

TETHYS PETROLEUM LIMITED
(formerly known as Tethys Petroleum Investments Limited)

Consolidated Balance Sheet - Unaudited

	Note	As at	
		June 30, 2007	December 31, 2006
(Expressed in 000's United States dollars)			
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		45,479	1,763
Prepayments	4	113	331
Other current assets		682	2
Total current assets		<u>46,274</u>	<u>2,096</u>
NON CURRENT ASSETS			
Prepayments	4	6,571	3,852
Restricted Cash	5	217	205
Other accounts receivables	6	1,762	1,086
Prepaid financing fees	7	-	30
Capital assets	8	34,824	12,318
Total Assets		<u><u>89,648</u></u>	<u><u>19,587</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Accounts payable	9	961	878
Accrued liabilities	10	1,691	-
Other liabilities		417	453
Total current liabilities		<u>3,069</u>	<u>1,331</u>
Long term debt	11	-	3,084
Other non current liabilities	12	-	32
Provision for future site restoration	13	470	451
Total Liabilities		<u>3,539</u>	<u>4,898</u>
Stockholders' equity	16		
Common stock, authorized - 100,000,000 shares; shares issued, issuable and outstanding - 45,116,696 at 30 June 2007 and 14,000,000 at 31 December, 2006.		99,596	22,315
Contributed Surplus		2,242	-
Warrants	17	16,555	2,220
Accumulated deficit		(32,284)	(9,846)
Total stockholders' equity		<u>86,109</u>	<u>14,689</u>
Total Liabilities and Stockholders' Equity		<u><u>89,648</u></u>	<u><u>19,587</u></u>

See accompanying notes to these financial statements



TETHYS PETROLEUM LIMITED
(formerly known as Tethys Petroleum Investments Limited)

Consolidated Statement of Operations - Unaudited

	For three months to		Year to Date	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	(Expressed in 000's USA dollars)		(Expressed in 000's USA dollars)	
	Note			
Operating Revenues				
Oil and gas sales	_____	_____	_____	_____
Other	_____	-	_____	-
	-	-	_____	_____
Operating Expenses:				
Selling, general and administrative	18,335	637	19,998	1,262
Depreciation, depletion and amortization	14	4	28	12
	18,349	641	20,026	1,274
Operating Loss	(18,349)	(641)	(20,026)	(1,274)
Other Income (Expense):				
Interest, net	(1,932)	472	(2,268)	502
Foreign exchange gains (losses)	(9)	160	(143)	150
Other	174	(2)	(2)	(3)
Total Other Expense	(1,768)	630	(2,412)	649
Loss Before Income Taxes	(20,117)	(11)	(22,438)	(625)
Income taxes	_____	-	-	_____
Net Loss	(20,117)	(11)	(22,438)	(625)
Weighted average number of common shares outstanding	21,235,850	100,000	13,119,668	100,000
Weighted diluted average number of common shares outstanding	21,693,750	100,000	13,577,248	100,000
Basic	(1)	(0)	(2)	(6)
Diluted	(1)	(0)	(2)	(6)

See accompanying notes to these financial statements

TETHYS PETROLEUM LIMITED
 (formerly known as Tethys Petroleum Investments Limited)

