Tethys Oil AB (publ)

Report for the period
1 January 2006 – 30 June 2006

Highlights

- Tethys Oil acquired a 40 per cent interest in appraisal project in Oman

- Drill site construction on Danish license 1/02 started and a drill rig was contracted in June for the planned spudding of Karlebo-1 in September

- 20 per cent interest in the Danish licenses are farmed-out to British Star Energy for payment of 40 per cent of the Karlebo-1 exploration well

- MSEK 52.6 (before issue costs) raised in fully subscribed rights issue with preferential right for existing shareholders

- As at 30 June 2006 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 2006 amounted to TSEK -3,699 (TSEK -10,896 for the corresponding period last year) and TSEK -2,443 (TSEK -9,749) for the second quarter

- Earnings per share amounted to SEK -0.82 (SEK -2.48) for the first six months of 2006 and SEK -0.53 (SEK -2.22) for the second quarter

- Cash and cash equivalents as per 30 June 2006 amounted to MSEK 64 (MSEK 41). On 5 July 2006 the remaining proceeds of MSEK 16 from the rights issue was paid

Tethys Oil AB (publ)

Tethys Oil is a Swedish company focused on exploration for and production of oil and natural gas. Tethys Oil aims to maintain a well balanced portfolio of high risk/high reward exploration opportunities coupled with lower risk exploration and appraisal development assets. The company has interests in licenses in Oman, Denmark, Morocco, Spain, Turkey and France. The shares are listed on First North (TETY) in Stockholm.

Letter to shareholders

Dear friends and investors,
The second quarter of 2006 marks the most active quarter so far in Tethys' brief history. After a successfully completed rights issue, that strengthened our cash position by close to MSEK 60, we emerge for the second half of 2006 as financially strong group. We also enlarged our operations with a 40 per cent interest in Block 15 in Oman, a block holding discovered oil in the ground and hopefully we will see revenues to Tethys from Block 15 already this calendar year. The activity has not slowed down in the present third quarter, in which we will be welcoming British Star Energy as a new partner in our Danish licenses.

During the next months we will see the drilling of a very exiting wildcat in Denmark. A rig was contracted in June, the well site construction begun and completion is scheduled for late August. We target spud to take place on or about 15 September. The well is a pure wildcat but the potential is significant indeed. Potential reserves amounts to up to 1 TCF of natural gas (corresponding to 140 million barrels of oil) of which half would be net to Tethys, before taxes. And this tremendous upside now comes at a very reasonable price. With the farm-out to our new partner, we only pay for 30 percent of the well cost (some 1.2 MUSD) while still maintaining a 50 per cent interest.

Our focus is also on Oman, were we plan to renter the wells as soon as a rig can be made available. On Block 15 we know we will flow oil since the reservoir flowed oil before. The question is how much. We will employ modern horizontal drilling to try to maximise the 'sweet spot' of the reservoir. But until tried we will not know what kind of flow rates we will get. Needless to say the Omani operations carry a lot less risk than the Karlebo wildcat, but there is still a significant difference between recovering 5 or 20 per cent of the more than 50 million barrels oil in-place estimated to be in this structure Block 15.

These are our upcoming highlights in licenses operated by Tethys. In other non-operated licenses, we could see some important action with the drill bit both in France and in Spain.

So we can finally say with confidence 'stay with us, we can promise a very active and exiting second half of the year, which will hopefully also yield good returns on capital employed'.

Stockholm, 15 August 2006

Magnus Nordin
Managing Director

Vincent Hamilton
Chairman

Operations

Tethys Oil has interests in licenses in Oman, Denmark, Morocco, Spain, Turkey and France.

Overview

Country	License areas	Tethys Oil %	Total area km^2	Operator	Investments 1 Jan–30 June 2006, TSEK	Investments 1 Apr–30 June 2006, TSEK	Book value 30 June 2006, TSEK
Oman	Block 15	40%	1,389	Tethys Oil	25,497	25,458	25,497
Denmark	Licens 1/02	70%	533	Tethys Oil	2,421	965	7,540
	Licens 1/03	70%	1,655	Tethys Oil			
Morocco	Bouanane	50%	2,100	Tethys Oil	1,383	713	1,936
Spain	La Lora	22,5%[1]	106	Ascent Resources	101	67	3,253
	Valderredible	50%[2]	241	Ascent Resources			
	Huermeces	50%[2]	121	Ascent Resources			
	Basconcillos	50%[2]	194	Ascent Resources			
Turkey	Ispandika	10–45%	965	Aladdin Middle East	550	343	1,277
	Trakien	25%	897	Aladdin Middle East			
France	Attila	40%[3]	1,986	Galli Coz	193	78	883
New ventures					876	213	1,901
Total			**10,187**		31,020	27,837	42,287

[1] *Beneficial interest.*

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

[3] *Tethys Oil pays 44 per cent of costs through an exploration well.*

Oman

photo: Guillaume Carels

On 11 April Tethys signed a Letter of Intent with Maha Resources Ltd to acquire a 40 per cent interest in Block 15 onshore Oman. The transaction was completed on 24 May. Block 15 is an appraisal project and covers an area of 1,389 square kilometres in the north central area of Oman. Over 2,500 kilometres of 2D seismic data has been acquired, processed and interpreted in the past. The estimated oil in-place is more than 50 million barrels, with an expected recovery ratio of between 5 and 20 per cent.

