

Tethys Petroleum Limited

Interim Consolidated Financial Statements
(Unaudited)
June 30, 2010

Tethys Petroleum Limited
Consolidated Statement of Financial Position
(Unaudited)

		As at	
		June 30, 2010	December 31, 2009
	Note	\$'000	\$'000
Non-current assets			
Property, plant and equipment	7	75,918	73,171
Intangible assets	8	32,317	24,378
Investments		686	659
Prepays and other receivables		9,344	5,171
Loan receivable from jointly controlled entity	9	28,692	21,727
		<u>146,957</u>	<u>125,106</u>
Current assets			
Inventories		2,350	2,368
Prepays and other receivables		2,965	2,311
Cash and cash equivalents		30,232	7,297
Derivative financial instruments – interest rate swap		1,578	-
		<u>37,125</u>	<u>11,976</u>
Total assets		<u>184,082</u>	<u>137,082</u>
Equity attributable to shareholders			
Share capital	11	18,737	13,455
Share premium	11	206,410	153,748
Other reserves		30,975	27,775
Accumulated deficit		(99,695)	(88,374)
Total equity		<u>156,427</u>	<u>106,604</u>
Non-current liabilities			
Deferred gain on sale of assets to jointly controlled entity		3,699	3,659
Financial liabilities - borrowings	10	8,139	9,324
Shares to be issued		-	3,750
Deferred taxation	5	2,126	598
Trade and other payables		800	808
Asset retirement obligations		174	206
		<u>14,938</u>	<u>18,345</u>
Current liabilities			
Financial liabilities - borrowings	10	3,526	1,086
Derivative financial instruments - warrants		2,477	1,053
Derivative financial instruments – interest rate swap		-	95
Deferred revenue		1,750	3,113
Trade and other payables		4,964	6,786
		<u>12,717</u>	<u>12,133</u>
Total liabilities		<u>27,655</u>	<u>30,478</u>
Total shareholders' equity and liabilities		<u>184,082</u>	<u>137,082</u>

Commitments and contingencies

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The notes on pages 1 to 16 form part of these interim consolidated financial statements. The interim consolidated financial statements were approved by the Board on 12 August 2010 and were signed on its behalf.

Dr. D. Robson Director

B. Murphy Director

Tethys Petroleum Limited

Consolidated Statement of Comprehensive Loss

(Unaudited)

For the three and the six months ended June 30

		For the 3 months ended		For the 6 months ended	
	Note	June 30, 2010 \$'000	June 30, 2009 \$'000	June 30, 2010 \$'000	June 30, 2009 \$'000
Sales and other operating revenues		6,030	2,797	8,146	3,326
Finance income		22	19	25	49
Total revenue and other income		6,052	2,816	8,171	3,375
Production expenses		(1,938)	(956)	(2,875)	(1,241)
Depreciation, depletion and amortisation		(1,358)	(1,398)	(2,050)	(1,915)
Exploration and evaluation expenditure written off		(53)	(109)	(90)	(126)
Listing expenses		(573)	-	(1,200)	-
Administrative expenses		(6,631)	(4,410)	(11,405)	(8,089)
Foreign exchange loss - net		(167)	(689)	(152)	(2,483)
Fair value gain (loss) on derivative financial instrument		2,973	(101)	472	(61)
Loss from jointly controlled entity		(93)	-	(244)	-
Finance costs		(101)	(746)	(421)	(1,069)
Loss before taxation		(1,889)	(5,593)	(9,794)	(11,609)
Taxation	5	(1,433)	-	(1,527)	-
Net loss and comprehensive loss for the year attributable to shareholders		(3,322)	(5,593)	(11,321)	(11,609)
Loss per share attributable to shareholders					
Basic and diluted	6	(0.02)	(0.06)	(0.06)	(0.15)

No dividends were paid or are declared for the period (2009– \$Nil).

The notes on pages 1 to 16 form part of these interim consolidated financial statements.

Tethys Petroleum Limited

Consolidated Statement of Changes in Equity

(Unaudited)

