

Tethys Petroleum Limited

Interim Financial Information
(Unaudited)
June 30, 2012

The Tethys Petroleum Limited Interim Report and Accounts consists of two documents as detailed below:

- 1) **Management's Discussion & Analysis:** this includes the requirement of National Instrument 51-102 Canadian Securities Administrators ("Canadian NI 51-102") in respect of a quarterly Management's Discussion & Analysis and the requirements of the UK's Disclosure & Transparency Rules with respect to a half-yearly management report; and
- 2) **Interim financial information:** this includes the Condensed Consolidated Interim Financial Statements, the requirements of Canadian NI 51-102 with respect to a quarterly financial report and the requirements of the UK's Disclosure & Transparency Rules with respect to half-yearly financial information, a Directors' Responsibility Statement and the Independent Auditor's Review Report to Tethys Petroleum Limited on Review of Interim Financial Information.

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Responsibility Statement of the Directors' in Respect of the Interim Report and Accounts

We confirm on behalf of the Board that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting;
- the interim report and accounts includes a fair review of the information required by:
 - DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
 - DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Company during that period; and any changes in the related party transactions described in the last annual report that could do so.

For and on behalf of the Board

J. Hammond

Chief Executive Officer

August 14, 2012

B. Murphy

Chief Financial Officer

August 14, 2012

Independent Auditor's Report to Tethys Petroleum Limited on Review of Interim Financial Information

Introduction

We have reviewed the accompanying condensed consolidated interim financial statements which form part of the Interim Report and Accounts of Tethys Petroleum Limited for the period ended 30 June 2012. The condensed consolidated interim financial statements comprise the condensed consolidated statement of financial position as at 30 June 2012, the condensed consolidated statements of comprehensive income, changes in equity and cash flows for the three and six month periods then ended and the related explanatory notes. The Directors are responsible for the preparation and presentation of the condensed consolidated interim financial statements in accordance with IAS 34, 'Interim Financial Reporting' and for the preparation of the Interim Report and Accounts in accordance with the Disclosure and Transparency Rules ('the DTR') of the UK's Financial Services Authority ('the UK FSA'). Our responsibility is to express a conclusion on the condensed consolidated interim financial statements based on our review.


This report is made solely to the company in accordance with the terms of our engagement and to facilitate the company's compliance with the requirements of the DTR of the UK FSA. Our review has been undertaken so that we might state to the company those matters we have been engaged to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements which form part of the Interim Report and Accounts for the period ended 30 June 2012 are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' and the DTR of the UK FSA.



J. Lowes
for and on behalf of KPMG Audit Plc
Chartered Accountants
August 14, 2012
15 Canada Square, London, E14 5GL, United Kingdom

Tethys Petroleum Limited

Condensed Consolidated Statement of Financial Position

(Unaudited)

(in US Dollars)

		As at	
		June 30, 2012	December 31, 2011
	Note	\$'000	\$'000
Non-current assets			
Property, plant and equipment	8	122,793	128,918
Intangible assets	9	101,567	99,959
Restricted cash		1,407	1,407
Prepayments and other receivables		10,404	10,217
Investment in jointly controlled entity		1,118	1,113
		<u>237,289</u>	<u>241,614</u>
Current assets			
Inventories		2,075	2,025
Trade and other receivables		7,130	5,478
Loan receivable from jointly controlled entity	10	2,213	2,013
Cash and cash equivalents		3,972	10,746
Restricted cash	11	474	885
Derivative financial instruments – interest rate swap		-	630
		<u>15,864</u>	<u>21,777</u>
Total assets		<u>253,153</u>	<u>263,391</u>
Equity attributable to shareholders			
Share capital	14	28,671	28,669
Share premium	14	306,725	306,725
Other reserves		40,557	38,530
Accumulated deficit		(156,521)	(144,962)
Non-controlling interest	19	8,759	8,918
Total equity		<u>228,191</u>	<u>237,880</u>
Non-current liabilities			
Financial liabilities - borrowings	12	2,595	1,632
Deferred taxation	6	2,472	2,111
Trade and other payables		452	547
Asset retirement obligations		233	386
		<u>5,752</u>	<u>4,676</u>
Current liabilities			
Financial liabilities - borrowings	12	9,661	8,396
Derivative financial instruments - warrants	13	540	264
Derivative financial instruments - foreign currency hedge		-	157
Deferred revenue		1,395	1,839
Trade and other payables		7,404	10,179
Current tax		210	-
		<u>19,210</u>	<u>20,835</u>
Total liabilities		<u>24,962</u>	<u>25,511</u>
Total shareholders' equity and liabilities		<u>253,153</u>	<u>263,391</u>

Commitments and contingencies

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The notes on pages 7 to 25 form part of these condensed consolidated interim financial statements. The condensed consolidated interim financial statements were approved by the Board on August 14, 2012 and were signed on its behalf.