Consolidated Statement of Cash Flows - unaudited

	For three months to		Year to Date	
	June 30, 2007	June 30, 2006	2007	2006
	(Expressed in 000's USA dollars)		(Expressed in 000's USA dollars)	
Operating activities:				
Loss from operations	(20,117)	(21,824)	(22,438)	(22,438)
Share warrants	16,339	-	16,339	-
Non-cash interest expense	1,816	356	2,108	356
Non-cash reduction in selling, general & admin expenses	-	-	-	-
Depreciation, depletion and amortization	14	(2)	28	6
Accounts receivable	(1,052)	11	(1,355)	11
Prepayments	277	2,527	248	2,441
Accounts payable	759	218	83	(73)
Accrued liabilities	1,496	5	1,655	5
Net cash used in operating activities	<u>(469)</u>	<u>(18,709)</u>	<u>(3,333)</u>	<u>(19,691)</u>
Investing activities:				
Capital expenditures	(5,249)	(3,857)	(7,534)	(5,329)
Restricted Cash	(7)	-	(12)	-
Change in oil & gas suppliers prepayments	(1,731)	(1,343)	(2,719)	(653)
Net cash used in investing activities	<u>(6,987)</u>	<u>(5,200)</u>	<u>(10,265)</u>	<u>(5,982)</u>
Financing activities:				
Proceeds from sale of common stock	50,000	-	67,338	-
Share issue costs	(4,440)	-	(5,056)	-
Deferred loan costs	(10)	-	-	-
Repayment of loans	(5,000)	(316)	(5,000)	13,285
Other non-current liabilities	32	-	32	-
Net cash provided by (used in) financing activities	<u>40,582</u>	<u>(316)</u>	<u>57,314</u>	<u>13,285</u>
Net increase (decrease) in cash and cash equivalents	33,126	(24,224)	43,716	(12,388)
Cash and cash equivalents, beginning of period	12,353	12,275	1,763	439
Cash and cash equivalents, end of period	<u>45,479</u>	<u>(11,949)</u>	<u>45,479</u>	<u>(11,949)</u>

See accompanying notes to these financial statements



TETHYS PETROLEUM LIMITED
(formerly known as Tethys Petroleum Investments Limited)

Consolidated Statements of Changes in Stockholders Equity - Unaudited

	Common Stock		Contributed Surplus	Warrants Reserve	Accumulated Deficit	Total Stockholders Equity
	No of Shares Issued	Share Capital				
	(Expressed in 000's United States dollars except share data)					
Total December 31 , 2005	100,000	19	-	-	(2,903)	(2,884)
Stock split pursuant to Capital Reorganization dated October 23 2006	900,000	-	-	-	-	-
Shares Issued pursuant to capitalization of parent inter-company loan dated October, 23 2006	69,000,000	22,296	-	-	-	22,296
Discount recorded for Issue of warrants to purchase 5 million shares pursuant to a loan agreement (see note 12)	-	-	-	2,220	-	2,220
Net Loss	-	-	-	-	(6,943)	(6,943)
Total December, 31 2006	<u>70,000,000</u>	<u>22,315</u>	<u>0</u>	<u>2,220</u>	<u>(9,846)</u>	<u>14,689</u>
Shares Issued pursuant to Private Placement completed on February, 17 2007	34,674,390	17,337	-	-	-	17,337
Change it discount recorded for issue of warrants to purchase 5 million shares	-	-	-	238	-	238
Finance Costs - in the quarter	-	(616)	-	-	-	(616)
Net Loss	-	-	-	-	(2,321)	(2,321)
Total, March 31 2007	<u>104,674,390</u>	<u>39,036</u>	<u>0</u>	<u>2,458</u>	<u>(12,167)</u>	<u>29,327</u>
Consolidation 1:5	20,934,878	39,036	0	2,458	-12,167	29,327
Issue of shares to acquire 30% of BN Munai	6,000,000	15,000	0	-	-	15,000
Initial Public Offering (IPO)	18,181,818	50,000	0	-	-	50,000
Finance Costs - in the quarter	-	(4,440)	-	-	-	(4,440)
Employee share options and warrants	-	-	2,242	14,097	-	16,339
Net loss in period	-	-	-	-	(20,117)	(20,117)
Total, June 30, 2007	<u>45,116,696</u>	<u>99,596</u>	<u>2,242</u>	<u>16,555</u>	<u>-32,284</u>	<u>86,109</u>

See accompanying notes to these financial statements

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – Unaudited
JUNE 30, 2007**

NOTE 1 - NATURE OF OPERATIONS AND GOING CONCERN

These interim financial statements are for the three months and six months period ended 30th June 2007 and should be read in connection with the annual financial statements.

