall be deemed entitled to receive dividends and, in connection with a bonus issue, new shares to which the holder is entitled.



Financial summary

The table below shows information regarding the financial years of 2001/2002 and 2003. The financial information should be read in connection with the sections Comments to the financial summary and Financial statements and thereto relating annotations.¹

TSEK

INCOME STATEMENT	2003-01-01 – 2003-12-31	2001-09-01 – 2002-12-31
Net sales of oil and gas	-	-
Administration and depreciation	-934	-582
Operating result	-934	-582
Net financial investments	43	15
Result before tax	-891	-567
Tax	-	-
Net result	-891	-567
BALANCE SHEET STATEMENT		
	2003-12-31	2002-12-31
ASSETS		
Total tangible assets	1,949	385
Total current assets	2,190	1,232
of which cash and bank	1,109	19
Total assets	4,139	1,617
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity	3,542	1,433
Provisions	-	-
Long term debt	-	-
Short term debt	597	184
Total shareholders' equity and liabilities	4,139	1,617
CASH FLOW		
	2003-01-01 – 2003-12-31	2001-09-01 – 2002-12-31
Total cash flow from operations before change in working capital	-885	-565
Change in working capital	403	175
Cash flow from investment activity	-1,570	-387
Cash flow from financing activity	3,000	1,900
Annual cash flow	948	1,123

¹Figures regarding the financial year 2001-09-06–2002-12-31 refers to the parent company.



KEY RATIOS	2003	2001/02
Items regarding the income statement and balance sheet		
Gross margin before extraordinary items, TSEK	n. a.	n. a.
Operating result, TSEK	-934	-582
Operating margin, %	n. a.	n. a.
Result before tax, TSEK	-891	-567
Net result, TSEK	-891	-567
Net margin, %	n. a.	n. a.
Shareholders' equity, TSEK	3,542	1,433
Balance sheet total, TSEK	4,139	1,617
Capital structure		
Solvency, %	85.6%	88.6%
Leverage ratio, %	0.0%	0.0%
Adjusted equity ratio, %	85.6%	88.6%
Interest coverage ratio, %	n. a.	n. a.
Investments, TSEK	1,570	387
Profitability		
Return on shareholders' equity, %	neg.	neg.
Return on capital employed, %	neg.	neg.
Key figures per employee		
Average number of employees	0	0
Number of shares		
Number of shares on, balance day, thousand	750	500
Shareholders' equity per share, SEK	5	3
Weighted number of shares on balance day, thousand	501	414
Earnings per share, SEK	-1.78	-1.37



DEFINITIONS OF KEY RATIOS

MARGINS

Gross margin

Operating result before depreciation as a percentage of yearly turnover.

Operating margin

Operating result as a percentage of yearly turnover.

Net margin

Net result as a percentage of yearly turnover.

CAPITAL STRUCTURE

Financial strength

Shareholders' equity as a percentage of total assets.

Capital employed

Total assets minus non interests-bearing liabilities plus allocations.

Leverage ratio

Interest bearing liabilities as a percentage of shareholders' equity.

Adjusted equity ratio

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

Interest coverage ratio

Result before taxes plus financial costs as a percentage of financial costs.

Investments

Total investments during the year.

PROFITABILITY

Return on total capital

Net result as percentage of total capital.

Return on capital employed

Net result as a percentage of average capital employed.

OTHER

Earnings per share

Net result divided by number of outstanding shares.

Number of employees

Average number of employees full-time.

Shareholders' equity per share

Shareholders' equity divided by number of outstanding shares.

Weighted numbers of shares

Weighted number of shares during the year.

COMMENTS TO THE FINANCIAL SUMMARY

Revenues

All of Tethys Oil's potential oil and natural gas prospects are in the exploration phase. Due to this fact the Company has not yet commenced recovering neither oil nor natural gas from any of the licenses. Consequently, the Company up to this date had no revenues. From an accounting perspective the revenues from the La Lora field are temporary and are as such treated in accordance with accounting principle "b" under "Oil and natural gas operations".

Costs

During 2003 the Company's total costs amounted to TSEK 934 and consisted exclusively of administration costs mainly regarding rent, office material and travel expenses. The financial year prior to 2003 the corresponding costs amounted to TSEK 582.

Investments

As of December 31, 2003, Tethys Oil's total material assets amounted to TSEK 1,949 whereas TSEK 1,899 constituted of oil and gas assets. Tethys Oil intends to acquire further oil- and natural gas assets within the EU and its candidate countries. Currently, the Company is having negotiations about licenses in two new countries.

