Tethys Oil AB (publ)

Report for the period
1 January 2005 – 30 June 2005

Highlights

- In Denmark, permits necessary for drilling have been applied for with local authorities with an aim to drill a well during the first half of 2006.

- In France, the competition period for the French exploration license in a gas-prone area of the Paris basin was completed without competing claims filed. Final license award is expected by the end of the third quarter, in which case an exploration well can be drilled first half 2006.

- In Morocco, after the report period, Tethys Oil signed a contract for a one year reconnaissance license over a potentially gas-prone area of south central Morocco.

- In Turkey a review of the Hoto license has been completed. No additional work warranted, license to be relinquished and related costs to be written off.

- As at 30 June 2005 there have been no sales of oil and gas in Tethys Oil, nor for the equivalent period of last year.

- Net result for the first six months of 2005 amounted to TSEK – 10,896 (TSEK – 2,353 for the corresponding period last year) and TSEK – 9,749 (TSEK – 1,844) for the second quarter of 2005. A write down of oil and gas properties in Turkey (Hoto) of TSEK 8,179 has negatively affected the result for the second quarter of 2005.

- Earnings per share amounted to SEK – 2.48 (SEK – 0.78) for the first six months of 2005 and SEK – 2.22 (SEK – 0.42) for the second quarter of 2005.

- Liquid funds as per 30 June amount to 2005 TSEK 47,625 (TSEK 66,017).

- Negotiations with several parties over potential acquisitions within our core area are ongoing.

Letter to shareholders

Dear friends and investors,

Tethys continues to review new projects while working hard at moving the existing ones forward. We constantly monitor our asset portfolio to try to keep it optimally balanced to reflect what we deem to be the best opportunities at any specific time.

Current oil prices give very good cash flow also from small production streams. Even our minimal Spanish production is likely to give a positive cash contribution at current prices. Needless to say, we are well aware of what the acquisition of production could mean for our ability to grow the company and complement our exploration portfolio, and we are actively negotiating with several parties over potential acquisitions within our core area.

After a well site was chosen for the exploration well on license 1/02 onshore Denmark the contacts with local authorities have increased. The site is located within the municipality of Karlebo on Zealand, between Helsingör and Copenhagen and the well will consequently be known as 'exploration well Karelbo-1'. Formal applications for land use and building permits were made to among others the Municipality of Karlebo in April and in May Tethys met local politicians, the press and the citizens of Karlebo at an open meeting where we attempted to give as full a description of the project as possible.

Dialogue continues at this level while the tendering for drilling rig and casing and other items continues in parallel. Tethys is proud to be operator for license 1/02 and we intend to conduct a safe, and hopefully successful, drilling operation.

The Danish Energy Agency in July extended the time allowed for the completion of the Karlebo-1 well with six months until December of 2006. Hereby we are now in an optimal position to plan the well programme taking into account all needs concerning the site, weather and equipment availability and pricing. As the programme and timing of the Karlebo-1 well firms up we will keep you posted through an increased number of press releases about the progress.

Other highlights concern Turkey and new licenses.

The review of the Hoto license, where the non-commercial Koctepe-1 well was drilled last year, was completed and the result mixed. There are other prospects on the license but in light of the reservoir qualities encountered in Koctepe and taking into account other new opportunities both in Turkey and elsewhere we have reached the conclusion that Hoto can not justify additional expenditure. Consequently, the license will be relinquished and the money spent on the licence so far, which mostly relate to last year's well, will be written off.

Tethys still considers Turkey quite prospective and we are currently in final negotiations for a new license in another part of Turkey.

As we feel we could manage up to seven or eight licenses, the search for new opportunities has continued and also borne some fruit. In July, we were awarded a reconnaissance license in Morocco. The area in question should be gas prone and we will at once start work in the license area with a view to compile all data to show the potential of the area and thus be able to both attract partners and enter into a regular exploration license with Morocco.

To conclude, let me say that we move ahead on all fronts and are happy with most of the progress so far. The high oil price environment continues to give a strength to all segments of our operations. It is likely that competition for new licenses will increase but also that an interest to farm in to existing licenses will increase accordingly.

Stockholm, 15 August 2005

Magnus Nordin

Managing Director

Operations

Tethys Oil

Tethys Oil is a Swedish company focused on exploration for and production of oil and natural gas. The main geographic focus of Tethys Oil is countries within the European Union and candidate countries, as well as select countries in Africa. The shares are listed on Nya Marknaden (TETY) in Stockholm. The company has interests in exploration licenses in Denmark, Spain and Turkey, a production license in Spain, and a reconnaissance license in central Morocco. Tethys Oil has further more filed a number of license applications, among others for the Attila license in France. The company is actively aiming to hold a well balanced portfolio of oil and natural gas interests, in different development stages.