For the three and the six months ended June 30

	Note	Attributable to shareholders					Total equity \$'000
		Share capital \$'000	Share premium \$'000	Accumulated deficit \$'000	Option reserves \$'000	Warrant reserves \$'000	
Balance at January 1, 2009		6,639	138,598	(66,654)	8,592	16,555	103,730
Comprehensive loss for the period		-	-	(11,609)	-	-	(11,609)
Transactions with shareholders							
Issue of share capital		6,816	17,245	-	-	-	24,061
Cost of share issue		-	(1,981)	-	-	-	(1,981)
Share-based payments		-	-	-	1,620	-	1,620
Total transactions with shareholders		6,816	15,265	-	1,620	-	23,700
Balance at June 30, 2009		13,455	153,863	(78,263)	10,212	16,555	115,822
Comprehensive loss for the period		-	-	(10,111)	-	-	(10,111)
Transactions with shareholders							
Issue of share capital		-	-	-	-	-	-
Cost of share issue		-	(114)	-	-	-	(114)
Share-based payments		-	-	-	1,008	-	1,008
Total transactions with shareholders		-	(114)	-	1,008	-	894
Balance at December 31, 2009		13,455	153,748	(88,374)	11,220	16,555	106,604
Comprehensive loss for the period		-	-	(11,321)	-	-	(11,321)
Transactions with shareholders							
Issue of share capital		5,262	54,663	-	-	-	59,925
Cost of share issue		-	(2,169)	-	-	-	(2,169)
Share-based payments	4	-	-	-	3,260	-	3,260
Exercise of options		20	168	-	(60)	-	128
Total transactions with shareholders		5,282	52,662	-	3,200	-	61,144
Balance at June 30, 2010		18,737	206,410	(99,695)	14,420	16,555	156,427

The option reserve and warrant reserve are denoted together as “other reserves” on the interim consolidated statement of financial position. These reserves are non distributable.

Tethys Petroleum Limited

Consolidated Statement of Cash Flows

(Unaudited)

For the three and the six months ended June 30, 2010

	Note	For the 3 months ended June 30,		For the 6 months ended June 30,	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Cash flow from operating activities					
Loss before taxation for the period		(1,889)	(5,593)	(9,794)	(11,609)
Adjustments for					
Share based payments		2,067	916	3,260	1,620
Net finance cost		74	727	383	1,020
Unsuccessful exploration and evaluation expenditures		-	109	-	126
Depreciation, depletion and amortization		1,358	1,398	2,050	1,915
Payment of royalties		(78)	-	(78)	-
Fair value gain (loss) on derivative financial instrument		(2,973)	101	(472)	61
Listing expenses		-	-	351	-
Net unrealised foreign exchange loss		(32)	(83)	1	1,167
Loss from jointly controlled entity		94	-	244	-
Deferred revenue		(454)	-	(1,363)	-
Net change in non-cash working capital	13	(1,858)	1,243	(3,644)	(7)
Net cash used in operating activities		(3,691)	(1,182)	(9,062)	(5,707)
Cash flow from investing activities					
Interest received		22	19	25	49
Expenditure on exploration and evaluation assets		(5,713)	(3,056)	(7,483)	(9,006)
Expenditures on property, plant and equipment		(1,603)	(1,722)	(4,276)	(6,009)
Investment in restricted cash		1	(11)	(27)	(19)
Acquisition of subsidiary, net of cash received		-	532	-	532
Payments made on behalf of jointly controlled entity		(4,889)	-	(7,169)	-
Movement in advances to construction contractors		(2,173)	234	(3,200)	1,154
Value added tax receivable		(873)	31	(1,324)	(44)
Net change in non-cash working capital	13	742	85	732	178
Net cash used in investing activities		(14,486)	(3,888)	(22,722)	(13,165)
Cash flow from financing activities					
Proceeds from issuance of short-term borrowings		-	2,500	-	2,500
Repayment of short-term borrowings		-	(2,500)	-	(2,500)
Proceeds from issuance of long-term borrowings		-	-	1,840	-
Repayment of long-term borrowings		(358)	(152)	(705)	(364)
Interest paid on long-term borrowings and other non-current payables		(182)	(230)	(375)	(392)
Other non-current liabilities		(75)	(20)	(145)	(42)
Proceeds from issuance of equity, net of issue costs		112	18,019	54,134	18,019
Net cash generated from financing activities		(503)	17,617	54,749	17,221
Effects of exchange rate changes on cash and cash equivalents		(15)	36	(30)	-
Net increase / (decrease) in cash and cash equivalents		(18,695)	12,583	22,935	(1,651)
Cash and cash equivalents at beginning of the period		48,927	7,966	7,297	22,200
Cash and cash equivalents at end of the period		30,232	20,549	30,232	20,549

The notes on pages 1 to 16 form part of these interim consolidated financial statements.

Tethys Petroleum Limited

Notes to Interim Consolidated Financial Statements

(Unaudited)

For the three and the six months ended June 30, 2010

1 General information

The principal executive offices of Tethys Petroleum Limited and its subsidiaries (collectively “Tethys” or “the Company”) are in Guernsey, British Isles. The domicile of Tethys Petroleum Limited was moved from Guernsey, British Isles to the Cayman Islands on July 17, 2008, where it is incorporated. The address of the Company’s registered office is 89 Nexus Way, Camana Bay, Grand Cayman, Cayman Islands. Tethys is an oil and gas Company operating within the Republic of Kazakhstan, Republic of Uzbekistan and the Republic of Tajikistan. Tethys’ principal activity is the acquisition of and development of crude oil and natural gas fields.