Liquidity

On December 31, 2003, the Company's cash and bank amounted to TSEK 1,109. The short-term investments amounted to TSEK 1,062 and consisted of placements in interest funds with short duration.

Financial policy

Tethys Oil does not hedge oil prices or currency exchange rates in new investments automatically, since the investment horizon is long term and currency fluctuations are assumed to be even over time. The financial risk policy is subject to constant review and deviations from the policy can be done if beneficial from a market and a risk point of view. Thus, Tethys Oil at the end of 2003 did not operate any hedge contracts or likewise.

Liquidity risk is both the market risk of a financial instrument, which the Company only can sell at great expense, as well as the risk of not having sufficient liquidity accessible to payments. The liquidity risk is minimised through investing in interest bearing financial instruments with short duration (less than a year), as well as keeping the relation of liquid funds to short term debt higher than one.



Financial statements

INCOME STATEMENT

TSEK	Notes	Group		Parent company	
		1 Jan 2003 – 31 Dec 2003	6 Sep 2001 – 31 Dec 2002	1 Jan 2003 – 31 Dec 2003	6 Sep 2001 – 31 Dec 2002
		12 months	16 months	12 months	16 months
Net sales of oil and gas		-	-	-	-
Depletion of oil and gas properties		-	-	-	-
Write-off of oil and gas properties		-	-	-	-
Administration and depreciation	1,2	-934	-	-934	-582
Operating result		-934	-	-934	-582
Other interest income and similar items	3	43	-	43	15
Interest expenses		0	-	0	-
Net financial investments		43	-	43	15
Result before tax		-891	-	-891	-567
Tax		-	-	-	-
Net result		-891	-	-891	-567
Number of shares outstanding		750,000	-	750,000	500,000
Number of shares outstanding (after full dilution)		750,000	-	750,000	500,000
Weighted number of shares		501,370	-	501,370	414,167
Earnings per share		-1.78	-	-1.78	-1.37
Earnings per share (fully diluted)*		-1.78	-	-1.78	-1.37

* As of the balance sheet date, the Company had no convertible bonds, options or other instruments which may cause dilution.



BALANCE SHEET STATEMENT

TSEK	Notes	Group		Parent company	
		31 Dec 2003	31 Dec 2002	31 Dec 2003	31 Dec 2002
ASSETS					
Tangible fixed assets					
Oil and gas properties	4	1,899	–	1,196	370
Other fixed assets	5	50	–	50	15
Total tangible fixed assets		1,949	–	1,246	385
Financial fixed assets					
Shares in subsidiary	6	–	–	703	–
Total financial fixed assets		–	–	703	–
Current assets					
Current receivables					
Other receivables		19	–	19	–
Pre payment		–	–	–	9
Short term investments					
Other short term investments		1,062	–	1,062	1,204
Cash and bank		1,109	–	1,109	19
Total current assets		2,190	–	2,190	1,232
TOTAL ASSETS		4,139	–	4,139	1,617
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' equity	7				
<i>Restricted equity:</i>					
Share capital		750	–	750	500
Restricted reserves/share premium reserves		4,250	–	4,250	1,500
<i>Unrestricted equity:</i>					
Retained earnings		-567	–	-567	–
Net result		-891	–	-891	-567
Total shareholders' equity		3,542	–	3,542	1,433
Current liabilities					
Accounts payable		106	–	106	46
Other current liabilities	8	–	–	–	58
Accrued expenses	10	491	–	491	81
Total current liabilities		597	–	597	184
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		4,139	–	4,139	1,617
Pledged assets		–	–	–	–
Contingent liabilities	11	2,452	–	1,925	–



CASH FLOW STATEMENT

TSEK	Notes	Group		Parent company	
		1 Jan 2003 – 31 Dec 2003	6 Sep 2001 31 Dec 2002	1 Jan 2003 – 31 Dec 2003	6 Sep 2001 31 Dec 2002
		12 months	16 months	12 months	16 months
Cash flow from operations					
Net result		-891	-	-891	-567
Adjustment for non cash related items	5	6	-	6	2
Total cash flow from operations before change in working capital		-885	-	-885	-565
Increase in receivables		-9	-	-9	-10
Increase in liabilities		412	-	412	184
Cash flow from operations		-482	-	-482	-391
Investment activity					
Investment in oil and gas properties	4	-1,529	-	-826	-370
Investment in financial fixed assets	6	-	-	-703	-
Investment in other fixed assets	5	-41	-	-41	-17
Cash flow from investment activity		-1,570	-	-1,570	-387
Financing activity					
Share issue	7	3,000	-	3,000	1,900
Cash flow from financing activity		3,000	-	3,000	1,900
Annual cash flow		948	-	948	1,123
Cash and bank at the beginning of the period		1,223	-	1,223	100
Cash and bank at the end of the period		2,171	-	2,171	1,223



Notes

Accounting principles

The Annual Report of Tethys Oil AB has been prepared in accordance with the Annual Accounts Act and the Swedish Financial Accounting Standards Council's recommendations and statements.