Tethys Petroleum Limited (formerly known as Tethys Petroleum Investments Limited), incorporated and headquartered in Guernsey, British Isles, and its consolidated subsidiaries (collectively “Tethys”), is an oil and gas company operating within the Republic of Kazakhstan. Within the first quarter of 2007 the Company established a position in Republic of Tajikistan which is currently being developed. Tethys principal activity is the acquisition of interests in and development of crude oil and natural gas fields.

Significant Business Risks and Basis of Presentation

Since inception, the Company has incurred significant losses from operations and negative cash flows from operating activities, and has an accumulated deficit at June 30, 2007. The ability of the Company to successfully carry out its business plan is primarily dependent upon its ability to: (1) secure additional financing; (2) commence production of commercial oil and gas; and (3) control the costs of operating and capital expenditures. These factors create doubt about the Company’s ability to continue as a going concern.

The Company completed an Initial Public Offering of equity securities on Toronto Stock Exchange on June 27, 2007 that generated sufficient funds to secure its future at least in the short term. In the event the Company is unable to generate significant revenues and cash flows from operations it may need to seek further funding from its shareholders.

The financial statements have been prepared on the basis that the Company will continue to operate as a going concern, which contemplates the realisation of assets and the settlement of liabilities and commitments in the normal course of business.

Foreign Operations

Tethys’ future operations and earnings will depend upon the results of Tethys’ operations in the Republic of Kazakhstan and Tajikistan. There can be no assurance that Tethys will be able to successfully conduct such operations, and a failure to do so would have a material adverse effect on Tethys’ financial position, results of operations and cash flows. Also, the success of Tethys’ operations will be subject to numerous contingencies, some of which are beyond management control. These contingencies include general and regional economic conditions, prices for crude oil and natural gas, competition and changes in regulation. Since Tethys is dependent on international operations, specifically those in Kazakhstan, Tethys will be subject to various additional political, economic and other uncertainties. Among other risks, Tethys’ operations may be subject to the risks and restrictions on transfer of funds, import and export duties, quotas and embargoes, domestic and international customs and tariffs, and changing taxation policies, foreign exchange restrictions, political conditions and regulations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited consolidated financial statements and notes thereto have been prepared in accordance with applicable accounting standards in the United States using accounting policies consistent with those adopted by the Company in its consolidated financial statements for the period ended 31 December 2006. All tabular amounts are in thousands of U.S. dollars.

These interim consolidated financial statements are for the three months period and six months period ended 30th June 2007 and should be read in connection with the annual consolidated financial statements.

Reconciliation between US GAAP and Canadian GAAP

There are currently no material differences between US GAAP and Canadian GAAP as it relates to Tethys Petroleum Limited.

NOTE 3 – BUSINESS COMBINATIONS

Kul-Bas LLP

On May 5, 2005, Tethys acquired through its subsidiary BNM, 70% of the charter capital of Kul-Bas LLP, a limited liability partnership registered in Kazakhstan, for consideration of US\$100,000. Kul-Bas LLP had won the right to negotiate the Greater Akkulka Exploration and Production Contract covering an unexplored area of 2,688,695 acres (10,881 km²) surrounding the Akkulka area. In November, 2005 Kul-Bas LLP signed the Exploration and Production Contract with the Kazakh authorities, this contract being for a period of 25 years, with an initial six year exploration period. The purchase price of Kul-Bas LLP reflected the fair value of the unevaluated property and was allocated to unevaluated oil and gas properties.

NOTE 4 – PREPAYMENTS

Prepayments consisted of the following:

	June 30, 2007	December 31, 2006
Contractors	6,571	3,852
Other	113	331
Balance	<u>6,684</u>	<u>4,183</u>

Prepaid Contractors relate to suppliers who were prepaid for materials and services related to our Kazakhstan pipeline construction activities and Seismic costs in Tajikistan. Other prepayments primarily relate to prepaid insurance and other operating expense items.

