Full steam ahead

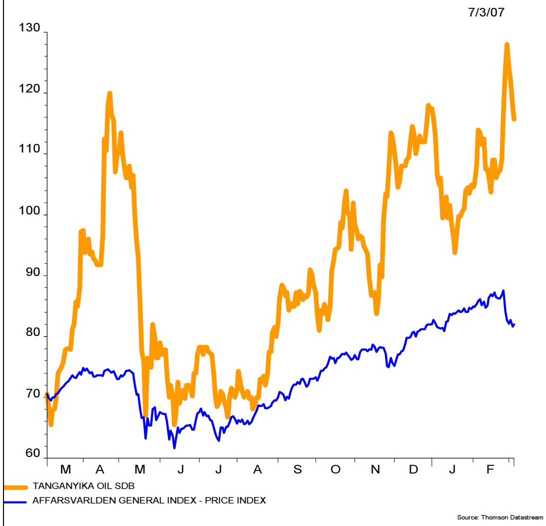
- DeGolyer & MacNaughton reports 2P reserves for the company of 778.6 mmbbl, with 767.6 mmbbl in Syria and 10.9 mmbbl in Egypt. This is up from 118.3 mmbbl (115.2 mmbbl in Syria and 3.1 mmbbl in Egypt) a year ago.

- Egypt now has estimated reserves of close to 11 mmbbl – up from around 3 mmbbl a year ago. We argue that the majority of the potential is now taken in Egypt and the value should be around or even in excess of our estimated USD 50-70m.[1] These funds could be used better in the Syrian development, something that will require a lot of capex to bring up to peak production.

- At today's market valuation, the company is trading below USD 1.3 per bbl, something that we consider unjustified. The valuation per barrel in the ground today should be in the area of around USD 3 per bbl, which gives good upside from today's levels.

- We raise our target price to SEK 185 from our previous target of SEK 130 and continue to rate the stock a STRONG BUY. We see further potential in the share when triggers materialize i.e. more rigs signed up, production increases.

Rating	STRONG BUY



Share price	115.8
Target price	185.0
No. of shares outstanding (m)	55.6
No. of shares fully diluted (m)	57.7
Market cap (SEKm)	6,682
Free float (%)	70%
Exchange rate (SEK/EUR)	n/a
Exchange rate (SEK/USD)	7.02
Reuters code	TYKS.ST
Bloomberg code	TYKS SS
Next interim report	12-May-07
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	Sales (USDm)	EBITDA (USDm)	EBITA (%)	EBIT (USDm)	EBIT (%)	Ptx profit (USDm)	EPS (USD)	P/E (x)	EV/S (x)	P/FCF (x)	EV/EBITA (x)
2004	7	5	77	1	7.3	0	0.0	n.m	129.9	-68.6	169.6
2005	13	7	49	-1	-3.9	1	0.0	1082.6	68.2	-31.6	138.4
2006	33	17	53	-8	-25.0	-8	-0.1	n.m	27.9	-17.4	51.9
2007E	148	102	69	65	43.9	65	1.2	15.2	6.2	-11.5	9.7
2008E	280	203	72	168	60.0	168	3.0	5.9	3.3	42.6	4.8

Market cap (USDm)	1,007	BV per share (USD)	1.3	CAGR EPS (%) 2004-2007	n.a
Net debt (USDm)	-93	Price/book (%)	1401	CAGR Sales (%) 2003-2007	n.a
Enterprise value (USDm)	914	Dividend yield (%) 2006	0.0	ROE (%) 2006	-6.0
Assets (USDm)	138	Tax rate (%) 2006	n.m.	ROCE (%) 2006	-6.0
Note 2004 are in C$		Equity ratio (%) 2006	87	PEG	0.01