Principles of consolidation

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

The consolidated financial statements of the Tethys Oil Group have been prepared using the purchase method of accounting. Under the purchase method of accounting, in addition to the parent company equity, only changes in subsidiary equity arising after acquisitions are included in group equity. Under the purchase method of accounting the difference between the acquisition price and the monetary assets is allocated to the non-monetary assets acquired based upon the estimated market values of those assets.

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

Foreign currencies

All assets and liabilities are translated at the balance sheet date rates of exchange. In cases where hedging contracts has been arranged, for example forward contracts, the forward contract exchange rate is used. Transactions in foreign currencies are translated at exchange rates prevailing at the transaction date.

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

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 are likely to be resolved.

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

Deferred tax is prepared using the balance sheet method on all temporarily differences which arises from timing in recognition of items. Deferred tax claim, regarding deduction of losses, of TSEK 1 458 has not been presented, as the company is in an exploration phase.

Fixed assets

Fixed assets are presented at costs less depreciation. Expenditures on improvement of the fixed assets, exceeding original level, increases the assets presented value. Expenditures for maintenance are presented as costs.

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

Office material	5 years
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In the case where an asset's book value is higher than a calculated reclamation value, the asset is immediately written down to reclamation value.



Cash flow analysis

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

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

Valuation principles

Assets and liabilities are included at their acquisition cost and nominal amounts respectively unless stated otherwise.

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

Receivables are valued at the amounts they are expected to realise.

Short-term investments are valued at the lower of cost and market value.

Inventories of disposables are stated at the lower of cost and net realisable value. The cost is calculated using the First in First Out method (FIFO). Inventories of oil and gas are stated at the lower of cost and net realisable value.

Long-term investments are valued at cost or at written-down amounts to reflect any diminution in value, which is other than temporary.

Fees associated with long-term financing are deferred and amortised over the life of the financing.

Oil and gas operations

a) Accounting for costs of exploration, appraisal and development

Oil and gas operations are accounted for using the full cost method. All costs for acquiring concessions, licences or interests in production sharing contracts and for the survey, drilling and development of such interests have been capitalised on a country-by-country cost centre basis. Net capitalised costs, together with anticipated future capital costs determined at the balance sheet date price levels, are depleted based on the year's production

in relation to estimated total proven and probable reserves of oil and gas in accordance with the unit of production method. Proved reserves are those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods and governmental regulations. Proved reserves can be categorised as developed or undeveloped. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimates. Probable reserves are those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. In this context, when probabilistic methods are used, there should be at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves. Proceeds from the sale or farm-out of oil and gas concessions are offset against the related capitalised costs of each cost centre in the exploration stage with any excess of net proceeds over all costs capitalised included in the income statement. A gain or loss is recognised on the sale or farm-out of producing areas when the depletion rate is changed by more than 20 percent. Total costs capitalised in a country cost centre are written off when future recovery of such costs is determined to be unlikely.

b) Revenues

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

c) Service income

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

d) Joint ventures

Oil and gas operations are conducted by the Group as co-licensees in joint ventures with other



companies. The accounts reflect the relevant proportions of production, capital costs, operating costs and current assets and liabilities applicable to the Group's interests.

e) Impairment tests

Impairment tests are carried out at least annually to determine that the net book amount of capitalised costs within each country cost centre less any provision for site restoration costs, royalties and deferred production or revenue related taxes is covered by the anticipated future net revenue from oil and gas reserves attributable to the Group's interest in related fields.

Provision is made for any permanent impairment, where the net book amount, according to the above, exceeds the estimated future discounted net cash flows using prices and cost levels used by Group management in their internal forecasting.

f) Site restoration costs

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

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 judgement, actual results could differ from these estimates.

h) Over- and underlifts

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

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

i) Royalties

The fiscal regime in the area of operations defines whether royalties are payable in cash or in kind. Royalties payable in cash are accrued in the accounting period in which the liability arises. Royalties taken in kind are subtracted from production for the period to which they relate.

j) Interest

Interest on borrowings to finance the acquisition of producing oil and gas properties is charged to income as incurred. Interest on borrowings to finance fields under development is capitalised with in oil and gas properties until production commences.



