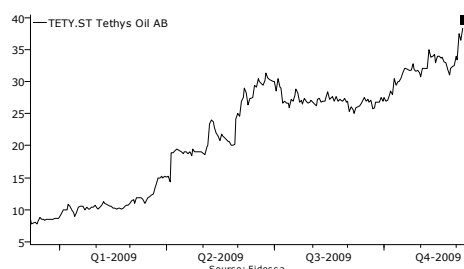


Tethys Oil AB (publ) 38.4 SEK Continued success at Farah South: upgrade

9 December 2009

Share Price: 38.4 SEK



12m High: 38.4 SEK

12m Low: 24.5 SEK

Market Cap: 1,255 MSEK

Shares in Issue: 32.7 million

Risked EMV/Share: 84.0 SEK/share

Gearing: Nil

Interest Cover: N/A

EPIC Code: TETY.ST

Sector: Oil and Gas

Market: First North, Stockholm

Broker: Remium

PR: Bankside Consultants

Website: <http://www.tethysoil.com>

Description: Tethys Oil is a Swedish energy company focused on identification and development for production of oil and natural gas assets in the Middle East, North Africa and Europe.

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Tethys Oil recently announced a further success in appraising the multiple reservoir zones identified at South Farha, Block 3 Oman. On the back of this news we are significantly revising up our estimates which now lend support to an upgraded valuation of 84.0SEK/share.

Production testing of the Barik zone in the vertical section of Farha South-3 well flowed 379bopd with the previous flow-rates from Lower Al Bashir zone tested also being re-confirmed. 'Look-alike' leads in the surrounding areas have a 'blue-sky' potential of maybe 40m barrels and will now bear close scrutiny most likely adding to Tethys' future medium-term value.

We were pleasantly surprised by the level of detail already amassed in the conceptual engineering prepared to develop the Khufai medium oil-zone at East Saiwan. Current engineering studies indicate a P90 volume of 11mmbbl with a P50 of 30mmbbl (net to Tethys, recoverable) which has huge valuation implications and may in itself open up another entirely new local play

Near-term, testing the 'heavy oil' zones at East Saiwan may support a further valuation revision up to 101SEK/share. This 'second-leg' upgrade is by no means 'in the bag' as the whole purpose of testing is to understand the heavy oil's flow-potential. However; we feel it is important to define the potential prize being sought.

Tethys has made a transition as a company and is now high-grading its Omani developments in preparation for its maiden field development. This change has been astonishingly rapid but remains we believe largely unrecognised by the market at this time.

FY	Sales	Earnings Before Tax	Adjusted Profit	Eps.
December	TSEK	TSEK	TSEK	SEK
2007A	0	(24,703)	(24,720)	(1.41)
2008A	0	(16,426)	(16,426)	(0.72)
2009E	0	(33,903)	(33,933)	(1.30)

Oman

At this instant, Tethys has three pre-development stage discoveries on its books in Oman: at Jebel Aswad (Natih A zone), at Farah South (Lower Al Bashir and now additionally, the Barik zones) and at East Saiwan (the Khufai light oil zone).

The current front runners for development are the Khufai at East Saiwan and South Farah and, depending on the results of the ongoing test program: one project will be high-graded for development.