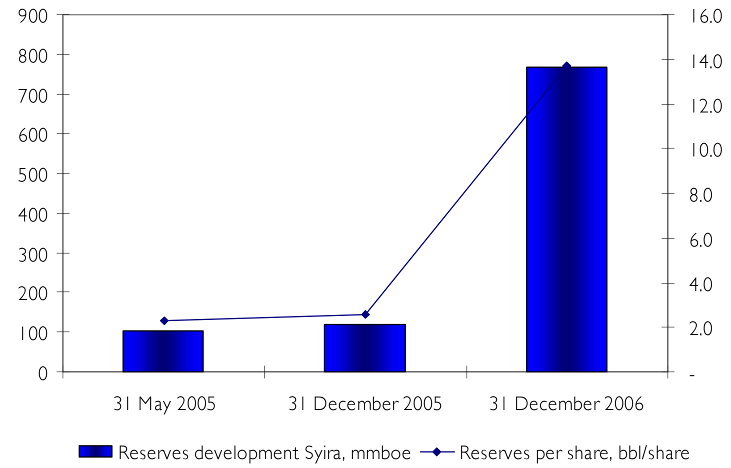
[1] See "Steaming hot" for details of Egypt valuation and assumptions.

RESERVES UPDATE

Tanganyika filed its reserves report, performed by DeGolyer & MacNaughton (D&M) on 27th February, showing a significant increase in the Syria reserves (see table below). These reserves are gross reserves which are – in contrast to net reserves – the company's participating share of reserves before deducting royalties, production taxes or their equivalent. This makes it easier to compare it to tax/royalty paying companies that report their reserves pre-royalty/tax. As can be seen in the table, "oil-in-the-ground", OIP, is up from last years number of around 5.5bn bbl to today's level of almost 7.8bn bbl. Reserves[2] at a 2P level, the fraction you can recover from the OIP, are up from around 118 mmbbl to 778 mmbbl.

Syria reserves

million barrels	OIP	1P	2P	3P
Oudeh	**3,920**	**91**	**344**	**479**
recovery rate		2.3%	8.8%	12.2%
Tishrine	**3,450**	**77**	**400**	**520**
recovery rate		2.2%	11.6%	15.1%
Sheik Sulaimen / Mansour	**424**	**2**	**24**	**39**
recovery rate		0.6%	5.5%	9.2%
Total	**7,794**	**170**	**768**	**1,038**
		2.2%	9.8%	13.3%



Source: Company data, D&M

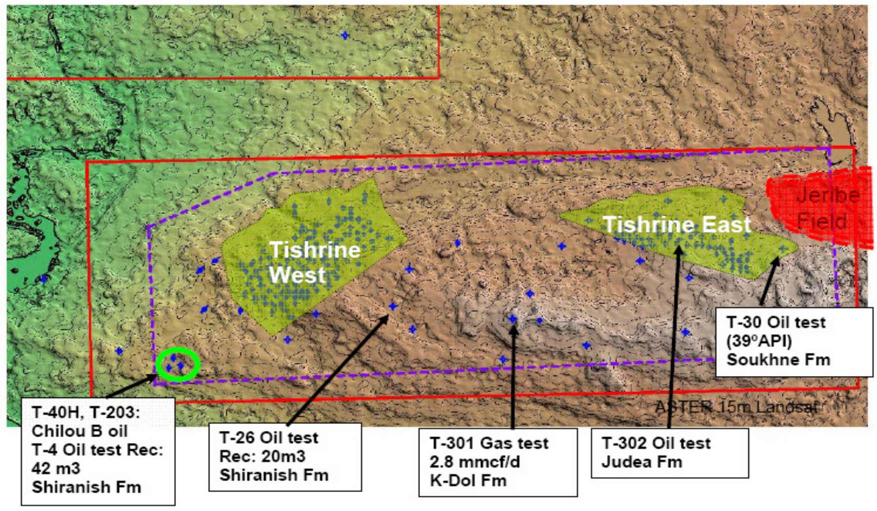
Recovery rates at the 2P level are not really demanding, considering the initial success in the steam pilot tests. Further work and more time makes it not unrealistic to move up to around a 20% (+/-5%) recovery rate, which is around the average recovery rate expected for cyclic steam recovery. Another steam method is steam flooding; i.e. continuously injecting steam – something that

2 1P, proven reserves, a 90% probability that produced reserves will exceed this level;
2P, proven+probable reserves, a 50% probability that produced reserves will exceed this level;
3P, proven+probable+possible reserves, a 10% probability that produced reserves will exceed this level

yields even higher recovery rates than 20-25%. It is not uncommon to expand a steam cycle to a flooding process once enough wells have been drilled.