Two previously drilled exploration wells on the Block 15, Jebel Aswad and Wadi Saylah were drilled in 1994 and 1997. Jebel Aswad-1 has tested 704 bbls of 40 degree API oil from a 30 foot perforated interval in the Natih limestone reservoir, after being re-entered in 1995. Well logs of Jebel Aswad indicate a gross hydrocarbon bearing limestone section of 210 feet. Well logs of Wadi Saylah indicate a 132 feet gross hydrocarbon bearing column but was never tested.

Tethys Oil will participate in a work programme with the objective to test the production capacity of the


Casing on racks.

reservoir. The work programme will involve the re-entry of the two previously drilled wells and drilling horizontal sidetracks using under-balanced drilling technology to fully evaluate the reservoir intervals already identified by flow tests and well logs. By drilling underbalanced damage due to fluid invasion into the reservoir can be avoided. Reservoir remains unaffected and opened toward the hole. Additional work will be carried out to further define exploration prospects identified in the southern part of Block 15.

Denmark

During the second quarter, the final preparations for the drilling of the Karlebo-1 exploration well on Danish license 1/02 onshore Zealand in the municipality of Karlebo, north of Copenhagen. With Tethys as operator, the drilling is expected to commence during the third quarter of 2006. In June, Tethys received municipal approval to construct the well site. The construction has started and is expected to be finished in August. During the quarter, Tethys entered into a drilling contract with the Polish company Oil and Gas Exploration Company Cracow Ltd for the drilling of the exploration well using an American built IRI-750 rig.

On license 1/03, the interpretation of the surface geochemical survey over onshore Jutland in Denmark was finalized. The result is encouraging, but final interpretation of the possibilities of the license will be conducted after the result of the exploration well of license 1/02 is in hand.


Construction of the drilling pad: 1) Grading 2) Plastic liner 3) Approx. 1/2 m course gravel 4) Approx. 25 cm fine gravel and approx. 10 cm asphalt to come.

In July 2006, Tethys signed a Letter of Intent with Star Energy Group plc for Star Energy to become a 20 per cent partner in Tethys operated Danish licenses 1/02 and 1/03. Through the farmout, Tethys will reduce its interest in the licenses from 70 to 50 per cent. The farmout arrangement calls for Star Energy to pay 20 per cent of historical costs and 40 per cent of the cost of an exploration well on licence 1/02 for its 20 per cent interest in the licenses. The total cash value is estimated at approximately MSEK 13 (MGBP 1, MUSD 1.8) including the cost for the exploration well.

Location viewed from the casing area.

Morocco

The field work on the Bouanane license in Morocco that started in February 2006 has now been completed. It included satellite and radar acquisition and interpretation programme, the acquisition and interpretation of 900 square kilometres of new gravity and magnetic data as well as completing the reprocessing and interpretation of 300 kilometres. of seismic data. The work programme has confirmed the prospectivity of the area, in particular for natural gas as well as confirmed the potential of the giant Tafejjart structure.

The reconnaissance license, originally set to expire on 28 July, 2006, has been extended for three months. During the extension period, Tethys will outline an optimal future work programme which will then be negotiated with the Moroccan state company ONHYM (Office National des Hydrocarbures et des Mines) as basis for converting the licence into a regular exploration license.

Cutting the conductor pipe in the cellar. The well will be drilled through this pipe.

Spain

The production in the Ayoluengo oil field remains small with a small positive cash contribution. It is Tethys' intention to leave the field and to achieve this, an agreement has been signed to exchange The La Lora license interest against an interest in an existing exploration license elsewhere in Spain. The exchange of interest is subject to government approval and the approval of license partners. Tethys is of the opinion that these conditions will be met in the near future.

The new operator for the exploration blocks and Tethys are discussing an increased work programme in the Huermeces, Valderredible and Basconcillos exploration licenses which could include the drilling of one to two exploration wells during 2006.

Turkey

Together with Tethys' Turkish partner, the company has decided that the risks with the Ispandika license are too big in relation to the costs at this stage. Hence a decision to launch a farm out campaign was made.