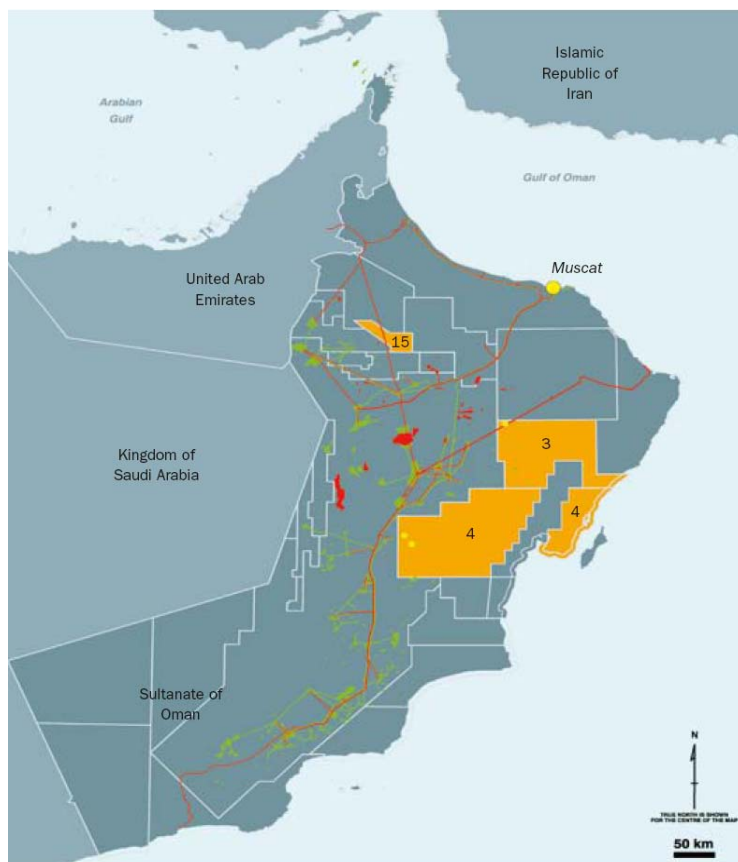


Figure 1, map of Omani Licence interests. Source: Tethys Oil.

Critically, the recent testing at South Farah-3 well has confirmed the presence of oil in two of the four 5m thick Barik sands identified on the original mudlogs. The topmost sand was successfully flow tested on a 4m perforation and flowed 42° API oil at 379bopd. This sand alone supports a potential reserve of 5m barrels (recoverable, net to Tethys) with the potential of an additional 5m barrels in the second sand body.

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An additional 3D survey is now expected to be sanctioned at South Farah in H1 2010, (on the back of the successful Barik flow test). Together with the 3D seismic survey underway at East Saiwan. This new survey will be instrumental in supporting the further evaluation of the prospects and the generation of third party reserve estimates.

Separately, in some respects, Tethys is about to test the potentially very large prize of the East Saiwan 'heavy-oil' discovery which; depending on how mobile the heavy oil proves to be in the well may eclipse the value of all the other projects combined. Significant heavy oil reserves are already in development in Oman with Occidental at Mukhaizna Field and PDO at Amal (East and West Fields). These developments will establish a market for heavy oil product, although with the discovery of the Khufai medium oil zone there may also be a potential to blend/upgrade any heavy oil production– though this is rather running ahead at this time.

France

Operator is seeking bids to re-enter the PLM2 well to recomplete the well with a view to increasing the test production rate. This is worthwhile to prove up the structure and the play concept over the whole licence with net costs to Tethys circa predicted to be circa €250k to move forward. Tethys is trying to farm out the licence.

Sweden

In Sweden, having digitised the pre-acquired seismic data (circa 250km of 2D lines) a number of prospective Ordovician reef structures were identified. On the back of this result, Tethys acquired a LIDAR survey over the licence area to identify elevated features related to near-surface Silurian reefs which may have been super-positioned on the earlier Ordovician reef structures. Tethys is planning to high-grade the leads and prospects identified in these data sets with a view to selecting a series of drill candidates.

Financial Review

Tethys has reported its operating results for the first nine months of 2009 as of 30 September 2009 Tethys Oil has yet to make a maiden petroleum sale recording a loss for the first nine months of 2009 of 52,612 TSEK (TSEK -3,759 for the corresponding period last year) and TSEK -24,442 (TSEK 4,872) for the third quarter 2009. Earnings per share amounted to SEK - 2.04 (SEK - 0.17) for the first nine months 2009 and SEK – 0.89 (SEK 0.20) for the third quarter 2009.

This nine month result was impacted by net foreign exchange losses amounting to TSEK 27,143 due to a weaker US dollar, the majority of these exchange rate losses being translation differences on non-cash related items. Write downs of TSEK 15,778, mainly regarding Morocco, have also negatively affected the result of the first nine months 2009.

Cash and cash equivalents as per 30 September 2009 amounted to TSEK 13,864 (TSEK 29,886) with Tethys Oil receiving an additional TSEK 13,616 (approximately MUSD 1.9) from the exercise of 592,000 warrants after the reporting period. Forward looking, we have estimated net expenditures sufficient to cover the current work program during Q409 but have limited visibility thereafter.

Asset Re-Evaluation

With the stacked-reservoirs and the various different potential volumes of the structures identified (let alone all prospects and leads being progressed) there are quite a number of scenarios to take-in but we think it is worth spelling out the details to give a complete picture before focusing on what we believe to be the most important cases,

At this time, we have chosen to generate asset valuations only for near-term projects where sufficient data is available and where we believe there is a realistic expectation of near-term commercial appraisal. This means we have included Block 3 South Farah (the Lower Al Bashir, and the Barik), Block 4, E Saiwan (the Khufai), and Block 15, The Natih A at Jebel Aswad

Model Derivation: NPV basis

Life of field production profiles have been generated for each asset from the engineering report estimations, and the standing conceptual development plans. These have been converted into cashflow models for each asset according to local fiscal regime and the net cashflow terms to Tethys. Discount rates of 10% were used (NPV10), to be consistent with industry practice although realistically, given current inflation and interest rates, these discounts are too severe compared to the weighted average cost of capital (WACC). Swedish Krona US Dollar (\$USD) forex rates are pitched at a flat rate using an exchange rate of \$1USD=7.36505 SEK. We are inappropriately qualified to provide an opinion on forward looking Krona: \$USD exchange fluctuations.