Areas in Tishrine that are recognized are still the green areas covering Tishrine West and East. However, with oil production outside the green areas, 3D-seismic and a lack of field closures, there is evidence supporting higher resources estimates than the now reported 3.4bn bbl. The most optimistic increase in resources is the possibility of Tishrine being one large structure; estimates point to around 14bn bbl in addition to the 3.4bn recognized to date.

Tishrine field



Source: D&M reserve report

In Oudeh, estimates of a much higher OIP together with a higher recovery rate have increased the reserves to 344 mmbbl. Further potential exists, especially in the deeper horizons (Butmah, K-Dolomite) where there is a chance of additional reserves of light oil and condensates. This will not just be profitable on its own; it can also serve as a dilution to the more heavy oil in the Shiranish reservoir making it easier to handle and transport the oil.

In Egypt, the company now has almost 11 mmbbl in 2P reserves, which is valued by D&M to around USD 80m (compared to our estimate a year ago of USD 50-70m). As we said then, Egypt is not an area where there is much more upside from what the company now has as booked reserves. This makes a sale very likely, and the cash will of course be put into use in Syria.

For 2007, the company has a USD 185m capital budget, including drilling around 90+ wells in Syria. This compares to 26 drilled wells during 2006. Our estimate for recovering all 2P reserves is around 1,000 wells drilled in less than 10 years.

During most of 2006, only one rig was available, which limited the number of wells, but this was partly offset due to the fact that the drilling time has been cut quite significantly with the help of well design and pre-drilling wells. As it stands now, the company has three rigs available and will add three more, bringing the total to six during 2007. Using six rigs and assuming a drilling time of 15 days per well, there is a possibility to complete between 130 and 150 wells per year. When it comes to production increases, 150 wells times a cold production average of around 200 bpd per well would underpin an annual increase in production of 25,000-30,000 bpd.

However, the current intense drilling scheme obviously requires an equally intense development of infrastructure and storage facilities, in order to be able to transport and sell the produced oil. In its reserve report, D&M has estimated the development capex for the 2P reserves to around USD 5.6bn, although a large part of this are costs estimated to develop gas fields in order to supply the company with the gas it has at its free disposal. The use of the gas is however quite obvious, since we are dealing with thermal recovery. The rest consists of drilling costs and infrastructure upgrades, something we estimate to around 40% of the total estimated capex by D&M.

Additional investments down the road could be made to upgrade the oil by removing asphaltenes, resulting in part asphalt and part upgraded crude with higher API and almost sulphur free. We have done some very preliminary calculations on what this could do value-wise for the company, not counting the side effects of the company being less exposed to crude price differential and ease of transport. Our estimates show a SEK 2-4 per share positive value for each 15,000 barrel upgrade. We have not included any of this in our valuation.

These investments are needed in the next few years, so getting production up as wells are completed will be necessary in order not to draw down the cash in the bank. One other challenge for the company going forward is to find employees, which is crucial to increase the production. However, all these challenges are not impossible to overcome but it is something that can put a bump in the process of multiplying today's production level. At the same time, the opportunity the company has to develop big fields like this does not come by every year, and if this is successfully done, it will reward investors even further, which can be seen in the valuation below.

VALUATION

- Oil price 45, 55 and 65 dollars, with a price discount of 20% and USD 5.5/bbl (an increase of USD 2/bbl since our last report), reflecting the heavy oil in the assets.
- Discount rate: 8%.
- USD/SEK: 7.05.
-