The Company has its primary listing on the Toronto Stock Exchange (TSX).

2 Basis of preparation and accounting policies

The annual consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued by the International Accounting Standards Boards (“IASB”).

These unaudited interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” and do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual consolidated financial statements reported for the year ended December 31, 2009. Certain comparative figures have been re-classified to conform with current period presentation.

Taxes on income in the interim periods are accrued using the tax rate that would be applied to expected total annual earnings.

The accounting policies adopted in the preparation of the unaudited interim consolidated financial statements are consistent with those followed in the preparation of the Company’s annual financial statements for the year ended December 31, 2009 except for:

New and amended accounting standards

- IFRS 3 ‘Business Combinations’ - the Company has adopted the revised version of this standard, with effect from 1 January 2010. The revised standard still requires the purchase method of accounting to be applied to business combinations but introduces some changes to the accounting treatment. Assets and liabilities arising from business combinations that occurred before January 1, 2010 were not required to be re-stated and thus there was no effect on the company’s reported income or net assets on adoption.
- IAS 27 ‘Consolidated and Separate Financial Statements’ - the Company has adopted the amended version of IAS 27, also with effect from January 1, 2010. This requires the effects of all transactions with minority interests to be recorded in equity if there is no change in control. When control is lost, any remaining interest in the entity is re-measured to fair value and a gain or loss recognized in profit or loss. There was no effect on the Company’s reported income or net assets on adoption.

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For the three and the six months ended June 30, 2010

- IAS 38 'Measurement of non-current assets (or disposal groups) classified as held for sale' – the Company has adopted the amendment to this standard, with effect from January 1, 2010, which clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits grouping of intangible assets as a single asset if each asset has similar useful economic lives. There was no effect on the Company's reported income or net assets on adoption.

Going concern

Since inception, the Company has incurred losses from operations and negative cash flows from operating activities, and has an accumulated deficit at June 30, 2010. The Company has significant short-term and longer term contractual commitments that will necessitate cash outflows. During the first six months of 2010 the Company raised \$54.134 million (net of transactions costs) to fund its development and exploration programmes as well as its administrative and operating expenses. In the longer term, the ability of the Company to successfully carry out its business plan will be dependent upon its ability not only to maintain the current level of gas and oil production but also to achieve further production of commercial oil and gas and to control the costs of operating and capital expenditures. If in the future, the Company is unable to generate significant revenues and cash flows from operations it may need to seek further funding from its shareholders or alternative sources. There can be no assurances that management will be successful with these initiatives. While these factors create doubt about the Company's ability to continue as a going concern, management is confident of achieving the Company's short term plans.

3 Segmental Reporting

Geographical segments

Management has determined the operating segments based on the reports reviewed by the executive directors that are used to make strategic decisions. Reports provided to the executive directors with respect to segment information are measured in a manner consistent with that of the financial statements. The assets and liabilities are allocated based on the operations of the segment and for assets, the physical location of the asset.

The executive directors consider the business from predominantly a geographic perspective and the Company currently operates in three geographical markets: Kazakhstan, Tajikistan and Uzbekistan.

In Kazakhstan, the Company is producing gas from the Kyzylloi field and is undertaking exploration and evaluation activity in the Akkulka and Kulbas fields. In Tajikistan, the Company is currently undertaking exploration and evaluation activity and in Uzbekistan, the Company operates under the North Urtabulak Production Enhancement Contract, which gives incremental production rights to increase the production volume of oil from wells on the North Urtabulak Oil Field.

The Company also operates a corporate segment which acquired a number of drilling rigs and related oil and gas equipment which will be utilised in Kazakhstan, Tajikistan, and Uzbekistan and possibly throughout the rest of Central Asia.