All NPV calculations are taken as post government and partner take and post-tax under current fiscal terms. In risking the assets we have discounted the post-hurdle NPV10 using as appropriate compounded risk analysis as described in either the company or independent appraisals of each asset.

All pricings have been taken from near-current Brent strip pricing, adjusted to the appropriate local wellhead discounts.

Anyway, we have effectively attributed a zero value to a swathe of Tethys's other secondary targets and leads – including those now in focus around the South Farha structures, on the back of the Barik test.

Block Three: Farha South (Light Oil) Prospect

At Farha South there are a multitude of different scenarios but seeing as how the Lower Al Bashir has tested now successfully twice for production (on the original appraisal and again on the re-entry) we have generated six cases, based around success in the Al Bashir either on the P90 or P50 conceptual engineering cases which are reasonably well advanced.

- Case 1 is P90 on the Lower Al Bashir alone.
- Case 2 is P50 on the Lower al Bashir alone.
- Case 3 is P90 Al Bashir with 5million barrels recoverable in the Barik (management's best current estimate based on production from two units)
- Case 4 is P90 Al Bashir with 10 million barrels recoverable in the Barik
- Case 5 the P50 Al Bashir with 5million barrels recoverable in the Barik
- Case 6 the P50 Al Bashir with 10million barrels recoverable in the Barik

The key case here is the P50 Al Bashir with a 5m bbl contribution from the Barik. This appears to be the best supported case from the recent well test results. Four Barik zones were encountered, but the bottom two appear to have been below an oil water contact. With one sand tested the 10mbbl case represents production from two sands which is the best interpretation at this time

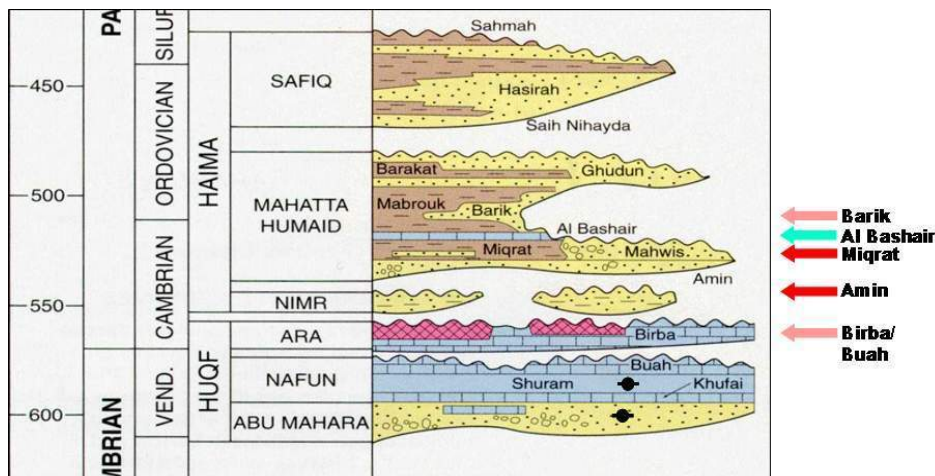
Table 1 Block 3 South Farha Valuation Matrix

		Al Bashir P90	Al Bashir P50	Al Bashir P90 + 5m Barrik	Al Bashir P90 + 10m Barrik	Al Bashir P50 + 5m Barrik*	Al Bashir P50 + 10m Barrik
Total Volume Case mmbbl		9.2	12.0	14.2	19.2	17.0	22.0
Tethys Share mmbbl		4.6	6.0	7.1	9.6	8.5	11.0
Unrisked	\$million USD	55.9	71.6	58.2	109.5	98.3	123.1
Risked at 80%	\$million USD	44.7	57.3	46.6	87.6	78.6	98.5
TSEK		314.7	403.1	327.6	616.4	556.4	693.0
SEK/Share		9.8	12.6	10.2	19.2	17.3	21.6

*Core case

Block 4 East Saiwan Structure

As at block 3, there are stacked structures. A 3D-seismic programme will be launched covering 400 square kilometres over the Saiwan East structure to map the extension of the Khufai limestone reservoir, as well as the heavy oil zones. The Khufai limestone was penetrated during the drilling of Saiwan East-2 flowing 280 bbls a day on test.