J. Hammond Director

B. Murphy Director

Tethys Petroleum Limited

Condensed Consolidated Statement of Comprehensive Income

(Unaudited)

For the six months ended June 30, 2012

(in US Dollars)

		For the 3 months ended		For the 6 months ended	
	Note	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
		\$'000	\$'000	\$'000	\$'000
Sales and other revenues		10,204	4,177	16,691	8,657
Other operating income	4	-	5,706	-	5,706
Total revenue and other income		10,204	9,883	16,691	14,363
Production expenses		(2,930)	(1,773)	(5,840)	(3,525)
Depreciation, depletion and amortisation		(4,755)	(3,215)	(7,791)	(5,827)
Listing expenses		-	(327)	-	(333)
Business development expenses		(395)	(1,208)	(579)	(1,229)
Administrative expenses		(5,771)	(5,391)	(10,757)	(10,661)
Share based payments	5	(1,274)	(864)	(1,877)	(2,057)
Foreign exchange (loss) / gain – net		(112)	16	(176)	216
Fair value gain / (loss) on derivative financial instrument		829	(315)	(67)	(323)
Profit / (loss) from jointly controlled entity		163	(302)	101	(511)
Net finance (costs) / income	4	(398)	725	(852)	718
Loss before taxation		(4,439)	(2,771)	(11,147)	(9,169)
Taxation	6	(431)	75	(571)	178
Loss for the period		(4,870)	(2,696)	(11,718)	(8,991)
Loss attributable to:					
Shareholders		(4,811)	(2,696)	(11,559)	(8,991)
Non-controlling interest		(59)	-	(159)	-
Loss for the period		(4,870)	(2,696)	(11,718)	(8,991)
Loss per share attributable to shareholders					
Basic and diluted	7	(0.02)	(0.01)	(0.04)	(0.03)

No dividends were paid or declared for the period (2011 – \$Nil).

The notes on pages 7 to 25 form part of these condensed consolidated interim financial statements.

Tethys Petroleum Limited

Condensed Consolidated Statement of Changes in Equity

(Unaudited)

For the six months ended June 30, 2012

(in US Dollars)

	Note	Attributable to shareholders					Non-controlling interest	Total equity
		Share capital	Share premium	Accumulated deficit	Option reserves	Warrant reserves		
		\$'000	\$'000	\$'000	\$'000	\$'000		\$'000
Balance at January 1, 2011		26,063	297,222	(118,023)	17,706	16,555	-	239,523
Comprehensive loss for the period		-	-	(8,991)	-	-	-	(8,991)
Transactions with shareholders								
Share-based payments		-	-	-	2,276	-	-	2,276
Total transactions with shareholders		-	-	-	2,276	-	-	2,276
Balance at June 30, 2011		26,063	297,222	(127,014)	19,982	16,555	-	232,808
Comprehensive loss for the period		-	-	(17,948)	-	-	(50)	(17,998)
Acquisition of subsidiary with non-controlling interests		-	-	-	-	-	8,968	8,968
Transactions with shareholders								
Issue of share capital		2,606	10,396	-	-	-	-	13,002
Cost of share issue		-	(893)	-	-	-	-	(893)
Share-based payments		-	-	-	1,993	-	-	1,993
Total transactions with shareholders		2,606	9,503	-	1,993	-	-	14,102
Balance at December 31, 2011		28,669	306,725	(144,962)	21,975	16,555	8,918	237,880
Comprehensive loss for the period		-	-	(11,559)	-	-	(159)	(11,718)
Transactions with shareholders								
Cost of share issue		-	(11)	-	-	-	-	(11)
Issue of warrants		-	-	-	-	37	-	37
Exercise of options		2	11	-	(4)	-	-	9
Share-based payments	5	-	-	-	1,994	-	-	1,994
Total transactions with shareholders		2	-	-	1,990	37	-	2,029
Balance at June 30, 2012		28,671	306,725	(156,521)	23,965	16,592	8,759	228,191

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

The notes on pages 7 to 25 form part of these condensed consolidated interim financial statements.

Tethys Petroleum Limited

Condensed Consolidated Statement of Cash Flows (Unaudited)

For the three and six months ended June 30, 2012
(in US dollars)

		For the 3 months ended		For the 6 months ended	
	Note	June 30, 2012 \$'000	June 30, 2011 \$'000	June 30, 2012 \$'000	June 30, 2011 \$'000
Cash flow from operating activities					
Loss before taxation for the period		(4,439)	(2,771)	(11,147)	(9,169)
Adjustments for					
Share based payments		1,274	864	1,877	2,057
Net finance cost / (income)		398	(723)	852	(716)
Depreciation, depletion and amortization		4,755	3,215	7,791	5,827
Loss on disposal of assets		-	136	-	136
Fair value (gain) / loss on derivative financial instrument		(829)	315	67	323
Net unrealised foreign exchange (gain) / loss		(47)	5	(12)	48
(Profit) / Loss from jointly controlled entity		(163)	302	(101)	511
Deferred revenue		65	646	(444)	(1,776)
Other operating income		-	(5,706)	-	(5,706)
Net change in non-cash working capital	16	(425)	1,091	(1,987)	769
Net cash generated / (used) in operating activities		589	(2,626)	(3,104)	(7,696)
Cash flow from investing activities					
Interest received		(83)	44	5	76
Expenditure on exploration and evaluation assets		(607)	(4,423)	(1,602)	(6,289)
Expenditures on property, plant and equipment		(1,494)	(10,411)	(1,708)	(19,397)
Movement in restricted cash		150	(3,549)	411	(3,551)
Investment in jointly controlled entity		(2)	-	(5)	-
Payments made on behalf of jointly controlled entity		-	(4,486)	-	(7,364)
Movement in advances to construction contractors		(1,401)	1,710	(1,034)	(117)
Movement in value added tax receivable		790	(1,248)	847	(2,153)
Net change in non-cash working capital	16	(1,121)	406	(2,400)	354
Net cash used in investing activities		(3,768)	(21,957)	(5,486)	(38,441)
Cash flow from financing activities					
Proceeds from issuance of short-term borrowings, net of issue costs		3,509	-	7,029	-
Proceeds from issuance of long-term borrowings, net of issue costs		-	-	2,306	-
Repayment of long-term borrowings		(251)	(90)	(407)	(176)
Repayment of short-term borrowings		-	-	(6,459)	-
Interest paid on borrowings		(317)	(97)	(521)	(197)
Movement in other non-current liabilities		(68)	(75)	(142)	(151)
Net cash generated / (used) in financing activities		2,873	(262)	1,806	(524)
Effects of exchange rate changes on cash and cash equivalents		98	(209)	10	(128)
Net decrease in cash and cash equivalents		(208)	(25,054)	(6,774)	(46,789)
Cash and cash equivalents at beginning of the period		4,180	57,400	10,746	79,135
Cash and cash equivalents at end of the period		3,972	32,346	3,972	32,346