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Notes to Interim Consolidated Financial Statements

(Unaudited)

For the three and the six months ended June 30, 2010

The segment results for six months ended June 30, 2010 are as follows:

	Kazakhstan	Tajikistan	Uzbekistan	Other and	Interim
	\$'000	\$'000	\$'000	Corporate	consolidated
				\$'000	\$'000
Refined product sales	-	-	7,670	-	7,670
Gas sales	475	-	-	-	475
Other income	1,656	-	-	1,160	2,816
Finance income	120	1	-	22	143
Segment revenue and other income	2,252	1	7,670	1,182	11,105
Inter-segment revenue	(1,774)	-	-	(1,160)	(2,934)
Segment revenue and other income from external customers	478	1	7,670	22	8,171
Gain (Loss) from jointly controlled entity	-	(244)	-	-	(244)
(Loss)/ profit before taxation	(1,980)	(382)	3,340	(10,772)	(9,794)
Taxation	(954)	-	(573)	-	(1,527)
Net (loss)/profit attributable to shareholders	(2,934)	(382)	2,767	(10,772)	(11,321)

Borrowing costs of \$618,574 were capitalised in the Kazakh segment during the period. Amortisation of \$252,205 of assets held in the Corporate segment were also capitalised in the Kazakh segment during the period.

The segment results for six months ended June 30, 2009 are as follows:

	Kazakhstan	Tajikistan	Uzbekistan	Other and	Interim
	\$'000	\$'000	\$'000	Corporate	consolidated
				\$'000	\$'000
Refined product sales	-	-	1,637	-	1,637
Gas sales	1,689	-	-	-	1,689
Other income	1,635	-	-	815	2,450
Finance income	505	4	-	30	539
Segment revenue and other income	3,829	4	1,637	845	6,315
Inter-segment revenue	(2,125)	-	-	(815)	(2,940)
Segment revenue and other income from external customers	1,704	4	1,637	30	3,375
(Loss)/ profit before taxation	(3,655)	(538)	138	(7,554)	(11,609)
Taxation	-	-	-	-	-
Net (loss)/profit attributable to shareholders	(3,655)	(538)	138	(7,554)	(11,609)

Tethys Petroleum Limited

Notes to Interim Consolidated Financial Statements

(Unaudited)

For the three and the six months ended June 30, 2010

The segment results for three months ended June 30, 2010 are as follows:

	Kazakhstan	Tajikistan	Uzbekistan	Other and	Interim
	\$'000	\$'000	\$'000	Corporate	consolidated
				\$'000	\$'000
Refined product sales	-	-	5,643	-	5,643
Gas sales	476	-	-	-	476
Other income	846	-	-	729	1,575
Finance income	67	1	-	20	88
Segment revenue and other income	1,389	1	5,643	749	7,782
Inter-segment revenue	(1,001)	-	-	(729)	(1,730)
Segment revenue and other income from external customers	388	1	5,643	20	6,052
Gain (Loss) from jointly controlled entity	-	(94)	-	-	(94)
(Loss)/ profit before taxation	(1,391)	(151)	2,783	(3,130)	(1,889)
Taxation	(957)	-	(476)	-	(1,433)
Net (loss)/profit attributable to shareholders	(2,348)	(151)	2,307	(3,130)	(3,322)

The segment results for three months ended June 30, 2009 are given below:

	Kazakhstan	Tajikistan	Uzbekistan	Other and	Interim
	\$'000	\$'000	\$'000	Corporate	consolidated
				\$'000	\$'000
Refined product sales	-	-	1,637	-	1,637
Gas sales	1,160	-	-	-	1,160
Other income	728	-	-	439	1,167
Finance income	233	4	-	10	247
Segment revenue and other income	2,121	4	1,637	449	4,211
Inter-segment revenue	(956)	-	-	(439)	(1,395)
Segment revenue and other income from external customers	1,165	4	1,637	10	2,816
(Loss)/ profit before taxation	(732)	(319)	138	(4,680)	(5,593)
Taxation	-	-	-	-	-
Net (loss)/profit attributable to shareholders	(732)	(319)	138	(4,680)	(5,593)

Tethys Petroleum Limited

Notes to Interim Consolidated Financial Statements

(Unaudited)

For the three and the six months ended June 30, 2010

The segment assets at June 30, 2010 and capital expenditures for the period then ended are as follows:

	Kazakhstan	Tajikistan	Uzbekistan	Other and Corporate	Interim consolidated
	\$'000	\$'000	\$'000	\$'000	\$'000
Total assets	87,670	28,934	12,596	54,882	184,082
Cash expenditure to exploration & evaluation assets, property, plant and equipment	8,658	2	3,006	93	11,759

Total assets for Tajikistan include the Company's investment in a joint venture as disclosed in Note 15 of the annual consolidated financial statements at December 31, 2009.

The segment assets at December 31, 2009 and capital expenditures for the six months ended June 30, 2009 are as follows:

	Kazakhstan	Tajikistan	Uzbekistan	Other and Corporate	Interim consolidated
	\$'000	\$'000	\$'000	\$'000	\$'000
Total assets	72,152	21,984	11,015	31,931	137,082
Cash expenditure on exploration & evaluation assets, property, plant and equipment	3,481	7,706	785	3,043	15,015

The segment assets attributable to the Kazakhstan segment consist mainly of capital additions related to the Kyzylai and Akkulka fields, including the installation of pipelines linking these fields to the Bukhara-Urals trunk line, as well as the costs of exploration pending determination of the Kul-Bas and Doris fields.