Not 1, Remuneration to company auditor

TSEK	Group		Parent company	
	1 Jan 2003 – 31 Dec 2003	6 Sep 2001 – 31 Dec 2002	1 Jan 2003 – 31 Dec 2003	6 Sep 2001 – 31 Dec 2002
	12 months	16 months	12 months	16 months
PricewaterhouseCoopers AB:				
Audit fee	30	–	30	15
Other	–	–	–	10
Total	30	–	30	25

Note 2, Administration and depreciation

TSEK	Group		Parent company	
	1 Jan 2003 – 31 Dec 2003	6 Sep 2001 – 31 Dec 2002	1 Jan 2003 – 31 Dec 2003	6 Sep 2001 – 31 Dec 2002
	12 months	16 months	12 months	16 months
Administration costs	928	–	928	580

TSEK	Group		Parent company	
	1 Jan 2003 – 31 Dec 2003	6 Sep 2001 – 31 Dec 2002	1 Jan 2003 – 31 Dec 2003	6 Sep 2001 – 31 Dec 2002
	12 months	16 months	12 months	16 months
Depreciations	6	–	6	2

Note 3, Other financial income and similar items

TSEK	Group		Parent company	
	1 Jan 2003 – 31 Dec 2003	6 Sep 2001 – 31 Dec 2002	1 Jan 2003 – 31 Dec 2003	6 Sep 2001 – 31 Dec 2002
	12 months	16 months	12 months	16 months
Interests income	0	–	0	10
Gain on selling short term investments	43	–	43	5
Total	43	–	43	15



Note 4, Oil and gas properties

TSEK	Group		Parent company	
	2003	2002	2003	2002
1 January	370	–	370	–
Investments in Denmark	240	–	240	370
Investments in Spain	1,128	–	425	–
Investments in Turkey	118	–	118	–
Other investments in oil and gas properties	43	–	43	–
31 December	1,899	–	1,196	370
Depletion				
1 January	–	–	–	–
Depletion of the year	–	–	–	–
31 December	–	–	–	–
Net book value	1,899	–	1,196	370

Note 5, Other assets

TSEK	Group		Parent company	
	2003	2002	2003	2002
Assets				
1 January	17	–	17	–
Additions	41	–	41	17
31 December	58	–	58	17
Depreciations				
1 January	-2	–	-2	–
Depreciation charges of the year	-6	–	-6	-2
31 December	-8	–	-8	-2
Net book value	50	–	50	15



Note 6, Shares in subsidiaries

TSEK Company	Registration number	Registered office	Number of shares	Percentage	Nominal value per share	Parent company Book amount 31 December 2003	Parent company Book amount 31 December 2002
Windsor Petroleum (Spain) Inc.	549 282	British Virgin Islands	1	100%	USD 1	703	-

TSEK Shares in subsidiaries	Parent company 31 December 2003	Parent company 31 December 2002
1 January	-	-
Acquisitions	703	-
31 December	703	-

Note 7, Shareholders' equity

Parent company and group TSEK	Share capital	Restricted reserves	Retained earnings	Net Result	Total
Balance at 1 January	500	1,500	-	- 567	1,433
Transfer of prior year net result	-	-	- 567	567	-
New share issue	250	2,750	-	-	3,000
Net result	-	-	-	- 891	- 891
Balance at 31 December 2003	750	4,250	- 567	- 891	3,542

The total number of issued shares amounts to 750,000 (500,000). All shares have a nominal value of SEK 1 (SEK 1).

Note 8, Other current liabilities

TSEK	Group		Parent company	
	31 Dec 2003	31 Dec 2002	31 Dec 2003	31 Dec 2002
Liability to shareholders	-	-	-	58



Note 9, Employees

The group has had no employees since founding the company September 6, 2001 up until December 31, 2003. Accordingly, no salaries have been paid in the group since starting the company and there are no incentive programs. There has been no remuneration to the Board of Directors and there are neither agreements on pensions nor any severance pay agreements in place for any of the directors.

Note 10, Accrued expenses

TSEK	Group		Parent company	
	31 Dec 2003	31 Dec 2002	31 Dec 2003	31 Dec 2002
Accrued expenses – exploration	318	–	318	–
Other	173	–	173	81
Total	491	–	491	81

Note 11, Contingent liabilities

In Denmark, the group has contingent liabilities amounting to TSEK 1,925 regarding seismic studies. The group has committed to acquire 15 kilometres of seismic data regarding License 1/02. Furthermore, there is an estimated potential commitment regarding abandonment in the La Lora concession in Spain. This commitment amounts to TSEK 527, based on the operator's estimate.