NOTE 5 – RESTRICTED CASH

Investments consisted of the following:

	June 30, 2007	December 31, 2006
Restricted- Cash on Deposit	217	205
Balance	<u>217</u>	<u>205</u>

Restricted Cash at 30th June, 2007 consisted of bank deposits with maturity dates of April 27, 2008 and December 28, 2008. These deposits have been placed to satisfy local Kazakhstan requirements in respect of asset retirement obligations.

NOTE 6 – OTHER ACCOUNTS RECEIVABLES

Other receivables primarily relate to VAT recoverable at:

	June 30, 2007	December 31, 2006
VAT on Capital Expenditure	1,762	1,086
Balance	1,762	1,086

VAT recoverable represents VAT on capital expenditures in Kazakhstan that is allowed as an offset against VAT on revenues once production commences.

NOTE 7 – PREPAID FINANCING FEES

Prepaid Financing fees consisted of the following at:

	June 30, 2007	December 31, 2006
Commission and Professional fees	-	30
Balance	-	30

Prepaid financing fees as at December 31, 2006 were corporate finance fees incurred in respect of the US\$5,000,000 issue of Senior Secured Notes by the Company with a group of investors, discussed in Note 12 and which were to be amortized as interest expense over the term of the loans. The loan was repaid at the end of June 2007.

NOTE 8 - CAPITAL ASSETS

Capital assets, net of accumulated depletion, depreciation and amortization (“DD&A”) and impairment, include the following at June 30,, 2007:

	Cost US\$000	Accumulated DD&A And Impairment US\$000	Net Capital Assets US\$000
Oil and Gas Properties			
Proved properties	13,914	-	13,914
Unproved properties	20,369	-	20,369
	34,283	-	34,283
Plant and Equipment			
Oil & Gas Equipment	179	-	179
Office furniture, fixtures and Equipment and other	414	(52)	362
	593	(52)	541
	34,876	(52)	34,824

Capital assets, net of accumulated DD&A, include the following at December 31, 2006:

	Cost US\$000	Accumulated DD&A And Impairment US\$000	Net Capital Assets US\$000
Oil and Gas Properties			
Proved properties	8,683	-	8,683
Unproved properties	3,157	-	3,157
	<u>11,840</u>	<u>-</u>	<u>11,840</u>
Plant and Equipment			
Oil & Gas Equipment	179	-	179
Office furniture, fixtures and Equipment and other	337	(38)	299
	<u>516</u>	<u>(38)</u>	<u>478</u>
	<u>12,356</u>	<u>(38)</u>	<u>12,318</u>

Unproved property additions relate to activity relating to unevaluated properties in the period. Unevaluated properties consist of both the Akkulka Licence and Contract, and the Greater Akkulka Exploration and Production Contract. Activity in the Akkulka Licence and Contract included a five well exploration program during 2006 and early 2007. A program involving the drilling of a further ten well was initiated in the second quarter of 2007.

NOTE 9 – ACCOUNTS PAYABLE

Accounts Payable consisted of the following at:

	June 30, 2007	December 31, 2006
Trade payables	635	792
Education fund obligations	80	80
Other	246	6
	<u>961</u>	<u>878</u>

NOTE 10 – ACCRUED LIABILITIES

Accrued Liabilities consisted of the following at:

	June 30, 2007	December 31, 2006
Professional fees	1,691	369
Non cash loan interest	-	35
Other	417	49
	<u>2,108</u>	<u>453</u>

NOTE 11 – LONG TERM DEBT

The Loan included in the accounts to December 31, 2006 was repaid in June 2007, resulting in a loss on retirement of US\$1,816,000 which has been included in the interest expense.