The segment assets attributable to the Tajikistan segment consist mainly of the loan receivable from the Joint Venture.

The segment assets attributable to the Uzbekistan segment consist mainly of well costs related to the North Urtabulak field.

The other and corporate segment assets consist mainly of oil and gas equipment such as drilling rigs and related equipment and cash and cash equivalents. The other and corporate segment liabilities consist mainly of the loans obtained to finance the purchase of two drilling rigs.

Tethys Petroleum Limited

Notes to Interim Consolidated Financial Statements

(Unaudited)

For the three and the six months ended June 30, 2010

4 Share-based payments

Share options

Full details of the share options and stock incentive plan are outlined in the Company's annual consolidated financial statements for the year ended December 31, 2009.

During the six months ended June 30, 2010, the Company issued 6,990,000 options to various officers and employees of the Company with a weighted average exercise prices of \$1.46 per share. The options under the plan vest in three tranches with one third vesting immediately, one third after one period and one third after two periods. These options are equity settled share based payment transactions. 200,000 options were exercised in the period and the total number of options outstanding at June 30, 2010 was 18,325,000. The value of services amounted to \$3,260,000 for the period.

During the six months ended June 30, 2009, the Company issued 330,000 options to various officers and employees of the Company with exercise prices of \$2.50 per share. The options under the plan vest in three tranches with one third vesting immediately, one third after one period and one third after two periods. These options are equity settled share based payment transactions. No options were exercised in the period and the total number of options outstanding at June 30, 2009 was 7,005,000. A charge for the value of services of \$1.62m was recorded for the period.

Warrants

During the period ended June 30, 2010, there were no warrants issued (June 30, 2009 – 2,500,000). At June 30, 2010 there were 12,783,455 warrants outstanding (June 30, 2009 – 14,136,956).

There are no performance conditions attached to the warrants and all the granted warrants were immediately vested. Warrants are equity settled share based payment transactions.

5 Taxation

Tethys is domiciled in the Cayman Islands which has no Company income tax.

The temporary differences comprising the net deferred income tax liability as at June 30, 2010 are as follows:

	June 30, 2010 \$'000
Capital assets	(3,408)
Tax losses	1,008
Other	274
	<u>(2,126)</u>

The provision for income taxes is different from the expected provision for income taxes for the following reasons:

Tethys Petroleum Limited

Notes to Interim Consolidated Financial Statements

(Unaudited)

For the three and the six months ended June 30, 2010

	June 30, 2010 \$'000
Loss before income taxes	(9,794)
Income tax rate	20%
Expected income tax expense (recovery)	<u>(1,959)</u>
<i>Increase / (decrease) resulting from:</i>	
Non-deductible expenses	33
Impact of effective tax rates in other foreign jurisdictions	1,681
Losses and tax assets not utilised/recognised	1,734
Other	38
	<u>1,527</u>
Current income tax expense (recovery)	-
Deferred tax expense (recovery)	<u>1,527</u>
	<u>1,527</u>

6 Loss per share

Basic and diluted loss per share

	Loss for the period \$'000	Weighted average number of shares (thousands)	Per share amount \$
Six months ended June 30, 2010			
Loss attributable to ordinary shareholders – Basic and diluted	<u>(11,321)</u>	<u>175,436</u>	<u>(0.06)</u>
Three months ended June 30, 2010			
Loss attributable to ordinary shareholders – Basic and diluted	<u>(3,322)</u>	<u>187,267</u>	<u>(0.02)</u>
Six months ended June 30, 2009			
Loss attributable to ordinary shareholders – Basic and diluted	<u>(11,609)</u>	<u>77,720</u>	<u>(0.15)</u>
Three months ended June 30, 2009			
Loss attributable to ordinary shareholders – Basic and diluted	<u>(5,593)</u>	<u>87,614</u>	<u>(0.06)</u>

Basic loss per share is calculated by dividing the loss attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the period. Diluted per share information is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Potential ordinary shares including share options and warrants, are considered to be anti-dilutive and have therefore been excluded from the diluted per share calculation.