In the Thrace licenses, two strong leads have been identified on existing seismic data. Additional seismic will be required to confirm the presence of drillable prospects. The seismic programme has been agreed with partners and a seismic contractor has been engaged. The work will commence during October 2006. A first exploration well may be drilled in 2007.

France

In February, Tethys was awarded 40 per cent interest in the Attila exploration license in France. Technical work has started with a view to drill an exploration well during 2006. To identify fault trends, satellite and radar data was acquired and analyzed. Existing seismic data of 180 kilometres has been reprocessed. Geochemical surface samples have been collected and analyzed, confirming the prospectivity of the area. The seismic data has been interpreted and mapped on a computer workstation, confirming the structural integrity of the prospect. A number of surface locations are being screened for suitable drill sites.

Other potential license areas

Through the acquisition of the license interest in Oman, Tethys Oil also received options to acquire a 30 per cent interest in an exploration concession on the Swedish island of Gotland and an 11 per cent interest in the Dunalka production license onshore Latvia. The options expire in November 2006 and Tethys Oil will evaluate these opportunities in the coming months.

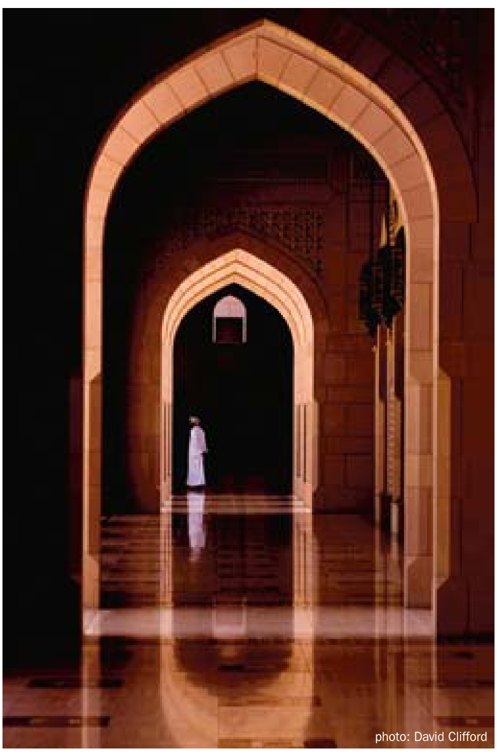

photo: David Clifford

Result and cash flow

The consolidated financial statements of the Tethys Oil Group (Tethys Oil), where Tethys Oil AB (publ) with organisational number 556615-8266 is the parent company, are hereby presented for the six month period ended 30 June 2006. The amounts relating to the comparative period (equivalent period of last year for result and cash flow items and 31 December 2005 for balance sheet items) are shown in parenthesis after the amount for the current period. Up until 30 June 2006, Tethys Oil has not reported any sales of oil and gas, 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.

Acquisition of GotOil Resources (Oman) Ltd

The Group acquired 100 per cent of the share capital of GotOil Resources (Oman) Ltd on 24 May 2006 from Maha Resources Ltd. Got Oil Resources (Oman) Ltd, registered in Gibraltar, has 40 per cent interest in an Exploration and Production Sharing Agreement in Block 15, Oman. As consideration for the acquisition Tethys Oil paid USD 600,000 (SEK 4,383,900) in cash and issued 400,000 new shares of Tethys Oil. The value of the shares is based on the market price of SEK 49.50 for the Tethys Oil share at the effective date of acquisition, 24 May 2006 as from which date GotOil Resources (Oman) Ltd is consolidated. The total value of the consideration therefore amounts to SEK 24,183,900. The share issue was registered on 5 June 2006.

Net profit and sales

Tethys Oil reports a net result for the first six month period of 2006 of TSEK -3,699 (TSEK -10,896 for the corresponding period last year) and TSEK -2,443 (TSEK -9,749) for the second quarter 2006, representing earnings per share of SEK -0.82 (SEK -2.48) for the first half 2006 and SEK -0.53 (SEK -2.22) for the second quarter 2006. A write down of TSEK 137 has negatively affected the result of the second quarter of 2006. Cash flow from operations before changes in working capital for the first half 2006 amounted to TSEK -3,470 (TSEK -2,703) and TSEK -2,284 (TSEK -1,563) for the second quarter 2006.

The net result for the first half of 2006 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 2006, apart from incidental oil production in the La Lora field, which according to Tethys Oil's accounting principles is offset against capitalized costs of the related cost centre in the balance sheet. Accordingly, there has been no depletion of oil and gas properties.

Costs of administration and depreciation

Costs of administration and depreciation amounted to TSEK -3,974 (TSEK -3,189) for the first half of 2006 and TSEK -2,527 (TSEK -1,852) for the second quarter 2006. Depreciation amounted to TSEK 92 (TSEK 14) for the first half of 2006 and TSEK 22 (TSEK 7) 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. Depreciation is referable to computers, phones etc.