Overview

Country	Areas	Tethys Oil, %	Total area, km^2	Operator
Denmark	License 1/02	70%	533	Tethys Oil Denmark
	License 1/03	70%	1,655	Tethys Oil Denmark
Morocco	Bouanane	50%	2,100	Tethys Oil
Spain	La Lora	22.5%[1]	106	Northern Exploration Ltd.
	Valderredible	50%[2]	241	Northern Exploration Ltd.
	Huermeces	50%[2]	121	Northern Exploration Ltd.
	Basconcillos	50%[2]	194	Northern Exploration Ltd.
Turkey	Hoto	45%	15	Aladdin Middle East Ltd.
	Ispandika	10% – 45%	965	Aladdin Middle East Ltd.
Total area			**5,930**	

[1] *Economic interest*

[2] *The Windsor Group hold the right to, by funding the equivalent share of seismic or drilling, receive up to 10 percent participation in the three exploration licenses. If the Windsor Group utilise its right, Tethys Oil's participation in the licenses will decrease to 40 percent at the lowest.*

Denmark

The preparations for the drilling of Tethys Oil's first exploration well onshore Zealand in Denmark continue. A contract for the drill site land was signed in March, and applications with local authorities concerning permits associated with the drilling have been filed. In May, an open public hearing was conducted in the municipality of Karlebo, where the drill site is located. Tethys Oil entertains hopes of receiving all administrative permissions before the end of September. The company has initiated the call for tenders for drilling services and supplies, and expects to drill the well during the first half of 2006. In July, the Danish Energy Authority advised the company that the time limit to complete the Karlebo well has been extended by six month until December 2006.

Turkey

Hoto

The results of the exploration well Koctepe-1 in Turkey have now been fully analyzed and the remainder of the license has been evaluated for other prospects. Because of the lack of sufficiently good prospects, Tethys Oil has decided to abandon the licence.

Ispandika

Based on the results of the radar/satellite study, it was determined that most of the license area was not amenable to seismic acquisition with vibrator trucks. Seismic acquisition would therefore have to be done with dynamite sources. We have been working with our Turkish partner to find a seismic crew for this task but without success. The current situation is to make a decision whether the Ispandika anticline could be adequately tested based only on surface geology.

New ventures

The company is in final negotiation for a new licence in another part of Turkey.

Spain

The production in the Ayoluengo oil field remains insignificant. Based on the operator's proposed work program no significant production changes are expected, but the field will continue to slowly decline. The decline is however offset by higher oil prices and if current oil prices remain a small positive cash contribution will be expected for the full year.

France

On May 25, Tethys Oil announced that the competition period for Tethys Oil's application for the Attila license in France had expired without counteroffers being made over the same area. The license area is located in the Paris basin, within the department of Meuse, and covers an area of 1,986 square kilometers (km2). Natural gas is the exploration target in this part of the basin. Award of the exploration license is subject to final decision by the authorities, which is expected at the end of the quarter. Once the license is approved Tethys will have a 40 percent interest in the license. Private French Oil Company Galli Coz S.A. will have 60 percent and will be the operator.

Technical work began on the application license Attila in late July with the acquisition of a surface geochemical survey. With no delays in the award process an exploration well can be drilled during the first half of 2006.

Morocco

In July, Tethys was awarded a one year reconnaissance license over an exploration area in Central Morocco known as Bouanane. The license gives Tethys as operator, with a 50 percent interest, the exclusive right for one year to investigate the license area and grants Tethys the right during this time to elect to convert the license into a regular eight year exploration license, which in its turn will automatically become a production license in case of successful exploration.

The Bouanane license area is located east of the Atlas Mountains, and is expected to be prospective for natural gas, which could be developed through nearby pipeline infrastructure built in recent years. The license covers almost 2,100 square kilometres and the work programme for the license period includes:

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

The purpose of the program is to determine if the leads identified on existing data in the area are sufficiently defined to be considered drillable structures, and thus will warrant for Tethys to enter into a regular exploration license.

RESULT and CASH FLOW

The consolidated financial statements of the Tethys Oil Group (Tethys Oil) are hereby presented for the six month period ended 30 June 2005. The amounts relating to the comparative period (equivalent period of last year) are shown in parenthesis after the amount for the current period. Up until 30 June 2005, Tethys Oil has not reported any sales, which is why there is no segmental information below. Also due to the fact that there have been no sales in Tethys Oil, seasonal variations do not impact the result.