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7 Property, plant and equipment

	Oil and gas properties \$'000	Oil and gas equipment \$'000	Vehicles \$'000	Office and computer equipment \$'000	Total \$'000
At December 31, 2009					
Cost	54,462	24,893	1,324	1,099	81,778
Accumulated depreciation and depletion	(6,935)	(1,105)	(304)	(263)	(8,607)
Net book amount	47,527	23,788	1,020	836	73,171
Period ended June 30, 2010					
Opening net book amount	47,527	23,788	1,020	836	73,171
Additions	3,133	-	300	910	4,343
Depreciation and depletion charge	(676)	(736)	(111)	(73)	(1,596)
Closing net book amount	49,984	23,052	1,209	1,673	75,918
At June 30, 2010					
Cost	57,595	24,893	1,624	2,009	86,121
Accumulated depreciation and depletion	(7,611)	(1,841)	(415)	(336)	(10,203)
Net book amount	49,984	23,052	1,209	1,673	75,918
Asset retirement obligation at net book amount included in above:					
At June 30, 2010	18	-	-	-	18
At December 31, 2009	18	-	-	-	18

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For the three and the six months ended June 30, 2010

8 Intangible assets

	Other intangible asset \$'000	Exploration and evaluation assets \$'000	Total \$'000
At December 31, 2009			
Cost	5,553	19,331	24,884
Accumulated amortisation	(506)	-	(506)
Net book amount	5,047	19,331	24,378
Period ended June 30, 2010			
Opening net book amount	5,047	19,331	24,378
Additions	-	8,231	8,231
Amortisation charge	(292)	-	(292)
Closing net book amount	4,755	27,562	32,317
At June 30, 2010			
Cost	5,553	27,562	33,115
Accumulated amortisation	(798)	-	(798)
Net book amount	4,755	27,562	32,317
Asset retirement obligation asset at net book amount included in above			
At June 30, 2010	-	17	17
At December 31, 2009	-	47	47

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For the three and the six months ended June 30, 2010

9 Loan receivable from jointly controlled entity

The loan receivable from the jointly controlled entity is net of the share of loss of the joint venture as calculated using the equity method of accounting:

	\$'000
Gross receivable at June 30, 2010	28,936
Net share of loss for the period	(244)
Net receivable at June 30, 2010	<u>28,692</u>

10 Financial liabilities – borrowings

	Effective interest rate %	Maturity date	June 30, 2010 \$'000	December 31, 2009 \$'000
Current				
Short-term portion of long-term loans	19 – 23 p.a.	2010	3,526	1,086
Non-current				
Long-term loans	19 – 23 p.a.	2011 2012	1,470 6,669	8,199 1,125
			<u>11,665</u>	<u>10,410</u>

	\$'000
Balance at January 1, 2010	10,410
Issue of loan notes	2,000
Debt issuance costs	(160)
Movement in royalty	(248)
Movement in exchange	(28)
Principal repayments	(705)
Interest repayments	(375)
Amortisation of debt discount during the period	771
	<u>11,665</u>

On December 14, 2009, in connection with the drilling of a new well in Uzbekistan, the Company further approved the issue of loan notes to a maximum value of \$3,000,000 at an issue rate of \$0.88 per note and redemption value of \$1, resulting in an effective rate of 6.5%.

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By the end of December 2009, \$1,000,000 loan notes had been issued. During the period to June 30, 2010, a further \$2,000,000 loan notes had been placed. A royalty of 11.25% is payable to the loan note holders calculated on sales of net production from the new well. The royalty entitlement was identified as an embedded derivative and required to be separated from the loan note. The royalty entitlement has been accounted for as a derivative financial instrument – interest rate swap, full details of which are explained in Note 17.3 of the Company's annual consolidated financial statements for the year ended December 31, 2009.

Issue of the loan notes was completed via a broker to whom a royalty commission is payable at 4.5% for every \$1.0 million placed. The fair value of the commission payable at June 30, 2010 is \$477 (2009 – nil). The Company measured the fair value of the commission payables by applying a valuation technique based on the discounted estimated future net cash flows expected to be derived from the royalty entitlement. A discounted cash flow (DCF) method requires management to estimate future cash flows associated with the instrument and then discount those amounts to present value at a rate of return that considers the relative risk of the cash flows (5%). The fair value associated with the royalty entitlement has been recognised as a transaction cost and presented as a direct reduction to the face value of the borrowing with the effective interest rate method being used to amortise the cost over the life of the loan. The commission liability has been included in current trade and other payables.