Investments

Fixed assets as at 30 June 2006 amounted to TSEK 42,465 (TSEK 11,599) of which TSEK 42,287 (TSEK 11,404) relates to oil and gas properties. Oil and gas properties in Denmark amounted to TSEK 7,540 (TSEK 5,119), France TSEK 883 (TSEK 690), Morocco TSEK 1,936 (TSEK 553), Oman TSEK 25,497 (TSEK –), Spain TSEK 3,253 (TSEK 3,152), Turkey TSEK 1,277 (TSEK 727) and other TSEK 1,901 (TSEK 1,163). Expenditures for oil and gas properties of TSEK 31,020 (TSEK 2,520) was incurred for first six months of 2006 of which Denmark TSEK 2,421, France TSEK 193, Morocco TSEK 1,383, Oman TSEK 25,497, Spain TSEK 101, Turkey TSEK 550 and other TSEK 876. Investments in oil and gas properties have mainly been the acquisition of GotOil Resources (Oman) Ltd. Other investments have been location construction and other well preparations in Denmark license 1/02 and field work on the Bouanane license in Morocco.

Investments in other fixed assets during the 6 month period that ended 30 June 2006 amounted to TSEK 75 (TSEK 4). These investments are referable to office related equipment.

Liquidity and financing

Cash and bank as at 30 June 2006 amounted to TSEK 37,370 (TSEK 657). Short-term investments as at 30 June 2006 amounted to TSEK 26,594 (TSEK 40,445). The short-term investments are investments in mutual bond funds with short durations, less than three months from acquisition date.

At an Extraordinary General Meeting of Tethys Oil on 19 May 2006 a resolution was made to issue new shares with associated warrants carrying preferential rights for existing share holders. Five existing shares entitled the holder to subscribe for one Unit, which consisted of one newly issued share and one newly issued warrant. The price for each Unit was set to SEK 60 per Unit. On 22 June 2006 Tethys Oil announced the rights issue fully subscribed. Through this rights issue the company raised around MSEK 52.6 before issue costs and increased the number of shares with 876,960 shares. The issue costs are estimated to amount to approximately MSEK 4.5. Of the proceeds TSEK 36,437 had been paid by 30 June 2006 and is included in cash and bank and the remaining TSEK 16,181 is included in current receivables and was fully paid on 5 July 2006.

Current receivables

Current receivables amounted to TSEK 16,892 (TSEK 1,681) as at 30 June 2006. Of the current receivables TSEK 16,181 is referable to proceeds from the rights issue.

Current liabilities

Current liabilities as at 30 June 2006 amounted to TSEK 6,948 (TSEK 2,458), of which TSEK 3,379 (TSEK 2,055) relates to accounts payable, TSEK 2,742 (TSEK 117) relates to other current liabilities and TSEK 827 (TSEK 286) relates to accrued expenses.

Parent company

The parent company reports a result amounting to TSEK -1,588 (TSEK -1,573) for the first half of 2006 and TSEK -1,186 (TSEK -437) for the second quarter. Write down of shares in group companies of TSEK 137 has negatively affected the result of the second quarter. Costs of administration and depreciation amounted to TSEK -3,803 (TSEK -3,189) for the first half of 2006 and TSEK -2,356 (TSEK -1,852) for the second quarter. Net financial income amounted to TSEK 629 (TSEK 300) during the first half of 2006 and TSEK 249 (TSEK 419) for the second quarter. Investments during the first half 2006 amounted to TSEK 31,335 (TSEK 8,080). Investments are mainly related to the acquisition of GotOil Resources (Oman) Ltd. Apart from the acquisition, financial investments are financial loans to subsidiaries for their oil and gas operations. The turnover in the parent company relates to charge outs of services to subsidiaries.

Board of Directors and management

At the Annual Meeting of shareholders on 4 May 2006 Håkan Ehrenblad, Vincent Hamilton, John Hoey, Carl-Gustaf Ingelman, Magnus Nordin and Jan Risberg were re-elected members of the board. No deputy directors were appointed. At the same meeting Vincent Hamilton was appointed Chairman. At the Extraordinary General Meeting of shareholders on 19 May 2006 Jonas Lindvall was newly elected member of the board. Mr. Lindvall is a petroleum engineer with over 20 years experience from the oil and gas industry. He is also an employee of the group and will be in charge of the group's operations in Oman.