Net profit and sales

Tethys Oil reports a net result for the first six month period of 2005 of TSEK -10,896 (TSEK -2,353 for the corresponding period last year) and TSEK -9,749 (TSEK -1,844) for the second quarter of 2005, representing earnings per share of SEK -2.48 (SEK -0.78) for the six month period and SEK -2.22 (SEK -0.42) for the second quarter. A write down of oil and gas properties of TSEK 8,179 has negatively affected the second quarter of 2005. There has been no dilution of shares in Tethys Oil. Cash flow from operations before changes in working capital for the first six months of 2005 amounted to TSEK -2,117 (TSEK -2,345) and TSEK -977 (TSEK -1,840) for the second quarter.

The net result for the first six months has not been significantly impacted by net foreign exchange losses or gains.

There have been no sales or production of oil and gas for the six month period ended 30 June 2005, apart from incidental oil production in the La Lora field, which according to Tethys Oil's accounting principles is offset against capitalised costs of the related cost centre in the balance sheet. Accordingly, there has been no depletion of oil and gas properties as Tethys Oil follows the full cost method of accounting. During the reporting period, Tethys Oil has made a write down of oil and gas assets of TSEK 8,179. The write down is referable to previous investments in oil and gas assets related to Hoto in Turkey. After integrating data from the Koctepe-1 well with the database the Hoto area was found to be lacking of new drilling locations.

Costs of administration and depreciation

Costs of administration and depreciation amounted to TSEK -3,189 (TSEK -2,375) for the first six month period of 2005 and TSEK -1,852 (TSEK -1,846) for the second quarter. Depreciation amounted to TSEK 14 (TSEK 7) for the first half of 2005 and TSEK 7 (TSEK 4) for the second quarter. Costs of administration are mainly rents, salaries, office supplies and travel expenditures. These costs are corporate costs and are accordingly not capitalised. The depreciation in the income statement is referable to computers, phones etc.

Investments

Tangible fixed assets as at 30 June 2005 amounted to TSEK 7,904 (TSEK 8,975) of which TSEK 7,757 (TSEK 8,916) relates to oil and gas properties. Oil and gas properties in Denmark amounted to TSEK 3,081 (TSEK 937), Spain TSEK 3,193 (TSEK 1,146), Turkey TSEK 454 (TSEK 6,733) and other TSEK 1,029 (TSEK 101). Development and exploration expenditure of TSEK 2,520 (TSEK 7,017) was incurred for the first half of 2005 of which Denmark TSEK 1,374, Spain TSEK 74, Turkey TSEK 321 and other TSEK 750. Development and exploration expenditure has mainly been drilling preparation expenditures in Denmark license 1/02, expenditures regarding geological work in Turkey Ispandika and general new ventures exploration expenditures during the first half of 2005. The Company follows the full cost method of accounting for investments in oil and gas properties.

Investments in other tangible fixed assets amounted during the period to TSEK 4 (TSEK 16) and are referable to investments in office equipment.

Liquidity and financing

Cash and bank as at 30 June 2005 amounted to TSEK 994 (TSEK 1,485). Short-term investments as at 30 June 2005 amounted to TSEK 46,631 (TSEK 64,532). The short-term investments are investments in mutual bond funds with short durations.

Current receivables

Current receivables amounted to TSEK 833 (TSEK 919) as at 30 June 2005.

Current liabilities

Current liabilities as at 30 June 2005 amounted to TSEK 515 (TSEK 5,406), of which TSEK 247 (TSEK 625) relates to accounts payable, TSEK 222 (TSEK 2,176) relates to other current liabilities and TSEK 46 (TSEK 2,604) relates to accrued expenses.

Parent company

The parent company reports a result amounting to TSEK -1,573 (TSEK -2,353) for the first half of 2005 and TSEK -437 (TSEK -1,844) for the second quarter. Costs of administration and depreciation amounted to TSEK -3,189 (TSEK -2,375) for the first six months of 2005 and TSEK -1,852 (TSEK -1,846) for the second quarter. Net financial income amounted to TSEK 300 (TSEK 22) during the first six months of 2005 and TSEK 419 (TSEK 2) for the second quarter. Investments during the first six months of 2005 amounted to TSEK 8,080 (TSEK 7,533).