Auditor's report

In my capacity as auditor of Tethys Oil AB (publ) I have reviewed this Prospectus. My review has been carried out in accordance with the recommendation for review of prospectuses issued by FAR (the institute for the accountancy profession in Sweden).

Information in the Prospectus regarding forward-looking statements has not been reviewed by me.

The annual report for the financial year September 6, 2001 – December 31, 2002 and the annual report for 2003 have been audited by me. The information in the Prospectus that has been extracted from the annual reports has been accurately reproduced.

Nothing has come to my attention that causes me to believe that this Prospectus does not comply with the Swedish Companies Act or with the Swedish Financial Instruments Trading Act.

Stockholm March 4, 2004

KLAS BRAND
Authorised public accountant
PricewaterhouseCoopers AB



Glossary

GENERAL ABBREVIATIONS

AGM	Annual General Meeting
EGM	Extraordinary General Meeting
SEK	Swedish krona
TSEK	Thousands of Swedish kronor
USD	US dollar
CHF	Swiss francs
TUSD	Thousands of US dollar
TCHF	Thousands of Swiss francs
MUSD	Million US dollars
€	euro

EXCHANGE RATES AS PER FEBRUARY 26, 2004

USD 1	7.39 SEK
CHF 1	5.87 SEK
€ 1	9.24 SEK

PETROLEUM RELATED ABBREVIATIONS AND DEFINITIONS

bbl	barrel of oil
bbls	barrels of oil
mbbls	thousand barrels of oil (in Latin mille)
mmbbls	million barrels of oil
bbls/d	barrels of oil per day
mmbbls/d	million barrels of oil per day
cm	cubic meters
mcm	thousand cubic meters
bcm	billion cubic metres
mcm/d	thousand cubic meters per day
boe	barrels of oil equivalents
mmbblse	million barrels of oil equivalents
boe/d	barrels of oil equivalents per day

1 bbl = 159 litres

1 cf (cubic feet) = 0.028 m³ (cubic meter)

1 m³ (cubic meter) = 37.2 cf (cubic feet)

2D seismic

Linear lines of seismic profiles that provide data along two axes, length and depth.

3D seismic

Seismic profiles from multiple lines acquired simultaneously that provide data along length, width and depth.

Basin

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

Conditional indirect shares/Conditional indirect interests/Conditional indirect shares of interests

The above terms are used when the Company must complete certain commitments in order to acquire its indirect interests in licenses held by its partners (cf. the Company's interests in Turkey).

Direct shares/Direct interests

The above terms are used when the Company is the registered license holder (cf. the Company's Danish licenses).

Farm-in

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

Hydrocarbons

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

Indirect shares/ Indirect interests/ Indirect shares of interests

The above terms are used when the Company's rights derive from agreements with partners. In these situations, the Company has not registered these rights with the relevant authorities, and is not the registered holder of



the licenses in whole or in part (cf. the Company's Spanish licenses).

License

Company is granted rights to a concession and bears the cost of exploration and development, in return for paying to the government license fees and royalties on production. In this prospectus the license is used to describe contracts also known as concessions, permits, and production sharing contracts and licenses.

OECD

Stands for Organisation for Economic Co-operation and Development. OECD has 30 members of which the majority are European countries.

Operator

The company designated to undertake the work and operations on a license.

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.

Possible reserves

Possible reserves are those quantities of petroleum which are estimated to be potentially recoverable from undiscovered accumulations.

Price

The price of oil is usually stated as USD per barrel (USD/bbl), and the price for gas as euros per thousand cubic meters (€/mcm).

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 percent probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves.

Production rate

The rate of production of hydrocarbons is measured on a daily basis: for oil it is barrels per day (bbls/d) and for gas it is thousand cubic meters per day (mcm/d).

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 categorised as developed or undeveloped. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimates. Reserves are usually stated in volumes as million barrels of oil (mmbo) or billion cubic meters of gas (bcm), or a combination of oil and gas reserves as million barrels of oil equivalent (mmboe).

Seismic

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

Work commitment

The contractual obligation to undertake certain works as per the license issued by the government.

Working interest

The actual interest owned by a party for which the party pays its pro rata percentage of expenses in return for its pro rata percentage share of any production.



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