Share data

The number of shares in Tethys Oil amount to 5,661,760 (4,384,800), with a quota value of SEK 0.50 (SEK 0.50). The number of shares includes 400,000 shares from the non-cash issue in connection with the acquisition of GotOil Resources (Oman) Ltd that were registered on 5 June 2006. It further includes 876,960 shares from the rights issue that had been issued but not registered at the end of the reporting period. The newly issued shares from the rights issue were registered on 10 July 2006. For the weighted number of shares calculation they were included from the issue date, 28 June 2006.

In the rights issue described above, Tethys Oil issued a warrant for every issued share, amounting to 876,960 warrants. These warrants were listed on First North on 17 July 2006. The warrants can be exercised during two fixed periods. The first period is between 1 December 2006 – 31 January 2007 and has a subscription price of SEK 72 and the second period is between 1 September 2007 – 30 September 2007 and has a subscription price of SEK 78. As the share price at the end of the reporting period was below subscription prices, these warrants are not included in the fully diluted number of shares.

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

Consolidated income statement

TSEK	Note	1 Jan 2006 –30 Jun 2006 6 months	1 Apr 2006 –30 Jun 2006 3 months	1 Jan 2005 –30 Jun 2005 6 months	1 Apr 2005 –30 Jun 2005 3 months	1 Jan 2005 –31 Dec 2005 12 months
Net sales of oil and gas		–	–	–	–	–
Depreciation of oil and gas properties	1	–	–	–	–	–
Write off of oil and gas properties	1	-137	-137	-8,179*	-8,179*	-8,412*
Other income		63	63	–	–	23
Administration and depreciation**		-3,974	-2,527	-3,189	-1,852	-6,609
Operating result		**-4,047**	**-2,601**	**-11,368**	**-10,031**	**-14,998**
Financial income and similar items		548	351	534	341	774
Financial expenses and similar items		-200	-193	-62	-59	-144
Net financial income		**349**	**158**	**472**	**282**	**630**
Result before tax		**-3,699**	**-2,443**	**-10,896**	**-9,749**	**-14,368**
Income tax		–	–	–	–	–
Net result		**-3,699**	**-2,443**	**-10,896**	**-9,749**	**-14,368**
Number of shares outstanding	2	5,661,760	5,661,760	4,384,800	4,384,800	4,384,800
Number of shares outstanding (after full dilution)	2	5,661,760	5,661,760	4,384,800	4,384,800	4,384,800
Weighted number of shares	2	4,483,313	4,580,744	4,384,800	4,384,800	4,384,800
Earnings per share, SEK	2	-0.82	-0.53	-2.48	-2.22	-3.28
Earnings per share (after full dilution), SEK	2	-0.82	-0.53	-2.48	-2.22	-3.28

** The write down of oil and gas properties mainly regards Hoto in Turkey.*

*** These costs regard corporate costs.*

Consolidated balance sheet

TSEK	Note	30 Jun 2006	30 Jun 2005	31 Dec 2005
ASSETS				
Fixed assets				
Oil and gas properties	1	42,287	7,757	11,404
Other fixed assets		178	147	195
Total fixed assets		**42,465**	**7,904**	**11,599**
Current assets				
Other receivables		16,892	756	1,681
Prepaid expenses		221	77	451
Short term investments *		26,594	46,631	40,445
Cash and cash equivalents		37,370	994	657
Total current assets		**81,076**	**48,458**	**43,234**
TOTAL ASSETS		**123,542**	**56,362**	**54,833**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity	2			
Share capital		2,830	2,192	2,192
Other contributed equity		138,350	71,071	71,071
Retained earnings		-24,587	-17,416	-20,888
Total shareholders' equity		**116,594**	**55,847**	**52,375**
Non interest bearing current liabilities				
Accounts payable		3,379	247	2,055
Other current liabilities		2,742	222	117
Accrued expenses		827	46	286
Total non interest bearing current liabilities		**6,948**	**515**	**2,458**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**123,542**	**56,362**	**54,833**
Pledged assets		723	–	780
Contingent liabilities	3	33,222	14,527	14,527

* *The short term investments are investments in mutual bond funds with short durations, less than three months from acquisition date*

Consolidated statement of changes in equity

TSEK	Share capital	Other contributed equity	Retained Earnings
Opening balance at 1 January 2005	**2,192**	**71,071**	**-6,520**
Net result	–	–	-14,368
Closing balance at 31 December 2005	**2,192**	**71,071**	**-20,888**
Opening balance at 1 January 2006	**2,192**	**71,071**	**-20,888**
Period result first quarter 2006	–	–	-1,256
Non- cash issue	200	19,600	–
Issued/not registered rights issue	438	52,179	–
Estimated issue costs	–	-4,500	–
Period result second quarter 2006	–	–	-2,443
Closing balance at 30 June 2006	**2,830**	**138,350**	**-24,587**