Financial instruments

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

Board of directors and management

At the Annual General Meeting of shareholders on 4 May 2005, John Hoey, Vincent Hamilton, Magnus Nordin, Håkan Ehrenblad and Jan Risberg were re-elected members of the board and Carl-Gustaf Ingelman was newly elected. The board members are elected until the next AGM. No deputy directors were appointed. At the same meeting Vincent Hamilton was appointed Chairman.

Group structure

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

Share data

The total number of shares in Tethys Oil amount to 4,384,800, with a nominal value of SEK 0.50 per share. All shares have one vote each. Tethys Oil does not have any share option incentive program.

Accounting principles

Tethys Oil applies as from January 1, 2005 IFRS, whereas also comparative figures shall be accounted for in accordance with IFRS. The opening balance for 2004 has not been restated since the change of accounting principles has not had any effect on the income statement and the balance sheet.

The six month period report of the Tethys Oil Group has been prepared in accordance with IAS 34, Interim Financial Reporting and is covered by IFRS 1, First-time Adoption of International Financial Reporting Standards, since the report contains part of the financial year, which is the first of the company for which financial reports are prepared according to International Financial Reporting Standards, IFRS. This six month period report has been prepared in accordance with the IFRS standards and IFRIC interpretations issued and effective as at the time of preparing this six month report and that are recognised by the EU commission. Since some IAS/IFRIC standards still are reviewed and additional IFRIC interpretations may be expected for 2005, the accounting principles described below are preliminary and may be modified.

The six month period report for the parent company is prepared in accordance with the Annual Accounts Act and the Swedish Financial Accounting Standards Council's recommendation 32.

The parent company and the group have up to and including 2004 applied the Annual Accounts Act and the Swedish Financial Accounting Standards Council's recommendations. The applied accounting principles, which are described in the Annual Report for 2004, are to a great extent overlapped with the principles used under IFRS. Within certain areas, IFRS diverges from earlier applied principles. An overview is presented below regarding the changes of accounting, valuation and consolidation methods that the transition has implied.

Accounting for costs of exploration, appraisal and development

According to IFRS 6 "Exploration for and Evaluation of Mineral Resources" expenditures that are incurred in the exploration and evaluation stage are not subject to the normal rules of impairment testing under IAS 36 "Impairment of Assets" as long as the development decision (positive or negative) is not made. Once this decision is made the assets are reclassified and become subject to the normal rules of impairment testing under IAS 36.

Under GAAP used for the preparation of the 2004 financial statements, Tethys Oil has based their impairment testing on a country by country cost pool basis under the full cost method of accounting. IAS 36 requires that impairment testing be carried out on a field by field cost pool basis. The change in method of impairment means that exploration costs can no longer be carried as capitalised costs within a country cost pool unless those costs can be supported by future cash flows on their own merits. If there is no decision to continue with a field specific exploration programme then the expenditure must be expensed. This will be evaluated continuously.

Financial instruments

Financial instruments are accounted for in accordance with IAS 32 and IAS 39. Financial instruments include securities, derivative instruments, receivables, liabilities, lease commitments and borrowings. Financial assets available for sale and derivative instruments are recognised at fair value where appropriate. Change in value of assets for sale during the period is recorded in the equity until the asset is realised. Change in value of derivative instruments is recognised in the income statement if hedging instruments are not used. Other financial instruments are recorded at amortised cost. Possible differences between amortised cost and nominal value are allocated to the remaining time of possession. No effect on shareholders' equity arises at transition to IAS 39 since the company has had no derivative instruments during 2004.

Tangible fixed assets

All tangible fixed assets are carried at cost less depreciation. Expenditures for repairs and maintenance are recognised as costs. Additional costs, which imply that future financial advantages associated with the asset are enhanced, are balanced as an asset and possible remaining residual value of the replaced equipment is expensed.

Component depreciation is applied for tangible fixed assets. This method implies that every significant part of a fixed asset is depreciated according to a separate plan.

Useful lives, residual values and depreciation principles are in accordance with the earlier applied principles.