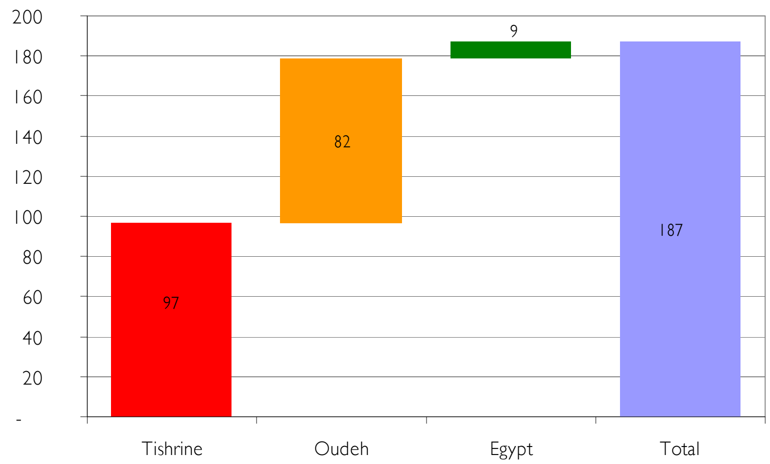
	Opex (USD/bbl)		Capex (USD / bbl)	
	Oudeh	Tishrine	Oudeh	Tishrine
1P	5.3	4.0	4.7	3.4
2P	5.0	4.6	8.0	5.0
3P	4.9	4.6	5.9	3.9

- Number of wells

	Oudeh	Tishrine
Cost (USDm / well)	1.2	0.8
1P	150	205
2P	520	570
3P	600	650

The production profiles (see appendix charts) that we use are derived from an assumed number of wells drilled with certain well performance and decline rates. We have, however, matched the total reserves to the certified reserves issued by D&M, as we believe that this is the most correct number to use at this moment in time. Again we have put a weighting on the three different scenarios based on our belief that risk should be adjusted for in the cash flows, for transparency reasons. Hence we still use our previous discount rate of 8%. Our weighting is the following: 45% on 1P, 45% on 2P and 10% on 3P outcome; this yields 506 mmbbl in recoverable reserves for Syria, which we value at USD 2.9/bbl. Egypt has around 11 mmbbl in recoverable reserves, which we value at USD 6.3/bbl. This calculates to a share price target of SEK 185, an upside from today's level of around 44%. However, our target value for full 2P numbers gives a target price of SEK 260, an upside from today's level of 120%.

Breakdown of value per share (SEK)



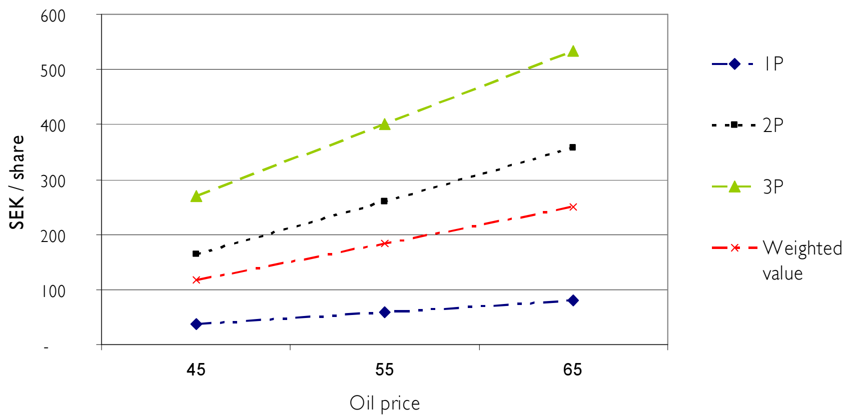
Source: Öhman estimates

The reason why we have put a fairly heavy weight on a conservative estimate of 1P reserves is that we are aware of the scarcity of material, people and a more and more frequent issue arising in the commodity sector – delays of various sorts. Therefore, we do not use the full 2P number going forward, something that we can reweigh as we go forward and see that the company has received delivery of additional steam generators and signed up the three rigs it aims for during 2007, etc. In our weighted case, which is skewed towards the 1P number, we estimate 506 mmbbl in recoverable reserves during the life of the fields. This is almost 35% below the company's certified 2P reserve number.

With the right development plan, cash infusion in the company and exploiting reserves at a 3P level, the intrinsic value of the company at a Brent price of 55 dollars is SEK 400. However, at these reserve numbers, the challenge is in getting rigs and infrastructure in place quickly enough to get up to peak production, which we assume is around 200,000+ bpd in a case like this, bearing in mind that the contracts have a time horizon of 20+5 years. These levels might prove to be too tough of a challenge for a small company such as Tanganyika but clearly show the potential of the fields. And we have not taken any of the potential upside in Tishrine area, something that could triple the resource base for the company.