The notes on pages 7 to 25 form part of these condensed consolidated interim financial statements.

Tethys Petroleum Limited

Notes to Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended June 30, 2012

1 General information

The principal executive office of Tethys Petroleum Limited and its subsidiaries (collectively “Tethys” or “the Company”) is in Guernsey, British Isles. The domicile of Tethys Petroleum Limited is the Cayman Islands, 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 exploration and development of crude oil and natural gas fields.

The Company has its primary listing on the Toronto Stock Exchange (TSX) and a secondary listing on the Kazakhstan Stock Exchange (KASE) in Almaty. On July 25, 2011 the Company was admitted to the London Stock Exchange with respect to a Standard Listing.

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 IFRIC interpretations issued by the IFRS Interpretations Committee.

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” and the requirements of the Disclosure and Transparency Rules (‘DTR’) of the Financial Services Authority (‘FSA’) in the United Kingdom as applicable to 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, 2011.

Going concern

The directors have considered the Company’s current activities, funding position and projected funding requirements for the period of at least twelve months from the date of approval of the condensed consolidated interim financial statements, in concluding whether it is appropriate to adopt the going concern basis in preparing the condensed consolidated interim financial statements for the period ended June 30, 2012. The Company’s activities, together with the factors likely to affect its future development, performance and position are set out in the Management Discussion & Analysis document. The key factors impacting the cash flows of the Company are the increased oil production following the commissioning of the AOT rail terminal, completed in mid-April 2012, and the receipt of a KZT2.35 billion (\$16 million) debt facility, via the Company’s partners in Kazakhstan, to finance TAG’s business and capital expenditure. The financial position of the Company, its cash flows and liquidity position are as set out in this Management Discussion & Analysis document on pages 16 to 19. The Company reports a loss for the six months ended June 30, 2012 of \$11.7 million (2011: \$9.0 million). As at July 31, 2012, the Company held cash of \$3.0 million while the net current liabilities at June 30, 2012 were \$3.3 million. The current liabilities include \$ 3.5 million relating to the first instalment drawn down against the debt facility, all of which was included in current liabilities, in accordance with IAS 1.72, as the loan including the agreement of payment terms had not been signed as at June 30, 2012. The loan agreement was signed on August 13, 2012 and as a result the majority of the balance will be transferred to long term liabilities in the Q3 financial statements. The current liabilities include USD6.1 million

Tethys Petroleum Limited

Notes to Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended June 30, 2012

of borrowings secured against the Company's drilling equipment, some of which the Company will look to roll over as they mature.

Following the commissioning of the AOT rail terminal at Shalkar in mid-April the Company saw a significant increase in daily oil shipments to the extent that in the latter days of June production of 4,000 bopd was being achieved. Unfortunately the Company was unable to maintain this level of production into July due primarily to a serious shortage of rail trucks. This problem has now been remedied and the early days of August, saw a much higher level of oil production. It is now anticipated that production for the month of August will be in the region of 4,000 bopd. Production is then planned to increase steadily to 5,000 in early 2013 from the existing drilled wells. The Company believes that the increased oil sales resulting from this increased production will generate sufficient levels of cash to fund its ongoing activities and its committed capital expenditure plans outside Kazakhstan. The debt facility referred to above will be used to finance business and capital expenditure inside Kazakhstan including further appraisal / exploration wells planned for 2012/13, which is expected to result in increased production and increased revenue.

While as stated above, management is confident that, with the increased production levels at 4,000 – 5,000 bopd combined with the debt facility, the Company will have sufficient funding for its ongoing activities and its current capital expenditure plans, it is aware that should the oil sales fall below the anticipated level, or should the anticipated increase in the selling price not be achieved, then additional funding may be necessary to meet planned outflows. The Company has a number of options with respect to its expenditure plans and can defer or delay or cancel several planned items. Given the low level of committed capital expenditure, the Directors believe that the Company has sufficient funds to meet its current plans.

The Company is currently adopting a prudent approach to cash management and will proceed with such projects when certain milestones have been met. Discussions have also been initiated with regard to reserve based lending and other corporate and project related financing options.