Consolidated income statement

TSEK	1 Jan 2005 – 30 Jun 2005 6 months	1 Apr 2005 – 30 Jun 2005 3 months	1 Jan 2004 – 30 Jun 2004 6 months	1 Apr 2004 – 30 Jun 2004 3 months	1 Jan 2004 – 31 Dec 2004 12 months
Net sales of oil and gas	–	–	–	–	–
Depletion of oil and gas properties	–	–	–	–	–
Write off of oil and gas properties	-8,179	-8,179	–	–	-435
Administration and depreciation	-3,189	-1,852	-2,375	-1,846	-5,375
Operating result	**-11,368**	**-10,031**	**-2,375**	**-1,846**	**-5,810**
Interest income and similar items	534	341	22	2	764
Interest expenses	-62	-59	–	–	-16
Net financial income	**472**	**282**	**22**	**2**	**748**
Result before tax	**-10,896**	**-9,749**	**-2,353**	**-1,844**	**-5,062**
Tax	–	–	–	–	–
Net result	**-10,896**	**-9,749**	**-2,353**	**-1,844**	**-5,062**
Number of shares outstanding	4,384,800	4,384,800	4,384,800	4,384,800	4,384,800
Number of shares outstanding (after full dilution)	4,384,800	4,384,800	4,384,800	4,384,800	4,384,800
Weighted number of shares*	4,384,800	4,384,800	3,021,653	4,384,800	3,705,094
Earnings per share, SEK*	-2.48	-2.22	-0.78	-0.42	-1.37
Earnings per share (after full dilution), SEK*	-2.48	-2.22	-0.78	-0.42	-1.37

* *As of the balance sheet date, Tethys Oil had no convertible bonds, options or other instruments which may cause dilution. Tethys Oil conducted, during the first quarter of 2004, a share split of 2:1. Historic number of shares and share related data has been adjusted accordingly. The number of shares at 30 June 2005 includes new shares from the share issue, which were registered 1 April 2004. For the weighted average number of shares calculation they were included as from 26 March 2004.*

Consolidated balance sheet

TSEK	30 Jun 2005	30 Jun 2004	31 Dec 2004
ASSETS			
Tangible fixed assets			
Oil and gas properties	7,757	8,916	14,002
Other fixed assets	147	58	158
Total tangible fixed assets	**7,904**	**8,975**	**14,160**
Current assets			
Current receivables			
Other receivables	756	911	766
Pre paid expenses	77	8	139
Short term investments	46,631	64,532	53,525
Cash and bank	994	1,485	513
Total current assets	**48,458**	**66,937**	**54,942**
TOTAL ASSETS	**56,362**	**75,912**	**69,102**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Restricted equity:			
Share capital	2,192	2,192	2,192
Share premium reserve	71,071	72,125	71,071
Unrestricted equity:			
Retained earnings	-6,520	-1,458	-1,458
Net result	-10,896	-2,353	-5,062
Total shareholders equity	**55,847**	**70,506**	**66,743**
Current liabilities			
Accounts payable	247	625	751
Other current liabilities	222	2,176	95
Accrued expenses	46	2,604	1,513
Total current liabilities	**515**	**5,406**	**2,359**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**56,362**	**75,912**	**69,102**
Pledged assets	–	–	–
Contingent liabilities	14,527	2,452	14,527

Consolidated cash flow statement

TSEK	1 Jan 2005 – 30 Jun 2005 6 months	1 Apr 2005 – 30 Jun 2005 3 months	1 Jan 2004 – 30 Jun 2004 6 months	1 Apr 2004 – 30 Jun 2004 3 months	1 Jan 2004 – 31 Dec 2004 12 months
Cash flow from operations					
Net result	-10,896	-9,749	-2,353	-1,844	-5,062
Adjustment for write down of oil and gas properties	8,179	8,179	–	–	435
Adjustment for depreciation and other non cash related items	600	593	7	4	50
Total cash flow used in/from operations before change in working capital	**-2,117**	**-977**	**-2,345**	**-1,840**	**-4,577**
Increase in receivables	72	-181	-901	-770	-886
Increase in liabilities	-1,844	-572	4,809	4,528	1,762
Cash flow used in/from operations	**-3,889**	**-1,731**	**1,563**	**1,918**	**-3,701**
Investment activity					
Investment in oil and gas properties	-2,520	-1,584	-7,017	-6,754	-12,538
Investment in other fixed assets	-4	–	-16	–	-158
Cash flow used for investment activity	**-2,523**	**-1,584**	**-7,033**	**-6,754**	**-12,696**
Financing activity					
Share issue	–	–	69,317	9,550	68,263
Cash flow from financing activity	**–**	**–**	**69,317**	**9,550**	**68,263**
Period cash flow	**-6,412**	**-3,315**	**63,846**	**4,714**	**51,866**
Cash and bank at the beginning of the period	54,037	50,940	2,171	61,304	2,171
Cash and bank at the end of the period	47,625	47,625	66,017	66,017	54,037