11 Share capital

		June 30, 2010 Number	December 31, 2009 Number
Authorized			
Ordinary shares with a par value of \$0.10 each		700,000,000	700,000,000
Preference shares with a par value of \$0.10 each		50,000,000	50,000,000
			Share premium \$'000
Ordinary equity share capital Allotted and fully paid	Number	Share capital \$'000	Share premium \$'000
At January 1, 2009	66,393,292	6,639	138,598
Issued during the period for purchase of oil and gas equipment	1,400,000	140	701
Issued during the period in connection with finance charges	81,477	8	226
Issued during the period for purchase of a subsidiary	15,000,000	1,500	1,487
Issued during the period for cash	51,680,000	5,168	12,736
At December 31, 2009	134,554,769	13,455	153,748
Issued during the period for cash	52,615,000	5,262	52,494
Exercise of options	200,000	20	168
At June 30, 2010	187,369,769	18,737	206,410

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12 Related party transactions

Transactions between the Company's subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Vazon Energy Limited

Vazon Energy Limited ("Vazon") 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. Tethys has a management services contract with Vazon that came into effect from June 27, 2007 whereby the services of Dr. Robson and other Vazon employees are provided to the Company. The total cost charged to Tethys for services from Vazon in the period ended June 30, 2010 was \$1,142,828 (June 30, 2009 – \$716,568).

Oilfield Production Consultants

Oilfield Production Consultants (OPC) Limited and Oilfield Production Consultants (OPC) USA LLC, both of which have one common director with the Company, has charged Tethys a monthly retainer fee for engineering expertise, provided services relating to compression optimization and has consulted on certain reservoir modelling work on projects in Tajikistan and Uzbekistan. Total fees for the period ended June 30, 2010 were \$166,526 (June 30, 2009 – \$160,115).

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13 Changes in working capital

	Three months ended		Six months ended	
	June 30, 2010 \$'000	June 30, 2009 \$'000	June 30, 2010 \$'000	June 30, 2009 \$'000
Trade and other receivables	(542)	199	(653)	162
Inventories	90	(129)	19	(245)
Trade and other payables	(762)	2,415	(1,822)	254
Change in non-cash working capital	(1,214)	2,485	(2,456)	171
Non-cash transactions	98	1,157	(456)	-
Net changes in non-cash working capital	1,116	1,328	(2,912)	171

The principal non-cash transactions are related to the royalty entitlement as disclosed in Note 10 and capitalised depreciation within stock (2009 – the acquisition of a subsidiary as discussed in note 21 to the annual financial statements).

Net changes in non-cash working capital are categorized as follows:

	Three months ended		Six months ended	
	June 30, 2010 \$'000	June 30, 2009 \$'000	June 30, 2010 \$'000	June 30, 2009 \$'000
Operating activities	(1,858)	1,243	(3,644)	(7)
Investing activities	742	85	732	178
Balance	1,116	1,328	(2,912)	171

14 Commitments and contingencies

Kazakhstan

Kyzyloi Field and the Kyzyloi Field Licence and Production Contract

The Kyzyloi Field Licence and Production Contract for production of gas on the Kyzyloi Field was initially issued by the Kazakh government to the state holding company Kazakhgas on June 12, 1997 and was transferred to Tethys Aral Gas (TAG) on May 15, 2001. The contract was entered into between the MEMR and TAG on May 5, 2005, initially until June 12, 2007. However, in January 2005, the Ministry of Energy and Mineral Resources (MEMR) agreed to extend the contract until June 2014. Gas production commenced under the contract in December 2007.

The Kyzyloi Field Licence and Production Contract grants TAG exploration and production rights over an area of approximately 70,967 acres (287.2 km²) and extends down to the base of the Paleogene sequence. Pursuant to the contract, TAG must reimburse the Kazakh government for approximately \$1,211,000 in historical costs, to be paid in equal quarterly instalments from the commencement of production until full reimbursement. Under the latest extension of the Kyzyloi Field Licence and Production Contract, TAG

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has committed to spending approximately \$2.7 million for a workover program over the seven year period until 2014. In November 2009, the Company finalised and agreed the 2010 work program with a commitment of \$100,000. As at June 30, 2010, this requirement had been satisfied by the expenditure of some \$108,300.

Akkulka Exploration Licence and Contract

The Akkulka Exploration Licence and Contract was entered into between the Kazakh State Committee of Investments and TAG on September 17, 1998. The Akkulka Exploration Licence initially granted TAG exploration rights for a period of five years and both the Akkulka Exploration Licence and Contract were valid until September 17, 2003. On December 9, 2009, TAG entered into an amendment agreement with the MEMR to extend the period of the Akkulka Exploration Licence and Contract from September 17, 2009 until March 10, 2011. Under the amendment agreement, TAG committed to spending an additional \$850,000 over the 18 month period and the 2010 work program for Akkulka was agreed with a capital commitment of \$676,700. As of March 15, 2010, a revised Annual Work Program for AKK Exploration was approved which committed the Company to spend \$11,190,000 in 2010 of which \$6,380,500 had been incurred by June 30, 2010.