With regard to longer term requirements, the Company regularly considers farm-out/farm-in and joint venture opportunities as a means of developing its business and sharing financial and/or commercial risks. As at the date of this report, the Company is in ongoing discussions with several parties with regard to a potential farm in and/or joint ventures.

The Directors have examined these issues to form a view on the Company's ability to realise its assets and discharge its liabilities in the normal course of business. After making enquiries and considering the circumstances referred to above, the Directors have a reasonable expectation that the company has adequate resources and potential to continue operations for at least the next twelve months. For these reasons they continue to adopt the going concern basis of accounting in preparing the condensed interim consolidated financial statements.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company

The following amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after January 1, 2013 or later periods, but the Company has not early adopted them:

- Annual improvements to IFRS – 2009-2011 Cycle. This cycle of improvements contains amendments to:
- IFRS 1 First-time adoption of IFRSs – repeated application of IFRS 1 and borrowing cost exemption,

Tethys Petroleum Limited

Notes to Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended June 30, 2012

- IAS 1 Presentation of financial statements – comparative information beyond minimum requirements and presentation of the opening statement of financial position and related notes,
- IAS 16 Property, plant and equipment – classification of servicing equipment,
- IAS 32 Financial instruments: presentation – income tax consequences of distributions,
- IAS 34 Interim financial reporting – segment assets and liabilities.

These amendments are not applicable until January 1, 2013 and will not result in a material impact to the Company's consolidated financial statements.

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 oil and gas from the Kyzyloi and Akkulka fields and is undertaking exploration and evaluation activity in the Kulbas fields. In Tajikistan, the Company is currently undertaking exploration and evaluation activity together with a small amount of production 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 another segment which acquired a number of drilling rigs and related oil and gas equipment which are utilised in Kazakhstan, Tajikistan, and Uzbekistan according to operational requirements.

Tethys Petroleum Limited

Notes to Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended June 30, 2012

The segment results for the six months ended June 30, 2012 are as follows:

	Kazakhstan	Tajikistan	Uzbekistan	Other and Corporate	Interim consolidated
	\$'000	\$'000	\$'000	\$'000	\$'000
Refined product sales	-	-	3,321	-	3,321
Gas sales	3,140	-	-	-	3,140
Oil sales	9,241	846	-	-	10,087
Other income	143	-	-	-	143
Other operating income	-	-	-	2,241	2,241
Segment revenue and other income	12,524	846	3,321	2,241	18,932
Inter-segment revenue	-	-	-	(2,241)	(2,241)
Segment revenue and other income from external customers	12,524	846	3,321	-	16,691
Profit from jointly controlled entity	101	-	-	-	101
Profit / (loss) before taxation	409	(1,326)	705	(10,935)	(11,147)
Taxation	(365)	-	(220)	14	(571)
Profit / (loss) for the period	44	(1,326)	485	(10,921)	(11,718)

Borrowing costs of \$45,801 and \$44,314 were capitalised in the Tajik and Kazakh segments respectively during the period.

The segment results for the six months ended June 30, 2011 are as follows:

	Kazakhstan	Tajikistan	Uzbekistan	Other and Corporate	Interim consolidated
	\$'000	\$'000	\$'000	\$'000	\$'000
Refined product sales	-	-	3,368	-	3,368
Gas sales	3,354	-	-	-	3,354
Oil sales	1,608	-	-	-	1,608
Other income	132	-	195	290	617
Other operating income	-	-	-	5,706	5,706
Segment revenue and other income	5,094	-	3,563	5,996	14,653
Inter-segment revenue	-	-	-	(290)	(290)
Segment revenue and other income from external customers	5,094	-	3,563	5,706	14,363
Loss from jointly controlled entity	-	(511)	-	-	(511)
(Loss)/ profit before taxation	(4,723)	41	838	(5,325)	(9,169)
Taxation	709	-	(531)	-	178
(Loss) / profit for the period	(4,014)	41	307	(5,325)	(8,991)

Tethys Petroleum Limited

Notes to Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended June 30, 2012

Borrowing costs of \$481,541 were capitalised in the Kazakh segment during the period. Amortisation of \$304,080 of assets held in the Corporate segment were also capitalised in the Kazakh segment during the period.

The segment results for the three months ended June 30, 2012 are as follows:

	Kazakhstan	Tajikistan	Uzbekistan	Other and Corporate	Interim consolidated
	\$'000	\$'000	\$'000	\$'000	\$'000
Refined product sales	-	-	1,013	-	1,013
Gas sales	1,488	-	-	-	1,488
Oil sales	6,928	720	-	-	7,648
Other income	55	-	-	-	55
Other operating income	-	-	-	58	58
Segment revenue and other income	8,471	720	1,013	58	10,262
Inter-segment revenue	-	-	-	(58)	(58)
Segment revenue and other income from external customers	8,471	720	1,013	-	10,204
Profit from jointly controlled entity	163	-	-	-	163
Profit / (loss) before taxation	1,504	(612)	(137)	(5,194)	(4,439)
Taxation	(419)	-	(26)	14	(431)
Profit / (loss) for the period	1,085	(612)	(163)	(5,180)	(4,870)

Tethys Petroleum Limited

Notes to Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended June 30, 2012

The segment results for the three months ended June 30, 2011 are as follows:

	Kazakhstan	Tajikistan	Uzbekistan	Other and Corporate	Interim consolidated
	\$'000	\$'000	\$'000	\$'000	\$'000
Refined product sales	-	-	946	-	946
Gas sales	1,863	-	-	-	1,863
Oil sales	1,107	-	-	-	1,107
Other income	66	-	195	146	407
Other operating income	-	-	-	5,706	5,706
Segment revenue and other income	3,036	-	1,141	5,852	10,029
Inter-segment revenue	-	-	-	(146)	(146)
Segment revenue and other income from external customers	3,036	-	1,141	5,706	9,883
Loss from jointly controlled entity	-	(302)	-	-	(302)
(Loss)/ profit before taxation	(2,592)	313	(501)	9	(2,771)
Taxation	357	-	(282)	-	75
(Loss)/ profit for the period	(2,235)	313	(783)	9	(2,696)

The segment assets at June 30, 2012 and capital expenditures for the 6 month period then ended are as follows:

	Kazakhstan	Tajikistan	Uzbekistan	Other and Corporate	Interim consolidated
	\$'000	\$'000	\$'000	\$'000	\$'000
Total assets	147,383	79,849	6,813	19,108	253,153
Cash expenditure to exploration & evaluation assets, property, plant and equipment	1,680	1,438	185	7	3,310

The segment assets at December 31, 2011 and capital expenditures for the 6 months ended 30 June, 2011 are as follows:

	Kazakhstan	Tajikistan	Uzbekistan	Other and Corporate	Interim consolidated
	\$'000	\$'000	\$'000	\$'000	\$'000
Total assets	148,844	78,158	7,702	28,687	263,391
Cash expenditure to exploration & evaluation assets, property, plant and equipment	22,209	-	3,351	126	25,686

Tethys Petroleum Limited

Notes to Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended June 30, 2012

4 Operating Income

During 2010 and the first half of 2011, a drilling rig together with associated equipment, all owned by the Company, was rented to a subsidiary of Seven Stars Energy Corporation ("SSEC") on commercial terms. In accordance with the shareholders agreement, the amounts receivable in respect of the rental are to be added to the loan due from that entity. When preparing the 2010 annual financial statements and the interim financial statements for Q1 2011 these amounts were eliminated in full rather than proportionate to the Company's equity accounted interest, and no income was recognised. Following the progress made on the EOL09 well as set out in more detail on page 9 of the Management's Discussion and Analysis document for the period ended June 30, 2011, the directors reconsidered this matter and considered it appropriate that the income be included. Accordingly, other operating income for the 6 months ended 30 June 2011 includes \$5,706,435 in respect of these transactions, of which \$3,835,320 relates to the prior year. The invoices have not been settled and there is consequently no impact on the Company's cash flows. There was also no impact on tax expense as a result of this income being recognised.

In addition, the Directors gave similar consideration to the position of interest on the loan to SSEC with the result that cumulative interest income of \$719,785 was recognised for the period to June 30, 2011. Of this amount, \$420,489 related to the prior year. This change had no effect on tax expense or cashflows. Since December 13, 2011, the date on which SSEC became a subsidiary of the Company, this operating income and finance income has been eliminated on consolidation.

5 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, 2011. The options under the plan vest in three tranches with one third vesting immediately, one third after 12 months and one third after 24 months. These options are equity settled share based payment transactions.

The following tables summarize the stock option activity for the period ended June 30, 2012 and June 30, 2011.

	Number of options	Weighted average exercise price \$
Outstanding at January 1, 2012	28,923,000	1.45
Granted	5,235,000	0.87
Forfeited	(20,000)	1.83
Exercised	(15,000)	0.60
Expired	(220,000)	1.87
Outstanding at June 30, 2012	33,903,000	1.36
Exercisable at June 30, 2012	24,793,000	1.52

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(Unaudited)

For the six months ended June 30, 2012

	Number of options	Weighted average exercise price \$
Outstanding at January 1, 2011	22,263,000	1.65
Granted	600,000	1.91
Forfeited	-	n/a
Exercised	-	n/a
Expired	-	n/a
Outstanding at June 30, 2011	22,863,000	1.66
Exercisable at June 30, 2011	15,760,000	1.81

A charge for the value of services of \$1,993,739 (2011 - \$2,276,379) was recorded for the period, of which \$116,782 (2011 - \$218,961) was capitalised in accordance with the Company's time writing policy.

Warrants

The following tables summarize the warrant activity for the period ended June 30, 2012 and June 30, 2011.

	Number of warrants	Weighted average exercise price \$
Outstanding at January 1, 2012	5,248,168	5.14
Granted	164,538	1.01
Forfeited	-	
Exercised	-	
Expired	-	
Outstanding at June 30, 2012	5,412,706	5.01
Exercisable at June 30, 2012	5,412,706	5.01
Outstanding at January 1, 2011	7,504,003	5.25
Granted	-	n/a
Forfeited	-	n/a
Exercised	-	n/a
Expired	(2,255,835)	5.50
Outstanding at June 30, 2011	5,248,168	5.14
Exercisable at June 30, 2011	5,248,168	5.14

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. The 164,538 warrants granted above were issued in connection with commissions payable to brokers with respect to the 2012 loans (note 12).