Source: EnCana

Figure 2 Stratigraphic cartoon of section at East Saiwan, Source: Tethys Oil (from Encana, originally).

Saiwan Khufai Reserves (Medium Oil)

Current engineering suggests two key scenarios, the (net) 11mmbbl P90 case and the 30mmbbl P50 case which is the core of our current interpretation and valuation.

Table 2 Block 4 East Saiwan Medium Oil Valuation Matrix

Khufai (Medium Oil) zone		Khufai P90 Case 11 mbbo (net)	Khufai P50 Case 30 mbbo (net)
Unrisked	\$million USD	130.0	341.0
Probability of success 80%	\$million USD	104.0	272.8
Risk Weighted Value	TSEK	731.8	1,919.6
	SEK/Share	22.8	59.8

Heavy Oil:- The Mirquat and Amin zones Oil in the Ground Basis

The understanding of the 'heavy oil' Mirquat and Amin Zones at East Saiwan is not yet sufficient to derive a full production-model with the multitude of potential development scenarios possible.

We have therefore generated an oil in the ground value by modifying a general field development plan, (i.e with the appropriate Omani government-take). We up-scaled all well costs from \$3.5m/well for a light/medium oil to \$8.5m/well, (assuming multiple horizontal well deployment), quadrupled fixed costs and upped variable costs by 40% to approximate appropriate lifting expenses.

We introduced a pricing discount historically in line with that for 'Arabian Heavy oil' which generates a quite reasonable 'per barrel in the ground value' of \$5.63/barrel – which we are discounting by 90% at of 56c/barrel which we think is quite appropriate at this stage.

Current volumetric interpretation of the structure indicates a P50 volume of around 276mmbbl gross recoverable – should the oil prove mobile.

Table: Block 4 East Saiwan Heavy Oil in the ground Valuation

Mirquat and Amin (Heavy Oil zones)			P50 case 267mmbbl gross
Mirquat and Amin	Value in the Ground \$5.60/bbl	\$million USD	751.6
Probability of success 10%	Effective value in the ground \$56c/bbl	\$million USD	75.2
Risk Weighted Value		TSEK	529
		SEK/Share	16.5

Block 15 Jebel Aswad

Forward looking, we understand the plan will be to put number JAS-1 well into production do a 90 day production test – to better understand whether the field is actually an oil with a gas cap or gas condensate, subject to field-partner approval.

For now the last 3D seismic showed contradictory results effectively losing part of the structure over the Wadi Salah section but with the positive development of deeper down-to petroleum fluids around well JAS-2 which may increase reserves to counterbalance. We are discounting the Shuaiba for now, and increasing the risking on the Natih-A until we know the results of testing operations.

Table 4: Block 15 Jebel Aswad Valuation Matrix

Jebel Aswad	Natih A
Unrisked	\$million USD 49.8
Probability of success 60%	\$million USD 29.9
Risk Weighted Value	TSEK 210.4
	SEK/Share 6.6

Valuation Summary

As far as profit and loss forecasts go, we have a very limited outlook at this time until a budget is presented to us for the 2010 work program. All we can really say is that there is significant value being added through the current work program. In our models, circa 7MSEK of cash is predicted at the end of the year and a packet of 'in the money warrants' is available on the market which may serve as a conduit to finance.

Taking the risked P50 cases to generate our core value, across all the prospects including the current end of year cash this totals some 84SEK/share at current pricing. A value of 39.9SEK/share is supported by the P90 cases alone, which coincidentally is almost exactly where the share is currently trading at the time of publication.

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There is additional potential for some 33SEK on top of this taking our valuation up to 100.5SEK/share if the Mirquat and Amin heavy oil zones flow on test at East Saiwan.

Overall, Tethys is in an enviable position on the cusp of selecting a discovery for development in a politically stable regime in Oman with, what we suspect to be significant additional value in as yet un-described leads and prospects.

Current work is looking interesting in Sweden. All in all, the company is not only trading on a high but has never been in better shape looking forward.