Parent company income statement

TSEK	1 Jan 2005 – 30 Jun 2005 6 months	1 Apr 2005 – 30 Jun 2005 3 months	1 Jan 2004 – 30 Jun 2004 6 months	1 Apr 2004 – 30 Jun 2004 3 months	1 Jan 2004 – 31 Dec 2004 12 months
Net sales of oil and gas	–	–	–	–	–
Depletion of oil and gas properties	–	–	–	–	–
Write off of oil and gas properties	–	–	–	–	–
Other income	1,316	996	–	–	1,472
Administration and depreciation	-3,189	-1,852	-2,375	-1,846	-5,375
Operating result	**-1,872**	**-856**	**-2,375**	**-1,846**	**-3,903**
Interest income and similar items	797	478	22	2	948
Interest expenses	-62	-58	–	–	-16
Write down of shares in group company	-435	–	–	–	–
Net financial income	**300**	**419**	**22**	**2**	**933**
Result before tax	**-1,573**	**-437**	**-2,353**	**-1,844**	**-2,970**
Tax	–	–	–	–	–
Net result	**-1,573**	**-437**	**-2,353**	**-1,844**	**-2,970**
Number of shares outstanding	4,384,800	4,384,800	4,384,800	4,384,800	4,384,800
Number of shares outstanding (after full dilution)	4,384,800	4,384,800	4,384,800	4,384,800	4,384,800
Weighted number of shares*	4,384,800	4,384,800	3,021,653	4,384,800	3,705,094
Earnings per share, SEK*	-0.36	-0.10	-0.78	-0.42	-0.80
Earnings per share (after full dilution), SEK*	-0.36	-0.10	-0.78	-0.42	-0.80

* *As of the balance sheet date, Tethys Oil had no convertible bonds, options or other instruments which may cause dilution. Tethys Oil conducted, during the first quarter of 2004, a share split of 2:1. Historic number of shares and share related data has been adjusted accordingly. The number of shares at 30 June 2005 includes new shares from the share issue, which were registered 1 April 2004. For the weighted average number of shares calculation they were included as from 26 March 2004.*

Parent company balance sheet

TSEK	30 Jun 2005	30 Jun 2004	31 Dec 2004
ASSETS			
Tangible fixed assets			
Oil and gas properties	–	8,213	–
Other fixed assets	147	58	158
Total tangible fixed assets	**147**	**8,271**	**158**
Financial fixed assets			
Shares in subsidiaries	1,203	1,203	1,203
Long term receivables	19,069	–	10,993
Total financial fixed assets	**20,273**	**1,203**	**12,196**
Current assets			
Current receivables			
Other receivables	157	911	427
Pre paid expenses	77	8	139
Receivables from group companies	–	–	3,890
Short term investments	46,631	64,532	53,525
Cash and bank	494	985	13
Total current assets	**47,359**	**66,437**	**57,993**
TOTAL ASSETS	**67,778**	**75,912**	**70,346**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Restricted equity			
Share capital	2,192	2,192	2,192
Share premium reserve	71,071	72,125	71,071
Unrestricted equity			
Retained earnings	-4,428	-1,458	-1,458
Net result	-1,573	-2,353	-2,970
Total shareholders equity	**67,262**	**70,506**	**68,835**
Current liabilities			
Accounts payable	247	625	751
Other current liabilities	223	2,176	95
Accrued expenses	46	2,604	665
Total current liabilities	**516**	**5,406**	**1,511**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**67,778**	**75,912**	**70,346**
Pledged assets	–	–	–
Contingent liabilities	–	2,452	–

Parent company cash flow statement

TSEK	1 Jan 2005 – 30 Jun 2005 6 months	1 Apr 2005 – 30 Jun 2005 3 months	1 Jan 2004 – 30 Jun 2004 6 months	1 Apr 2004 – 30 Jun 2004 3 months	1 Jan 2004 – 31 Dec 2004 12 months
Cash flow from operations					
Net result	-1,573	-437	-2,353	-1,844	-2,970
Adjustment for depreciation and other non cash related items	14	7	7	4	50
Total cash flow used in/from operations before change in working capital	**-1,558**	**-430**	**-2,345**	**-1,840**	**-2,920**
Increase in receivables	4,221	78	-901	-770	-3,240
Increase in liabilities	-995	-571	4,809	4,528	914
Cash flow used in/from operations	**1,668**	**-923**	**1,563**	**1,918**	**-5,246**
Investment activity					
Investment in oil and gas properties	–	–	-7,017	-6,754	–
Investment in financial fixed assets	-8,077	-2,392	-500	-500	-11,493
Investment in other fixed assets	-4	–	-16	–	-158
Cash flow used for investment activity	**-8,080**	**-2,392**	**-7,533**	**-7,254**	**-11,651**
Financing activity					
Share issue	–	–	69,317	9,550	68,263
Cash flow from financing activity	**–**	**–**	**69,317**	**9,550**	**68,263**
Period cash flow	**-6,412**	**-3,315**	**63,346**	**4,214**	**51,366**
Cash and bank at the beginning of the period	53,537	50,440	2,171	61,304	2,171
Cash and bank at the end of the period	47,125	47,125	65,517	65,517	53,537