Tethys Petroleum Limited

Notes to Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended June 30, 2012

6 Taxation

Tethys is domiciled in the Cayman Islands which has no Company income tax. The Group also operates in other tax jurisdictions, the most significant of which is Kazakhstan where the tax rate is 20%.

The temporary differences comprising the net deferred income tax liability are as follows:

	June 30, 2012 \$'000	December 31, 2011 \$'000
Capital Assets	2,433	2,937
Tax losses	(909)	(969)
Other	948	143
	<u>2,472</u>	<u>2,111</u>

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

	June 30, 2012 \$'000	June 30, 2011 \$'000
Loss before income taxes	(11,147)	(9,169)
Income tax rate	20%	20%
Expected income tax (recovery)	<u>(2,229)</u>	<u>(1,834)</u>
<i>Increase / (decrease) resulting from:</i>		
Non-deductible expenses/ (Non-chargeable income)	(37)	379
Impact of effective tax rates in other foreign jurisdictions	2,141	251
Losses and tax assets not utilised/recognised	705	982
Other	<u>(9)</u>	<u>44</u>
	<u>571</u>	<u>(178)</u>
Current income tax expense	210	11
Deferred tax (recovery) / expense	<u>361</u>	<u>(189)</u>
	<u>571</u>	<u>(178)</u>

Tethys Petroleum Limited

Notes to Condensed Consolidated Financial Statements

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For the six months ended June 30, 2012

7 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, 2012			
Loss attributable to ordinary shareholders – Basic and diluted	<u>(11,559)</u>	<u>286,703</u>	<u>(0.04)</u>
Three months ended June 30, 2012			
Loss attributable to ordinary shareholders – Basic and diluted	<u>(4,811)</u>	<u>286,708</u>	<u>(0.02)</u>
Six months ended June 30, 2011			
Loss attributable to ordinary shareholders – Basic and diluted	<u>(8,991)</u>	<u>260,630</u>	<u>(0.03)</u>
Three months ended June 30, 2011			
Loss attributable to ordinary shareholders – Basic and diluted	<u>(2,696)</u>	<u>260,630</u>	<u>(0.01)</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.

Tethys Petroleum Limited

Notes to Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended June 30, 2012

8 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, 2011					
Cost	133,322	25,337	2,260	1,978	162,897
Accumulated depreciation	(26,443)	(5,813)	(1,007)	(716)	(33,979)
Net book amount	106,879	19,524	1,253	1,262	128,918
Period ended June 30, 2012					
Opening net book amount	106,879	19,524	1,253	1,262	128,918
Additions	1,679	-	414	37	2,130
Disposals	-	-	-	(1)	(1)
Depreciation charge	(6,828)	(462)	(756)	(209)	(8,255)
Accumulated depreciation on disposal	-	-	-	1	1
Closing net book amount	101,730	19,062	911	1,090	122,793
At June 30, 2012					
Cost	135,001	25,337	2,674	2,014	165,026
Accumulated depreciation	(33,271)	(6,275)	(1,763)	(924)	(42,233)
Net book amount	101,730	19,062	911	1,090	122,793
Assets under construction at net book amount included in above:					
At June 30, 2012	20,293	-	-	-	20,293
At December 31, 2011	19,613	-	-	-	19,613

Tethys Petroleum Limited

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For the six months ended June 30, 2012

9 Intangible assets

	Other intangible asset \$'000	Exploration and evaluation assets \$'000	Total \$'000
At December 31, 2011			
Cost	5,553	98,358	103,911
Accumulated amortisation and impairment	(3,952)	-	(3,952)
Net book amount	1,601	98,358	99,959
Period ended June 30, 2012			
Opening net book amount	1,601	98,358	99,959
Additions	-	1,727	1,727
Amortisation charge	(119)	-	(119)
Closing net book amount	1,482	100,085	101,567
At June 30, 2012			
Cost	5,553	100,085	105,638
Accumulated amortisation and impairment	(4,071)	-	(4,071)
Net book amount	1,482	100,085	101,567

Other intangible assets consist of the fair value of the acquired assets relating to the Production Enhancement Contract (PEC) for the North Urtabulak field. Amortisation is calculated using a unit-of-production basis over the estimated incremental production entitlement expected to be received over the life of the contract.

10 Loan receivable from jointly controlled entity

The following amounts represent the movements in the loan receivable:

	June 30, 2012 \$'000	December 31, 2011 \$'000
Balance, beginning of year	2,013	-
Share of profit	101	-
Finance income on loan receivable (at market rate)	99	13
Increase in loan to jointly controlled entity	-	2,000
Balance, end of period / year	<u>2,213</u>	<u>2,013</u>

Tethys Petroleum Limited

Notes to Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended June 30, 2012

11 Restricted cash

Non current restricted cash consists of interest bearing deposits held in Kazakhstan. These deposits have been placed to satisfy local Kazakh requirements in respect of asset retirement obligations.

Current restricted cash consists of monies placed on temporary deposit as security against corporate cards and a deposit with the Ministry of Finance in Dubai as fixed term deposits with banks.