	June 30, 2007	December 31, 2006
Tethys Senior Secured Notes	-	5,000
Unamortized debt discount	-	(1,916)
Balance	-	3,084

NOTE 12 – OTHER NON-CURRENT LIABILITIES

Other Non-current liabilities at June30, 2007 consisted of the following:

	June 30, 2007	December 31, 2006
Loan interest	-	32
Balance	-	32

NOTE 13 – PROVISION FOR SITE RESTORATION

Dismantlement, Restoration and Environmental Costs

Tethys recognizes liabilities for asset retirement obligations associated with tangible long-lived assets, such as producing well sites, with a corresponding increase in the related long-lived asset. The asset retirement cost is depreciated along with the property and equipment in the full cost pool. The asset retirement obligation is recorded at fair value and accretion expense, recognized over the life of the property, increases the liability to its expected settlement value. If the fair value of the estimated asset retirement obligation changes, an adjustment is recorded for both the asset retirement obligation and the asset retirement cost. The Company's asset retirement obligations consist of costs related to the plugging of wells, the removal of facilities and equipment, and site restoration on oil and gas properties. Capitalized costs are depleted as a component of the full cost pool using the units of production method.

There was no impact on Tethys' cash flows as a result of adopting SFAS No. 143. The asset retirement obligation, which is included on the consolidated balance sheet in provision for future site restoration, comprised the following:

	June 30, 2007	December 31, 2006
Beginning balance, 1 January	451	354
New obligations incurred	-	62
Accretion of expense	19	35
Balance	470	451

NOTE 14 – NON-CASH MOVEMENTS

Changes in Capital Expenditures

The following provides the reconciliation between the Balance Sheet movements in Capital Assets to the Changes in Capital Expenditures reported on the Consolidated Statements of Cash Flows:

	June 30, 2007	December 31, 2006
Balance Sheet movement in Capital Assets, net	22,520	10,418
Non Cash Capital Asset movements:		
Purchase in exchange for company shares	(15,000)	-
Small valued assets written off to P&L account	23	-
Changes in provision for site restoration		(60)
Changes in Accumulated Depreciation	(9)	32
Capital Expenditures	7,534	10,390

NOTE 15 - COMMITMENTS AND CONTINGENCIES

On May 10, 2007, Tethys entered into an agreement with the owner of NBC (Nursat Bauyr and Co) to acquire the rights to the large Aral Vostochniy Block by agreeing to acquire NBC from the owner through its wholly-owned subsidiary TKL in exchange for, among other things, an initial payment of US\$2,500,000 (including an immediate US\$100,000 deposit to be paid which will be forfeited, under certain circumstances, if the contract becomes null and void) and 1,500,000 Ordinary Shares, thereby making NBC an indirect wholly-owned subsidiary of Tethys. Closing of this acquisition was conditional upon, among other things, Tethys raising gross proceeds of at least US\$25,000,000 pursuant to the Treasury Offering, which it duly achieved.

It is anticipated that the cash and shares will exchange once approval has been received from the relevant authorities and in anticipation of this the 1,500,000 Shares were issued on July 25, 2007 and have been placed in an Escrow account.

We have contingent obligations and may incur additional obligations, absolute and contingent, with respect to the acquisition and development of oil and gas properties and ventures in which we have interests that require or may require us to expend funds and to issue shares of our Common Stock.

As at June 30, 2007, we have commitments of US\$480,000 in respect of the construction of the pipeline tie-in for the Kyzylloi field development in Kazakhstan.

Under the terms of Kyzylloi Field Licence and Production Contract, historic costs totalling US\$1,211,000 are payable in equal portions of US\$43,244 on a quarterly basis to the Kazakhstan government from the third year of production.

Exploration Under the terms of the Akkulka Licence and Contract, in order to maintain its interest in the contract, BNM has obligations to spend US\$3,550,000 in 2007 prior to the expiry of the contract in September

2007. In addition, historic costs of US\$1,028,000 are payable to the Kazakhstan government once commercial production has commenced. The timing of these payments is still to be agreed.

Under the terms of the Greater Akkulka Exploration and Production Contract, in order to maintain its interest in the contract, BNM has obligations to spend a total of US\$8,304,000 over the five years to 2011 as follows: 2007 US\$1,072,000; 2008 US\$3,303,000; 2009 US\$528,000; 2010 US\$3,270,000 and 2011 US\$131,000. In addition, historic costs of US\$3,227,000 are payable to the Kazakh government in equal portions on a quarterly basis over the first 10 years of any commercial production.