Statement of changes in equity

Group

TSEK	Share capital	Restricted Reserves	Retained Earnings	Net Result
Balance at 1 January 2004	750	4,250	-567	-891
Transfer of prior year net result	–	–	-891	891
Share issue	1,442	73,562	–	–
Issue costs	–	6,741	–	–
Net result	–	–	–	-5,062
Balance at 1 January 2005	2,192	71,071	-1,458	-5,062
Transfer of prior year net result	–	–	-5,062	5,062
Net result	–	–	–	-10,896
Balance at 30 June 2005	**2,192**	**71,071**	**-6,520**	**-10,896**

Parent Company

TSEK	Share Capital	Share premium Reserves	Retained Earnings	Net Result
Balance at 1 January 2004	750	4,250	-567	-891
Transfer of prior year net result	–	–	-891	891
Share issue	1,442	73,562	–	–
Issue costs	–	6,741	–	–
Net result	–	–	–	-2,970
Balance at 1 January 2005	2,192	71,071	-1,458	-2,970
Transfer of prior year net result	–	–	-2,970	2,970
Net result	–	–	–	-1,573
Balance at 30 June 2005	**2,192**	**71,071**	**-4,428**	**-1,573**

Key ratios

Group

	1 Jan 2005 – 30 Jun 2005 6 months	1 Apr 2005 – 30 Jun 2005 3 months	1 Jan 2004 – 30 Jun 2004 6 months	1 Apr 2004 – 30 Jun 2004 3 months	1 Jan 2004 – 31 Dec 2004 12 months
Items regarding the income statement and balance sheet					
Gross margin before extraordinary items, TSEK	n.a.	n.a.	n.a.	n.a.	n.a.
Operating result, TSEK	-11,368	-10,031	-2,375	-1,846	-5,810
Operating margin, %	Neg.	Neg.	Neg.	Neg.	Neg.
Result before tax, TSEK	-10,896	-9,749	-2,353	-1,844	-5,062
Net result, TSEK	-10,896	-9,749	-2,353	-1,844	-5,062
Net margin, %	Neg.	Neg.	Neg.	Neg.	Neg.
Shareholders' equity, TSEK	55,847	55,847	70,506	70,506	66,743
Balance sheet total, TSEK	56,362	56,362	75,912	75,912	69,102
Capital structure					
Solvency, %	99.09%	99.09%	92.88%	92.88%	96.59%
Leverage ratio, %	n.a.	n.a.	n.a.	n.a.	n.a.
Adjusted equity ratio, %	99.09%	99.09%	92.88%	92.88%	96.59%
Interest coverage ratio, %	n.a.	n.a.	n.a.	n.a.	n.a.
Investments, TSEK	2,523	1,584	7,033	6,754	12,696
Profitability					
Return on shareholders' equity, %	Neg.	Neg.	Neg.	Neg.	Neg.
Return on capital employed, %	Neg.	Neg.	Neg.	Neg.	Neg.
Key figures per employee					
Average number of employees	3	3	2	3	2.5
Number of shares					
Dividend per share, SEK	n.a.	n.a.	n.a.	n.a.	n.a.
Cash flow used in operations per share, SEK	Neg.	Neg.	Neg.	Neg.	Neg.
Number of shares on balance day, thousands	4,385	4,385	4,385	4,385	4,385
Shareholders' equity per share, SEK	12.74	12.74	16.08	16.08	15.22
Weighted number of shares on balance day, thousands*	4,385	4,385	3,022	4,385	3,705
Earnings per share, SEK*	-2.48	-2.22	-0.78	-0.42	-1.37

** As of the balance sheet date, Tethys Oil had no convertible bonds, options or other instruments which may cause dilution. Tethys Oil conducted, during the first quarter of 2004, a share split of 2:1. Historic number of shares and share related data has been adjusted accordingly. The number of shares at 31 March 2005 includes new shares from the share issue, which were registered 1 April 2004. For the weighted average number of shares calculation they were included as from 26 March 2004.*