TOTAL COMPANY VALUATION

Tanganyika Oil (share price)



Source: Öhman estimates

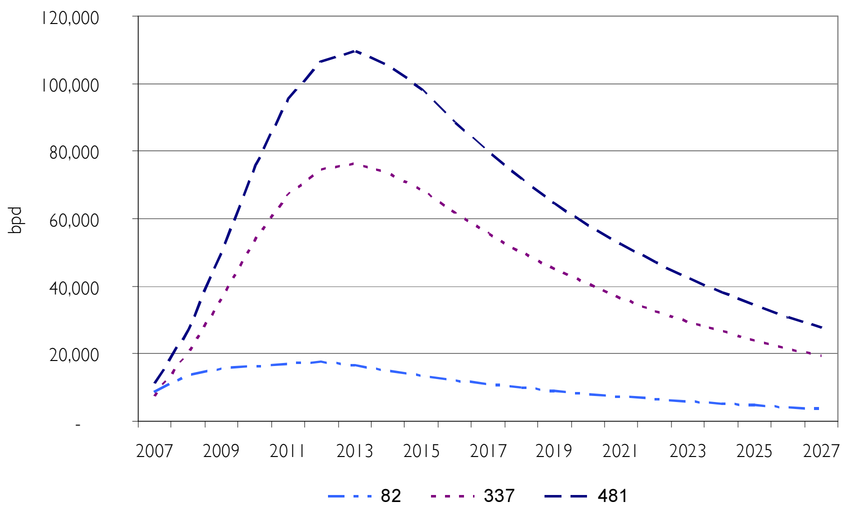
CONCLUSION

With an almost 600% increase in reserves thanks to recognized steam effects and infill drillings, the company has extremely large assets compared to its market value and we see no reason why certified reserves at a 2P level should trade at today's level of below USD 1.3/bbl. Hence we raise our target price to SEK 185 (SEK 130) and reiterate our STRONG BUY rating. We see the potential for even higher levels as things fall into place with production increasing, an increase in rig count etc. As can be seen in the diagram above, values range from around SEK 60 for the 1P level to our target of SEK 185 and up to SEK 400 for the 3P reserve base, thus giving good upside if the company does the right things going forward.

Again we reiterate our conclusion from our "Steaming Hot" issued almost a year ago: either the market recognizes the value in the company, or somebody else will…