On January 5, 2006, the Company's subsidiary BNM entered into the Gas Supply Contract with Gaz Impex relating to gas sales from the Kyzylloi Field. The Gas Supply Contract, which has a term until the earlier of June 13, 2014 and the date on which all contracts and licences pursuant to which the gas to be delivered under the Gas Supply Contract terminate, is based on a take-or-pay principle and covers all gas produced from the Kyzylloi Field Licence and Production Contract area. Gas will be supplied to Gaz Impex at a tie-in point on the Bukhara-Urals gas trunkline approximately 32 miles (51 km) east of the Kyzylloi Field. The price of gas to be supplied at the tie-in point averages US\$0.91 per Mcf (US\$32 per Mcm) over the life of the contract, with Gaz Impex providing bank guarantees. First revenue will be realized after the construction and commissioning of the pipeline and is expected to begin in the September or October of 2007.

NOTE 16 – SHAREHOLDERS' EQUITY

The total number of Ordinary Shares authorized was 100,000,000 as of June 30, 2007 and 1,000,000 at June 30, 2006. Shares issued and outstanding were 45,116,696 at June 30, 2007, and 100,000 at June 30, 2006.

Quarter ended June 30, 2007

The Company obtained the approval for a 1 for 5 Share Consolidation on May 8, 2007 when an ordinary resolution of shareholders approving such consolidation was filed with the Guernsey companies register. As a result 26,934,878 Ordinary Shares were issued to replace the existing 134,674,390 after giving effect to the issuance of the 30,000,000 shares relating to the BN Munai acquisition.

On June 27, 2007 Tethys successfully completed an IPO and listed on the Toronto Stock Exchange having placed 18,181,818 at a price of US\$ 2.75 raising US\$ 50 million (gross).

No dividend has been declared or paid during the full year periods ended December 31, 2006, or in the first and second quarters of 2007.

NOTE 17 – STOCK BASED COMPENSATION

The Company has adopted a stock incentive plan referred to as the "2007 Long Term Stock Incentive Plan" pursuant to which the Company may grant stock options to any director, employee or consultant of the Company, or any subsidiary or Vazon (collectively, "Service Providers"). The purpose of the plan is to secure for the Company and its shareholders the benefits of incentives inherent in share ownership by Service Providers who, in the judgment of the Board of Directors, will be largely responsible for its future growth and success.

The maximum number of Ordinary Shares reserved for issuance under the plan equals 10% of the outstanding Ordinary Shares after giving effect to the Treasury Offering. The plan is administered by the Compensation and Nomination Committee of the Board of Directors. Options may be granted pursuant to recommendations of the Compensation and Nomination Committee. The Compensation and Nomination Committee may determine the vesting schedule and term, provided that options may not have a term exceeding ten years. Subject to any resolution passed by the Compensation and Nomination Committee, options will terminate three months after an optionee ceases to be a Service Provider.

The exercise price of options granted under the plan may not be less than the closing price of Ordinary Shares on the principal stock exchange where the Ordinary Shares are listed as of the date of the option grant. The plan contains amendment provisions which allow amendments to the plan by the Board of Directors, without

shareholder approval, for amendments of a “housekeeping” nature, changes to vesting or termination provisions, and discontinuance of the plan. The plan also provides that outstanding options will vest immediately on the occurrence of a “change of control” (as defined in the plan). Options granted under the plan are only assignable to certain related entities of an optionee or otherwise with the consent of the Company.

The plan does not contain any restriction on the number of Ordinary Shares which may be reserved for issuance in respect of options granted to insiders under the plan or pursuant to any other share compensation arrangement. Accordingly, amendments to the plan and other compensation arrangements of the Company which require approval of shareholders will require approval of disinterested shareholders for as long as the number of Ordinary Shares reserved for issuance under the options or other share compensation arrangements exceeds 10% of the outstanding Ordinary Shares and the plan or share compensation arrangements do not limit the participation of insiders to 10% of outstanding Ordinary Shares.