Table 5 Summary of core valuation

Asset	Probability of Success	Value SEK/Share
Jebel Aswad Natih A case	60%	6.6
Saiwan Khufai 30 million P50 case	80%	59.8
S Farha (Al Bashir P50 + 5m Barrik case)	80%	17.3
Cash (estimated 31/12/09)	N/A	0.2
Core Risked Value >>>>>		84.0
Mirquat and Amin 'in the ground estimate'	10%	16.5
Potential near-term value if the heavy oil is mobile>>>>>		100.5

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P & L Forecasts

Y/E December SEK 000	FY2006A	FY2007A	FY2008A	FY2009E
Turnover	0	0	0	0
DD & A	(125)	(122)	(185)	(300)
Write off of oil and gas properties	(22,519)	(16,220)	(21,088)	(15,599)
Other Income	543	3,195	3,450	2,500
	0	55	(293)	(30)
Administration	(8,875)	(10,441)	(13,632)	(15,000)
Operating Profit/Loss	(30,976)	(25,533)	(31,748)	(28,389)
Financial Income and Similar Items	2,204	417	1,650	1,618
Financial Expenses and Similar Items	(1,030)	(1,587)	(212)	(7,132)
Net Interest	1,174	(-1,170)	(1,438)	(5,514)
FOREX			13,914	0
Earnings Before Tax	(29,802)	(24,703)	(16,396)	(33,903)
Tax Charge TSEK	0	(17)	(30)	(30)
Tax Charge %	28%	28%	28%	28%
Earnings After Tax	(29,802)	(24,720)	(16,246)	33,933
Effective Tax Rate %	0%	0.1%	0.2%	0.1%
Dividends	0	0	0	0
Retained Earnings	(29,802)	(24,720)	(16,426)	(33,933)
Earnings Data TSEK				
Weighted Av. No. of shares	15,328,797	17,591,889	22,668,770	26,713,913
Year End No. of shares	17,225,280	19,178,286	23,980,086	28,048,727
Number of shares fully diluted	20,096,160	19,178,286	23,980,086	32,666,390
Basic EPS SEK	(1.94)	(1.41)	(0.72)	(1.30)
Adj. EPS SEK	(1.73)	(1.29)	(0.68)	(1.21)
Adj. EPS fully diluted SEK FRS14	(1.48)	(1.29)	(0.68)	(1.04)
Net DD & A	(125)	(122)	(185)	(300)
EBITDA	(30,851)	(23,411)	(31,563)	(28,089)

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Cashflow Forecasts

Y/E December SEK 000	FY2006A	FY2007A	FY2008E	FY2009E
Operating Profit/(loss)	(30,976)	(23,533)	(31,748)	(28,389)
DD and A	125	122	185	300
Net Interest	1,174	(1,170)	1,438	(5,514)
Other (Provisions etc.)	22,519	16,182	20,960	15,559
Tax	0	(17)	(30)	(30)
	(7,158)	(8,416)	(9,195)	(18,074)
Change in Working Capital	6,469	(7,955)	(4,204)	1,997
Operating Cashflow	(689)	(16,371)	(13,399)	(16,077)
Investment in oil and Gas Properties	(54,931)	(51,481)	(75,506)	(76,000)
Investment in other Fixed Assets	(75)	(284)	(1,007)	(284)
Total Investment Activity	(55,006)	(51,765)	(72,513)	(76,284)
Net Cashflow Before Financing	(55,695)	(68,136)	(85,912)	(92,361)
Share Capital Issues (net)	72,679	22,267	98,884	70,191
Return on short term investments	0	43	417	4
Issue of Debt	0	0	0	0
Net Financing TSEK	72,679	22,310	99,301	70,195
Movement in net cash/(net debt) in period	16,984	(45,826)	13,389	(22,166)
Opening Net Cash	41,100	58,084	12,253	29,887
FOREX Adjustment	0	(5)	4,245	520
Closing Net Cash	58,084	12,253	29,887	7,721

Management	
<p>Chairman & COO: Vincent Hamilton</p> <p>Managing Director: Magnus Nordin</p> <p>Technical Director: Jonas Lindvall</p> <p>CFO: Morgan Sadarangani</p> <p>Non-executive Director: John Hoey</p> <p>Non-executive Director: Jan Risberg</p> <p>Non-executive Director: Håkan Ehrenblad</p>	
Key Dates	Key Milestones
<p>Year-end report 2009 16 February 2010</p>	<p>2006 Drilling of the Karlebo-1 well (as operator). Acquisition of 40% interest in Block 15 onshore Oman.</p> <p>2007 Farmout of Bouanane Licence to Dana Petroleum. Successful drilling and flow test of JAS-1 well on Omani Block 15. Acquisition of 40% interest in Blocks 3&4 onshore Oman.</p> <p>2008 JAS-2 well drilled pending flow test.</p> <p>2009 Success at Farha South-3 both on initial appraisal with production flows of 754 bopd from the Al Bashir and the re-entry which confirmed the initial Al Bashir test and tested positively for the Barik.</p>

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