Key ratios

Parent Company

	1 Jan 2005 – 30 Jun 2005 6 months	1 Apr 2005 – 30 Jun 2005 3 months	1 Jan 2004 – 30 Jun 2004 6 months	1 Apr 2004 – 30 Jun 2004 3 months	1 Jan 2004 – 31 Dec 2004 12 months
Items regarding the income statement and balance sheet					
Gross margin before extraordinary items, TSEK	n.a.	n.a.	n.a.	n.a.	n.a.
Operating result, TSEK	-1,872	-856	-2,375	-1,846	-3,903
Operating margin, %	Neg.	Neg.	Neg.	Neg.	Neg.
Result before tax, TSEK	-1,573	-437	-2,353	-1,844	-2,970
Net result, TSEK	-1,573	-437	-2,353	-1,844	-2,970
Net margin, %	Neg.	Neg.	Neg.	Neg.	Neg.
Shareholders' equity, TSEK	67,262	67,262	70,506	70,506	68,835
Balance sheet total, TSEK	67,778	67,778	75,912	75,912	70,346
Capital structure					
Solvency, %	99.24%	99.24%	92.88%	92.88%	97.85%
Leverage ratio, %	n.a.	n.a.	n.a.	n.a.	n.a.
Adjusted equity ratio, %	99.24%	99.24%	92.88%	92.88%	97.85%
Interest coverage ratio, %	n.a.	n.a.	n.a.	n.a.	n.a.
Investments, TSEK	8,080	2,392	7,533	7,254	11,651
Profitability					
Return on shareholders' equity, %	Neg.	Neg.	Neg.	Neg.	Neg.
Return on capital employed, %	Neg.	Neg.	Neg.	Neg.	Neg.
Key figures per employee					
Average number of employees	3	3	2	3	2.5
Number of shares					
Dividend per share, SEK	n.a.	n.a.	n.a.	n.a.	n.a.
Cash flow used in operations per share, SEK	Neg.	Neg.	Neg.	Neg.	Neg.
Number of shares on balance day, thousands	4,385	4,385	4,385	4,385	4,385
Shareholders' equity per share, SEK	15.34	15.34	16.08	16.08	15.70
Weighted number of shares on balance day, thousands*	4,385	4,385	3,022	4,385	3,705
Earnings per share, SEK*	-0.36	-0.10	-0.78	-0.42	-0.80

** As of the balance sheet date, Tethys Oil had no convertible bonds, options or other instruments which may cause dilution. Tethys Oil conducted, during the first quarter of 2004, a share split of 2:1. Historic number of shares and share related data has been adjusted accordingly. The number of shares at 30 June 2005 includes new shares from the share issue, which were registered 1 April 2004. For the weighted average number of shares calculation they were included as from 26 March 2004.*

Definitions of key ratios

Margins

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

Operating margin
Operating result as a percentage of yearly turnover.

Net margin
Net result as a percentage of yearly turnover.

Capital structure

Solvency
Shareholders' equity as a percentage of total assets.

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

Adjusted equity ratio
Shareholders' equity plus 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 shareholders' equity
Net result as percentage of shareholders' equity.

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

Other

Number of employees
Average number of employees full-time.

Dividend per share
Dividend divided by the number of outstanding shares.

Cash flow used in operations per share
Cash flow used in operations divided by the number of outstanding shares.

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

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

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

Financial information

The company plans to publish the following financial reports:
Nine months report (January – September 2005) on 3 November 2005
Year end report 2005 (January – December 2005) on 15 February 2006
Three months report (January – March 2006) on 4 May 2006
Six months report (January – June 2006) on 15 August 2006

This report has not been subject to review by the auditor of the company.

Stockholm, 15 August 2005

Magnus Nordin
Managing Director

Definitions and abbreviations

General

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

Petroleum related abbreviations and definitions

BBL	Barrel
BBLS	Barrels
BCF	Billion cubic feet
BOE	Barrels of oil equivalents
BOEPD	Barrels of oil equivalents per day
BOPD	Barrels of oil per day
MBBL	Thousand barrels (in Latin mille)
MMBO	Million barrels of oil
MMBOE	Million barrels of oil equivalents
MMBOEPD	Million barrels of oil per day
CF	Cubic feet
MCF	Thousand cubic feet
MCFPD	Thousand cubic feet per day
MMCF	Million cubic feet

Industry specific terms

Barrel
1 barrel = 159 liters.
1cubic foot = 0.028 m3

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

Farm-in
A joint-venture agreement between companies whereby one company holds the 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.

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.

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

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

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

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

Working interest
The actual interest owned by a party.

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