The Company has approved the grant to its executive officers of warrants (the “Performance Warrants”) to acquire 6,767,504 Ordinary Shares. The Performance Warrants will be exercisable at US\$4.125 through the period ending December 25, 2009 in respect of 1,353,501 Ordinary Shares, US\$5.50 through the period ending June 25, 2011 in respect of 2,255,835 Ordinary Shares, and US\$6.875 through the period ending December 25, 2012 in respect of 3,158,168 Ordinary Shares.

Quarterly Activity

Stock options – The following table summarizes the stock option activity under the 2007 Long Term Stock Incentive Plan for the six months ended June 30, 2007.

	Number of Options	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)	Weighted Average Remaining Term (in years)
Outstanding at January 1, 2007	-	-		
Granted	4,167,000	\$2.75		
Forfeited	-	-		
Exercised	-	-		
Expired	-	-		
Outstanding at June 30, 2007	4,167,000	\$2.75	\$833	6.99
Exercisable at June 30, 2007	1,389,000	\$2.75	\$278	6.99

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company’s stock price on June 30, 2007 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders if all option holders had exercised their options on June 30, 2007. This amount changes based on the fair market value of the Company’s stock.

For options granted during the six months ended June 30, 2007, the weighted average fair value on the date of grant, estimated using the Black-Scholes option pricing model was US\$1.6139 per option, using the following weighted average assumptions: dividend yield of 0%; expected term of 4.0 years; a risk free interest rate of 4.91%; and an expected volatility of 74.3%.

For the six months ended June 30, 2007, there was US\$2.1 million of pre-tax compensation expense for options granted under the 2007 Long Term Stock Incentive Plan. As of June 30, 2007, there was US\$4.2 million of total unrecognized compensation expense related to unvested stock options granted under the plan. The Company expects to recognize the expense over a weighted-average period of 1.99 years.

Warrants - The following table summarizes the warrant activity, including Performance Warrants, for the six months ended June 30, 2007.

	Number of Warrants	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)	Weighted Average Remaining Term (in years)
Outstanding at January 1, 2007	-	-		
Granted	8,857,504	\$5.07		
Forfeited	-	-		
Exercised	-	-		
Expired	-	-		
Outstanding at June 30, 2007	8,857,504	\$5.07	\$941	5.70
Exercisable at June 30, 2007	8,857,504	\$5.07	\$941	5.70

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's stock price on June 30, 2007 and the exercise price, multiplied by the number of in-the-money warrants) that would have been received by the warrant holders if all warrant holders had exercised their warrants on June 30, 2007. This amount changes based on the fair market value of the Company's stock.

For warrants granted during the six months ended June 30, 2007, the weighted average fair value on the date of grant, estimated using the Black-Scholes pricing model was US\$1.5916 per warrant, using the following weighted average assumptions: dividend yield of 0%; expected term of 5.71 years; a risk free interest rate of 4.94%; and an expected volatility of 85.4%.

For the six months ended June 30, 2007, there was US\$14.1 million of pre-tax compensation expense for granted warrants. All the granted warrants were immediately vested. As of June 30, 2007, there was no unrecognized compensation expense related to unvested warrants.

NOTE 18 – INCOME TAXES

Tethys and its domestic subsidiary have been granted exemption from Guernsey Income Tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 and hence are liable for a payment of a Guernsey exemption fee at a fixed rate of US\$1,000 (£600) per annum.

Tethys's foreign subsidiaries are all based in the Republic of Kazakhstan where the statutory rate of income tax is 30% for all periods presented.

No provision for income taxes have been provided in the consolidated financial information as Tethys's combined foreign subsidiaries recorded losses for all periods presented. Tethys's foreign net operating losses carried forwards expire from 2009 to 2013. Tethys's available net operating losses carried forwards may be used to offset future taxable income, if any, prior to their expiration. A deferred tax asset existed as at June 30, 2007 and 2006. Due to uncertainty in the realizability of these tax assets the Company has recorded a full valuation allowance at the end of each of these periods.