12 Financial liabilities – borrowings

	Effective interest rate	Maturity date	June 30, 2012 \$'000	December 31, 2011 \$'000
Current				
New well loans - Uzbekistan	7% to 15.36% p.a.	2012	-	6,360
Rig loans – Option A	19.95% p.a.	2012	5,410	2,036
Rig loans – Option B	19.54% p.a.	2012	742	-
Kazakh loan	14.1% p.a.	2012	3,509	-
			<u>9,661</u>	<u>8,396</u>
Non-current				
Rig loans – Option B	19.54% p.a.	2013/2014	2,595	1,632
Total			<u>12,256</u>	<u>10,028</u>

The new well loans relating to Uzbekistan were all repaid in the first quarter.

In December 2011 the Company closed on the first tranche of a maximum \$10 million loan facility amounting to US\$3,965,240, which is secured by the ZJ70 and ZJ30 rigs and other equipment. This facility gives lenders the choice of two methods of repayment designated Option A and Option B. The remaining two tranches of the \$10 million facility were closed in February and March 2012.

Under Option A, which has a term of one year, lenders have the option to receive monthly repayments on an interest only basis followed by a single balloon repayment of the principal amount to be paid at the maturity date. Option B, which has a term of two years, gives lenders the right to receive equal monthly instalments, incorporating interest and capital, together with a single balloon repayment of half of the principal amount to be paid at the maturity date. These borrowings are held at amortized cost and their carrying amounts approximate to their fair value at the balance sheet date. The interest payable on the borrowed funds is 12% per annum under both options.

In addition, lenders were granted warrants to acquire ordinary shares of the borrower equal to half of each \$100,000 principal amount of the loan advanced to the Company. As at June 30, 2012, a total of 5,000,000 such warrants have been granted to lenders.

Such warrants will be exercisable at a 25% premium to the price of the volume weighted average CAD price of the shares on the TSX for the 5-day period prior to the day the borrower receives the funds in its bank account.

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(Unaudited)

For the six months ended June 30, 2012

As at June 30, 2012 1,610,000 warrants had been issued in connection with the second tranche of the loan and 1,407,380 for the third tranche of the loan. The Company has recorded a discount to these further loans in the amount of \$682,934 based on the relative fair value of the warrants. The fair value of the warrant commissions relating to these loans (note 5) was \$37,022, which was also recorded as a discount to these loans. The loans were then amortised using the effective rate interest method. Lenders have security over the shares of Imperial Oilfield Services Limited which has no other assets except the drilling rigs and associated equipment.

On June 29, 2012 the Company announced that it had secured a loan facility from a Kazakh bank to fund capital expenditures in Kazakhstan (the “bank loan facility”). The bank loan facility was arranged by Eurasia Gas Group LLP, with the Company’s consent, and is a bank loan to Eurasia Gas Group LLP, the Company’s joint venture partner in Aral Oil Terminal LLP. The bank loan facility has a term of up to four years depending on the Company’s requirements and bears an interest rate of between 12% and 15% per annum on sums drawn down.

As at June 30, 2012, the Company and Eurasia Gas Group LLP had not finalised terms of a formal loan arrangement (the “arrangement”), whereby Eurasia Gas Group LLP draws down on the bank loan facility entirely at the direction and discretion of the Company and funds are transferred to the Company’s subsidiary TethysAralGas LLP, however \$3,510,072 (525 million KZT) of funds had been advanced to the Company under the anticipated arrangement at an expected interest rate of 14% per annum. This amount has been designated short term due to the absence of a formalised loan arrangement at the reporting date, in accordance with IAS 1.72.

Subsequent to the reporting date a formal loan agreement has been signed for 2.35 billion KZT with a drawdown period of one year from the date of first drawdown (May 31, 2012). Repayment and interest terms are to be agreed for each drawdown, upon drawdown. With respect to the 525 KZT advanced prior to the reporting date, the repayment period has subsequently been agreed at 4 years, with monthly repayments of both principal and interest (at 14%). In case oil production is suspended for more than 30 days, the outstanding amount is to be repaid to Eurasia Gas Group LLP within 30 days from the receipt of its notice of return.

Guarantees have been put in place with respect to both this loan and the above-mentioned bank loan facility, which are detailed in note 17.

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended June 30, 2012

13 Derivative financial instruments - warrants

	June 30, 2012 \$'000	December 31, 2011 \$'000
Balance, beginning of year	264	405
Issued during the period / year	683	233
Fair value loss / (gain)	(407)	(374)
Exercised during the period / year	-	-
Balance, end of period / year	540	264

The following table summarizes the warrant activity for the period ended June, 30 2012 and June 30, 2011.

	Number of warrants	Weighted average exercise price \$
Outstanding at January 1, 2012	2,620,918	0.79
Granted	3,017,380	0.99
Expired	(638,298)	1.25
Outstanding at June 30, 2012	5,000,000	0.84
Exercisable at June 30, 2012	5,000,000	0.84
	Number of warrants	Weighted average exercise price \$
Outstanding at January 1, 2011	2,779,452	2.43
Expired	(795,000)	3.31
Outstanding at June 30, 2011	1,984,452	1.74
Exercisable at June 30, 2011	1,984,452	1.74

Warrants granted during the period were in connection with loans raised (note 12). 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.