APPENDIX - CHARTS

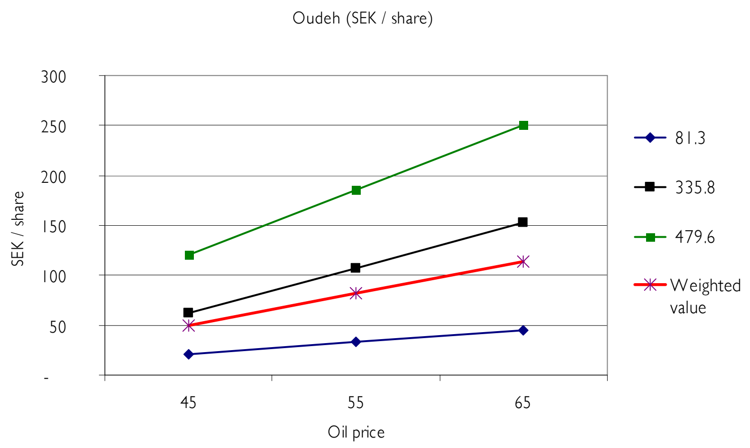
Oudeh production profiles

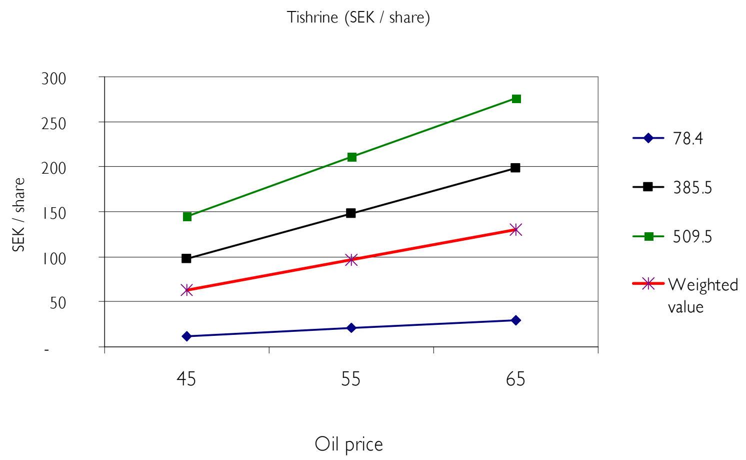


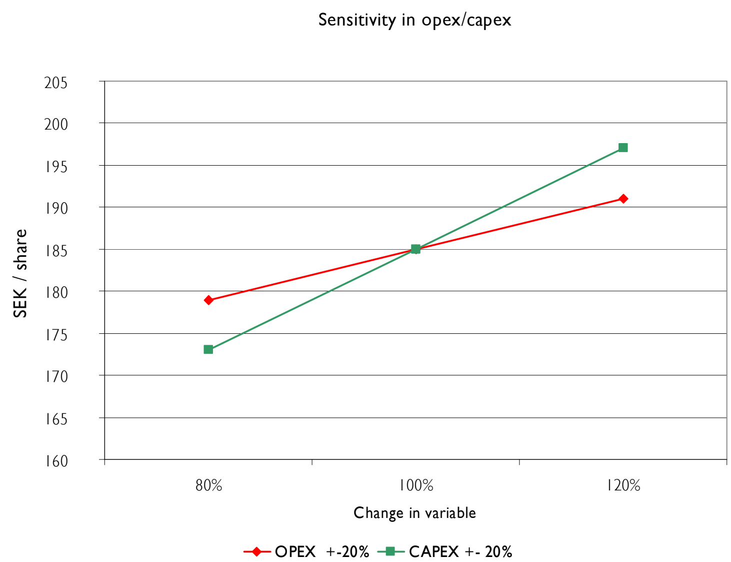
Source: Öhman estimates

Tishrine production profiles

Source: Öhman estimates







Source: (appendix charts) Öhman Equities

INCOME STATEMENT (USDm)	2004	2005	2006	2007E	2008E
Net sales	7	13	33	148	280
Gross profit	5	1	3	87	185
Depreciation, fixed assets	-1	-2	-11	-20	-17
Goodwill amortization	0	0	0	0	0
Operating income	1	-1	-8	65	168
Financial items	-1	1	0	0	0
Income after financial items	0	1	-8	65	168
Taxes	0	0	0	0	0
Minority interests	0	0	0	0	0
Net profit	0	1	-8	65	168
Gross margin (EBDIT)	*76.6%*	*11.1%*	*9.5%*	*58.9%*	*66.0%*
Operating margin (EBIT)	*7.3%*	*-3.9%*	*-25.0%*	*43.9%*	*60.0%*
Tax rate	*0%*	*0%*	*0%*	*0%*	*0%*
Net margin	-2.8%	6.8%	-25.0%	43.9%	60.0%

BALANCE SHEET (USDm)	2004	2005	2006	2007E	2008E
Oil and gas interests	16	36	104	268	414
Fixed assets	0	1	2	2	5
Financial assets	2	1	0	0	1
Inventories	1	3	0	0	0
Accounts receivable	2	8	25	30	36
Liquid funds	23	35	101	15	39
Total assets	45	83	232	316	494
Shareholders' equity	36	70	201	266	434
Minority interests	0	0	0	0	0
Interest-bearing liabilities	4	0	0	0	0
Non interest-bearing liabilities	5	12	30	50	60
Total equity and liabilities	45	83	232	316	494

CASH FLOW (USDm)	2004	2005	2006	2007E	2008E
Cash earnings	3	4	5	85	185
Change in net working capital	-1	-2	-7	14	3
Operating cash flow	2	2	-2	99	188
Investments	-10	-20	-55	-185	-165
Free cash flow	-8	-18	-57	-86	23
Dividends	0	0	0	0	0
Share issue	31	30	134	0	0
Change in debts	-3	0	0	0	0
Change in cash & liquid assets	20	12	77	-86	23

Note 2004 are in C$

DISCLOSURE OF ANALYSTS' HOLDINGS

Analyst	Net Position
Joakim Kindahl	Long
Anders Roslund (Head of Research)	Long