Consolidated cash flow statement

TSEK	Note	1 Jan 2006 –30 Jun 2006 6 months	1 Apr 2006 –30 Jun 2006 3 months	1 Jan 2005 –30 Jun 2005 6 months	1 Apr 2005 –30 Jun 2005 3 months	1 Jan 2005 –31 Dec 2005 12 months
Cash flow from operations						
Operating result		-4,047	-2,601	-11,368	-10,031	-14,998
Financial income and similar items		548	351	534	341	774
Financial expenses and similar items		-200	-193	-62	-59	-144
Adjustment for write down of oil and gas properties		137	137	8,179	8,179	8,412
Adjustment for depreciation		92	22	14	7	35
Total cash flow used in operations before change in working capital		**-3,470**	**-2,284**	**-2,703**	**-1,563**	**-5,921**
Decrease/increase in receivables		1,200	-110	658	405	-622
Increase in liabilities		2,905	3,732	-1,844	-572	99
Cash flow used in operations		**635**	**1,338**	**-3,889**	**-1,731**	**-6,444**
Investment activity						
Investment in oil and gas properties	1	-31,020	-27,837	-2,520	-1,584	-6,420
Investment in other fixed assets		-75	-75	-4	–	-72
Cash flow used for investment activity		**-31,096**	**-27,912**	**-2,523**	**-1,584**	**-6,492**
Financing activity						
Share issue		53,322	53,322	–	–	–
Cash flow from financing activity		53,322	53,322	–	–	–
Period cash flow		**22,861**	**26,747**	**-6,412**	**-3,315**	**-12,936**
Cash and cash equivalents at the beginning of the period*		41,102	37,215	54,037	50,940	54,037
Cash and cash equivalents at the end of the period *		63,963	63,963	47,625	47,625	41,102

** Presenterat som kassa och bank och övriga kortfristiga placeringar i balansräkningen.*

Parent company income statement condensed

TSEK	Note	1 Jan 2006 –30 Jun 2006 6 months	1 Apr 2006 –30 Jun 2006 3 months	1 Jan 2005 –30 Jun 2005 6 months	1 Apr 2005 –30 Jun 2005 3 months	1 Jan 2005 –31 Dec 2005 12 months
Net sales of oil and gas		–	–	–	–	–
Depreciation of oil and gas properties	1	–	–	–	–	–
Write off of oil and gas properties	1	–	–	–	–	–
Other income		1,586	922	1,316	996	2,812
Administration and depreciation		-3,803	-2,356	-3,189	-1,852	-6,598
Operating result		**-2,217**	**-1,435**	**-1,872**	**-856**	**-3,786**
Financial income and similar items		967	577	797	478	1,226
Financial expenses and similar items		-197	-191	-62	-58	-139
Write down of shares in group company		-141	-137	-435	–	-9,692
Net financial income		**629**	**249**	**300**	**419**	**-8,605**
Result before tax		**-1,588**	**-1,186**	**-1,573**	**-437**	**-12,391**
Income tax		–	–	–	–	–
Net result		**-1,588**	**-1,186**	**-1,573**	**-437**	**-12,391**
Number of shares outstanding	2	5,661,760	5,661,760	5,661,760	5,661,760	4,384,800
Number of shares outstanding (after full dilution)	2	5,661,760	5,661,760	5,661,760	5,661,760	4,384,800
Weighted number of shares	2	4,483,313	4,580,744	4,456,794	4,527,996	4,384,800
Earnings per share, SEK	2	-0.35	-0.26	-0.35	-0.10	-2.83
Earnings per share (after full dilution), SEK	2	-0.35	-0.26	-0.35	-0.10	-2.83

Parent company balance sheet condensed

TSEK	Note	30 Jun 2006	30 Jun 2005	31 Dec 2005
ASSETS				
Total fixed assets		178	147	195
Total financial assets		49,257	20,273	17,997
Total current assets		79,507	47,359	40,789
TOTAL ASSETS		**128,943**	**67,778**	**58,981**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity	2	122,773	67,262	56,444
Total non interest bearing current liabilities		6,170	516	2,538
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**128,943**	**67,778**	**58,981**
Pledged assets		723	–	780
Contingent liabilities	3	4,838	–	–

Parent company statement of changes in equity

TSEK	Restricted equity		Unrestricted equity	
	Share capital	Share premium reserve	Retained Earnings	Net result
Opening 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	–	–	–	-12,391
Closing balance at 31 December 2005	**2,192**	**71,071**	**-4,428**	**-12,391**
Opening balance at 1 January 2006	**2,192**	**71,071**	**-4,428**	**-12,391**
Transfer of prior year net result	–	–	-12,391	12,391
Period result first quarter 2006	–	–	–	-402
Non-cash issue	200	19,600	–	–
Issued/not registered rights issue	438	52,179	–	–
Estimated issue costs	–	-4,500	–	–
Period result second quarter 2006	–	–	–	-1,186
Closing balance at 30 June 2006	**2,830**	**138,350**	**-16,819**	**-1,588**

Notes

General information

Tethys Oil AB (publ) ("the Company"), organisation number 556615-8266, and its subsidiaries (together "the Group") are focused on exploration for and production of oil and natural gas. The Group has interests in exploration licenses in Denmark, France, Morocco, Oman, Spain and Turkey and in a production license in Spain.