On June 29, 2010 TAG received permission from the Ministry of Oil & Gas of the Republic of Kazakhstan (“MOG”) to extend the Akkulka Exploration Contract for another two years, from March 10, 2011 to March 10, 2013 (subject to certain routine amendments to the Contract). The MOG have extended the Contract to enable detailed appraisal of the commercial discovery of oil at AKD01 (“Doris”) along with further exploration in the Contract area.

Akkulka Production Contract

On December 23, 2009, TAG and MEMR signed the Akkulka Production Contract giving TAG exclusive rights to produce gas from the Akkulka Block for a period of nine years. Contingent upon commencement of commercial production on the Akkulka contractual territory, a total amount of US\$3,500,000 will be due to the Kazakhstan Government as a reimbursement of historical costs previously incurred by the Government in relation to the contractual territory. For that part of the contractual territory from which production will commence in 2010 staged payments over a period of nine years totalling approximately \$933,997 will also be due to the Kazakh government for the reimbursement of historical costs. The 2010 minimum work program was agreed with a capital commitment of \$90,900. As at June 30, 2010, \$20,300 had been incurred in relation to this programme.

Kul-Bas Exploration and Production Contract

The Kul-Bas Exploration and Production Contract was signed between Kul-Bas and the MEMR on November 11, 2005. This contract, which is for a period of 25 years (unless extended by mutual agreement of the parties), with an initial six-year exploration period and a 19-year production period, grants Kul-Bas with exploration and production rights over an original 2,688,695 acres (10,881 km²) surrounding the

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Akkulka Block. Pursuant to the original contract, 20% of the area was to be relinquished at the end of the second year of the contract, with 20% to be relinquished annually thereafter up to the end of the six year exploration period. However, in response to an application on behalf of the Company, on April 27, 2009, Amendment 1 to the Kul-Bas Exploration and Production Contract was signed, according to which 20% is relinquished by the end of contract year 2 (completed), 0% in contract year 3 (2008), 10% by the end of contract year 4 (2009), 20% by the end of year 5 (2010) and all remaining contract area, outside commercial discovery areas, by the end of year 6 (2011).

The work program on this area amounted to a total of approximately \$7,773,500 over the initial six-year exploration period. The remaining commitment of \$2,894,000 relating to the contractual territory is required to be satisfied by November 11, 2011 and is included within the 2010 work program of \$3,045,200 of which \$125,000 had been incurred by June 30, 2010.

In addition to the minimum work program commitments, the Kazakhstan Government is to be compensated for the historical costs related to the contractual territory in the amount of US\$3,275,780. The Company has previously paid an amount of US\$49,137 in relation to this balance. If and when commercial production commences, US\$88,666 is due in quarterly instalments until the remaining historical costs of US\$3,226,643 has been paid in full.

Tajikistan

On June 13, 2008, the Company's (former) wholly owned subsidiary, Kulob Petroleum Limited ("KPL"), signed a Production Sharing Contract ("PSC") with the Government of the Republic of Tajikistan. Under the PSC, KPL will recover 100% of its costs from up to 70% of total production (the maximum allowed under the newly approved production sharing legislation of Tajikistan) and the remaining production (termed "Profit Oil and Gas") will be shared 70% to KPL and 30% to the Government whose share includes all taxes, levies and duties. The terms are fixed over the life of the PSC which is a minimum of 25 years.

Pursuant to the PSC, Tethys has committed to funding a work program designed to provide data for a focused exploration of the Contract Area and which will be carried out in two stages (the "Work Program"). The first phase of the Work Program will include geological studies, reprocessing of existing seismic and other geophysical data, acquisition of seismic and other geophysical data and the commencement of initial rehabilitation activities on the Beshtentak and Khoja Sartez fields. The minimum spend commitment under Phase 1 of the contract is US\$3,000,000. This expenditure was required to be met within 18 months of the effective date of the contract, which was December 13, 2009. This commitment was satisfied through the payment on January 2, 2009 of \$4,925,000 for a contract agreed on November 14, 2008 relating to a seismic survey work program.

The total cost of the seismic work program agreement is \$9,850,600, which can be unilaterally terminated at any point by the Company with immediate repayment of amounts remitted in advance of the fulfilled

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scope of works at the moment of termination, provided the Contractor has reached Stage One Completion. By June 30, 2010, a total of \$6,935,000 had been advanced (including the \$4,925,000 above). Phase 2 of the seismic survey commenced in October 2009.

The Company's share of Phase 2 commitment is \$2,009,000.

Operating leases

Operating leases consist primarily of leases for offices. Lease commitments are as follows:

	Total \$'000	Less than 1 year \$'000	1 – 3 years \$'000
Operating leases	579	315	264