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For the six months ended June 30, 2012

14 Share capital

	June 30, 2012 Number	December 31, 2011 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

Ordinary equity share capital Allotted and fully paid	Number	Share capital \$'000	Share premium \$'000
At January 1, 2011	260,629,769	26,063	297,222
Issued during the period for cash	26,062,975	2,606	9,503
At December 31, 2011	286,692,744	28,669	306,725
Issued during the period in connection with the exercise of share options	15,000	2	11
Cost of share issue	-	-	(11)
At June 30, 2012	286,707,744	28,671	306,725

15 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 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, 2012 was \$1,559,647 (June 30, 2011 – \$1,576,734).

On June 13, 2012, the Company and Vazon amended the Deed of Guarantee and Indemnity dated December 10, 2009, between the two companies, whereby the Company guarantees to indemnify Vazon for certain payments related to the management services provided by Vazon under the management services contract.

The guarantee comprises a charge over the assets of one of the Company's subsidiaries, Tethys Tajikistan Limited ("TTL"), amounting to amounts owing under the management services contract from time to time. At June 30, 2012 the amount owed to Vazon by the Company was \$24,527.

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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. Total fees for the period ended June 30, 2012 were \$64,631 (June 30, 2011 – \$11,422). OPC participated in the 2011 loan financing described in note 20 of the annual consolidated financial statements for the year ended December 31, 2011, advancing \$200,000 under Option B of the facility. As a result, OPC received 100,000 warrants valued at a fair value of \$15,030. The loan was advanced under the same conditions and terms afforded to non-related parties.

Other

Two officers of the Company participated in the 2011 loan financing described in note 20 of the annual consolidated financial statements for the year ended December 31, 2011, for which they received 75,000 and 232,620 warrants valued at a fair value of \$6,143 and \$21,983 respectively. Loans advanced were \$150,000 and GBP300,000 respectively for a one year term under the same conditions and terms afforded to non-related parties.

16 Changes in working capital

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	\$'000	\$'000	\$'000	\$'000
Trade and other receivables	(1,286)	(744)	(1,652)	(294)
Inventories	(2)	(776)	(50)	(1,107)
Trade and other payables	(354)	2,774	(2,775)	2,203
Change in non-cash working capital	(1,642)	1,254	(4,477)	802
Non-cash transactions	96	243	90	321
Net changes in non-cash working capital	(1,546)	1,497	(4,387)	1,123

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

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	\$'000	\$'000	\$'000	\$'000
Operating activities	(425)	1,091	(1,987)	769
Investing activities	(1,121)	406	(2,400)	354
Balance	(1,546)	1,497	(4,387)	1,123

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17 Commitments, contingencies and guarantees

Kazakhstan

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, an amount of \$2,698,531 will be due to the Kazakhstan Government as a reimbursement of historical costs previously incurred by the Government in relation to the contractual territory, payable upon signature of the Akkulka oil production contract.

Kul-Bas Exploration and Production Contract

The Kazakhstan Government is to be compensated for the historical costs related to the contractual territory in the amount of \$3,275,780. The Company has previously paid an amount of \$49,137 in relation to this balance. If and when commercial production commences, \$88,666 is due in quarterly instalments until the remaining historical costs of \$3,226,643 have been paid in full. With respect to 2012, a minimum work program amounting to \$3,210,000 has been agreed, of which \$321,925 has been paid during the period ended June 30, 2012. Subsequent to the reporting date the Company has made an application to the Kazakh Government to extend its exploration licence to November 2015 together with a revised work program which would reduce the 2012 commitment to an estimated \$810,000.

Kazakh loan

With respect to the Kazakh loan arrangements detailed in note 12, the following securities have been provided by both Tethys Aral Gas LLP ("TAG") and the Joint Venture Aral Oil Terminal ("AOT") at Shalkar:

TAG:

- 1) Kyzylloi gas pipeline;
- 2) Operations base;
- 3) Booster compressor stations #1 and #2; and
- 4) Group Unit

AOT:

- 1) Administrative building and land plot;
- 2) Warehouses x 2;
- 3) Railway dock and 2 platforms;
- 4) Gates and fencing;
- 5) Reservoir; and
- 6) Rail way oil loading ramp and oil unloading area.

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Tajikistan

On May 31, 2012, the Company signed a turnkey agreement for a 2D Seismic Survey over certain areas covered by the Bokhtar licence. In the event of early termination by the Company before the completion of 500 kilometres of the Survey, an early termination fee of \$4,000 per kilometre less than the minimum commitment of 500 kilometres and a demobilisation fee of \$180,000 will be payable. At June 30, 2012 no kilometres had been completed.

18 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	Greater than 3 years \$'000
June 30, 2012				
Operating leases	969	732	169	68
December 31, 2011				
Operating leases	1,055	670	290	95

Leases as a lessor:

Under IFRIC 4 'Determining whether an arrangement contains a lease', the Company sells gas in Kazakhstan under a lease arrangement even though the agreement is not in the legal form of a lease. There are no payments received for non-lease elements within the Kazakh gas sales revenue. There are no non-cancellable lease payments under this take or pay contract.

19 Non-controlling interest

The table below relates to the 15% non-controlling interest share of Seven Stars Energy Corporation:

	June 30, 2012 \$'000	December 31, 2011 \$'000
Balance at December 31, 2011	8,918	4,888
Fair value uplift arising from debt waiver	-	4,080
Share of loss for the period	(159)	(50)
Balance at June 30, 2012	8,759	8,918