The Company is a limited liability company incorporated and domiciled in Stockholm, Sweden. The Company is listed on First North (previously called Nya Marknaden) in Stockholm.

These consolidated financial statements have been approved for issue by the Board of Directors on 15 August 2006.

Accounting principles

The six month report of the Tethys Oil Group has been prepared in accordance with the Swedish Financial Accounting Standards Council's RR31 and IAS 34. The six month report of the parent company has been prepared in accordance with the Annual Accounts Act and the Swedish Financial Accounting Standards Council's RR32. The same accounting principles were used in the annual report 2005.

Financial instruments

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

Note 1) Oil and gas properties

TSEK	Group			Parent		
	1 Jan 2006 –30 Jun 2006 6 months	**1 Apr 2006 –30 Jun 2006 3 months**	**1 Jan 2005 –31 Dec 2005 12 months**	**1 Jan 2006 –30 Jun 2006 6 months**	**1 Apr 2006 –30 Jun 2006 3 months**	**1 Jan 2005 –31 Dec 2005 12 months**
Investments in oil and gas properties						
Opening balance	20,251	23,434	14,437	–	–	–
Investments in Denmark	2,421	965	3,412	–	–	–
Investments in France	193	78	690	–	–	–
Investments in Morocco	1,383	713	544	–	–	–
Investments in Oman	25,497	25,458	–	–	–	–
Investments in Spain	101	67	33	–	–	–
Investments in Turkey	550	343	615	–	–	–
Other investments in oil and gas properties	876	213	1,125	–	–	–
Closing balance	51,271	51,271	20,856	–	–	–
Reclassification of assets in Turkey	–	–	-605	–	–	–
Depreciation						
Depreciation	–	–	–	–	–	–
Write down						
Opening balance	8,847	8,847	435	–	–	–
Write down	137	137	8,412	–	–	–
Closing balance	8,984	8,984	8,847	–	–	–
Net book value	**42,287**	**42,287**	**11,404**	**–**	**–**	**–**

Note 2) Shareholders' equity

The number of shares in Tethys Oil amount to 5 661 760 (4,384,800), with a quota value of SEK 0.50 (SEK 0.50). The number of shares includes 400,000 shares from the non-cash issue in connection with the acquisition of GotOil Resources (Oman) Ltd that were registered on 5 June 2006. It further includes 876,960 shares from the rights issue that had been issued but not registered at the end of the reporting period. The newly issued shares from the rights issue were registered on 10 July 2006. For the weighted number of shares calculation they were included from the issue date, 28 June 2006.

In the rights issue described above, Tethys Oil issued a warrant for every issued share, amounting to 876,960 warrants. These warrants were listed on First North on 17 July 2006. The warrants can be exercised during two fixed periods. The first period is between 1 December 2006 – 31 January 2007 and has a subscription price of SEK 72 and the second period is between 1 September 2007 – 30 September 2007 and has a subscription price of SEK 78. As the share price at the end of the reporting period was below subscription prices, these warrants are not included in the fully diluted number of shares.

Note 3) Contingent liabilities

The contingent liabilities amount to TSEK 33,222 (TSEK 14,527). In Denmark, the Group has a contingent liabilities amounting to TSEK 14,000 regarding an exploration well, in Spain the Group has a contingent liability of TSEK 543 regarding abandonment in the La Lora concession in Spain, in France the Group has a financial work commitment of TSEK 4,838 and in Oman the Group has a financial work commitment of TSEK 13,840. The parent company has a contingent liability of TSEK 4,838 (TSEK -) for the financial work commitment in France.

Note 4) Acquisition

The Group acquired 100 per cent of the share capital of GotOil Resources (Oman) Ltd on 24 May 2006 from Maha Resources Ltd. Got Oil Resources (Oman) Ltd, registered in Gibraltar, has 40 per cent interest in an Exploration and Production Sharing Agreement in Block 15, Oman. As consideration for the acquisition Tethys Oil paid USD 600,000 (SEK 4,383,900) in cash and issued 400,000 new shares of Tethys Oil. The value of the shares is based on the market price of SEK 49.50 for the Tethys Oil share at the effective date of acquisition, 24 May 2006. The total value of the consideration therefore amounts to SEK 24,183,900.