NOTE 19 - NET LOSS PER COMMON SHARE

Basic net loss per common share is computed by dividing the net loss attributable to common stockholders by the weighted average number of shares of common stock outstanding during the applicable period. Diluted net loss per common share has been computed based on the weighted average number of shares of common stock and common stock equivalents outstanding during the applicable period, as if all potentially dilutive securities were converted into common stock.

NOTE 20 - RELATED PARTY TRANSACTIONS

Upon completion of the private placement of shares in February 2007 Kraken Financial Group, which has one common director with the company, was duly registered as a shareholder in the Company. During the course of the placement process Kraken Financial Group had managed the Escrow Bank Account into which funds were

paid by each of the investors until all of the funds were present at which point they were paid over to the Company and the shares issued. For the provision of this service Kraken Financial Group was paid the sum of US\$19,500 (£10,000).

Tethys's activity during 2006 was entirely funded by CanArgo Energy Corporation, who was its ultimate holding company during that period. As a result of the Private Placement and the issuance of shares in return for the remaining 30% of BN Munai Canargo's holding in the company dropped to 52% and then following the IPO was reduced to 17.3%.

During 2006, in accordance with a covenant contained in the Senior Subordinated guaranteed loan notes held by Tethys's parent, Canargo Energy Corporation, Tethys reimbursed its parent for payments made on behalf of Tethys and in respect of management fees.

Up to the date of the listing of Tethys on the Toronto Stock Exchange CanArgo Energy Corporation provided all its services, which generally consisted of office space, telephones, utilities and other administrative type costs, to Tethys via a management services agreement between Canargo Energy Corporation, Tethys and Vazon Energy Limited. Vazon Energy Limited is a corporation organized under the laws of the Bailiwick of Guernsey, of which Dr. David Robson, Chief Executive Officer, is the sole owner and managing director. In addition, a management services agreement existed between CanArgo Energy Corporation and Vazon Energy whereby the services of Dr. Robson, Mrs. Landles (Corporate Secretary and Executive Vice President) and other Vazon Energy employees, are provided to CanArgo Energy Corporation. A management services contract directly with Vazon Energy came into effect from 27th June 2007 whereby a monthly fee of US\$17,000 is paid for the services of DR Robson and an invoice for all other services and costs is to be issued to Tethys at the end of each month.

Mr. Russell Hammond, a non-executive director of Tethys and CanArgo Energy Corporation is also an Investment Advisor to Provincial Securities Limited. Provincial Securities Limited had an interest in Tethys Petroleum Limited which was sold in June 2005 to CanArgo Energy Corporation by a share exchange for shares in CanArgo Energy Corporation. Provincial Securities Limited received 5,500,000 shares of CanArgo Energy Corporation common stock in relation to the transaction. Mr Hammond did not receive any compensation in connection with these transactions and disclaims any beneficial ownership of Provincial Securities Limited or any of the Company's common stock owned by Provincial Securities Limited.

Transactions with affiliates or other related parties including management of affiliates are to be undertaken on the same basis as third party arms-length transactions. Transactions with affiliates are reviewed and voted on solely by non-interested directors.

NOTE 21 – SUBSEQUENT EVENTS

On the 8th August the company announced that it had completed the Kyzyloi pipeline and had pressure tested the system flowing gas down its entire length of 52 km. The initial production rate is anticipated to be 22 million cubic feet per day. All that remains to commence gas sales is the tie-in of the pipeline to the major Bukhara-Urals trunkline, integration of the Kyzyloi compression and control systems with the trunk-line systems and final certification of the system by a senior governmental commission. The tie-in will be carried out by Intergas Central Asia (part of the Kazakh State gas company KazTransGas) who own and operate the trunkline. Now that the pipeline has been completed and TPL has met its obligations the State can now proceed with the tie-in to the main trunkline. Once this has been carried out then the high level Kazakh government commission will visit the operation to provide full certification of the system following which commercial gas deliveries will commence, these being expected in October.