GotOil Resources (Oman) Ltd contributed revenues of TSEK 93 and net profit of TSEK - 107 to the Group for the period from acquisition to 30 June 2006. If acquisition had occurred on 1 January 2006 consolidated revenue and consolidated net profit for the half year ended 30 June 2006 would have been TSEK 1,278 and TSEK -71 respectively. If acquisition had occurred on 1 April 2006 consolidated revenue and consolidated net profit for the second quarter ended 30 June 2006 would have been TSEK 386 and TSEK -79 respectively.

Items	**TSEK**
Total purchase consideration	24,184
Costs related to acquisition	731
Fair value of assets acquired (see below)	-399
Excess value over acquired net assets allocated to oil and gas properties	**24,516**

The excess value over acquired net assets is allocated to oil and gas properties in the consolidated balance sheet and is referable to the Group's interest in Block 15 in Oman.

TSEK	**Fair value**	**Acquiree's carrying amount**
Capitalised costs	461	461
Receivables	17	17
Other current liabilities	-54	-54
Accrued expenses	-25	-25
Net assets acquired	**399**	**399**

Note 5) Subsequent events

- Tethys Oil has farmed out to a new partner for the Denmark licenses. Tethys Oil has announce that it has signed a Letter of Intent with Star Energy Group plc for Star Energy to become a 20 per cent partner in Tethys operated licenses 1/02, onshore Zealand and 1/03 onshore and offshore Jutland and Zealand in Denmark. License 1/02 contains the Karlebo prospect where an exploration well is scheduled to be drilled in early fall.

  The farmout arrangement calls for Star Energy to pay 20 per cent of historical costs and 40 per cent of the cost of an exploration well on licence 1/02 for its 20 per cent interest in the licenses. The total cash value is estimated at approximately MSEK 13 (MGBP 1, MUSD 1.8) including the cost for the exploration well. Through the farmout, Tethys Oil will reduce its interest in the licenses from 70 per cent to 50 per cent.

  Star Energy is an integrated energy company currently operating in the UK onshore sector, that combines oil, gas and electricity production with a developing gas storage business. Founded in 1999, Star Energy Group plc currently has a turnover of over MGBP 20 and has approximately 150 employees. Star Energy Group plc is the second largest onshore UK oil producer. The licenses were awarded by the Danish government in 2002 and 2003. Other partners are DONG E&P and Odin Energi A/S.

- The remaining part of the proceeds from the rights issue was paid on 5 July 2006. The share issue was registered on 10 July 2006

- After the reporting period a directed share issue was conducted to Maha Resources Ltd of 80,000 shares and 80,000 warrants. The share issue was subscribed on the same terms and conditions as the rights issue which raised TSEK 4,800 before issue costs. This share issue was not registered at the date of this report. Payment was made on 26 July 2006

Key ratios

Group

	1 Jan 2006 –30 Jun 2006 6 months	1 Apr 2006 –30 Jun 2006 3 months	1 Jan 2005 –30 Jun 2005 6 months	1 Apr 2005 –30 Jun 2005 3 months	1 Jan 2005 –31 Dec 2005 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	-4,047	-2,601	-11,368	-10,031	-14,998
Operating margin, %	neg.	neg.	neg.	neg.	neg.
Result before tax, TSEK	-3,699	-2,443	-10,896	-9,749	-14,368
Net result, TSEK	-3,699	-2,443	-10,896	-9,749	-14,368
Net margin, %	neg.	neg.	neg.	neg.	neg.
Shareholders’ equity, TSEK	116,594	116,594	55,847	55,847	52,375
Balance sheet total, TSEK	123,542	123,542	56,362	56,362	54,833
Capital structure					
Solvency, %	94.38%	94.38%	99.09%	99.09%	95.52%
Leverage ratio, %	n.a.	n.a.	n.a.	n.a.	n.a.
Adjusted equity ratio, %	94.38%	94.38%	99.09%	99.09%	95.52%
Interest coverage ratio, %	n.a.	n.a.	n.a.	n.a.	n.a.
Investments, TSEK	31,096	27,912	2,523	1,584	6,492
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	4.3	4.7	3.0	3.0	3.5
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	5,662	5,662	4,385	4,385	4,385
Shareholders’ equity per share, SEK	20.59	20.59	12.74	12.74	11.94
Weighted number of shares on balance day, thousands	4,483	4,581	4,385	4,385	4,385
Earnings per share, SEK	-0.82	-0.53	-2.48	-2.22	-3.28

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 2006) on 31 October 2006
- Year end report (January – December 2006) on 15 February 2007
- Three months report (January – March 2007) on 3 May 2007
- Six months report (January – June 2007) on 15 August 2007

Stockholm, 15 August 2006

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