Tethys Petroleum Limited

Interim Financial Information
(Unaudited)
September 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 DTR4.3 Interim management statements; 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 DTR4.3 Interim management statements, a Directors' Responsibility Statement.**

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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 DTR4.3 Interim management statements:

For and on behalf of the Board

Dr. D. Robson	***B. Murphy***
Executive Chairman	Chief Financial Officer
November 14, 2012	November 14, 2012

Tethys Petroleum Limited

Condensed Consolidated Statement of Financial Position
(Unaudited)
(in US Dollars)

		As at	
		September 30, 2012	**December 31, 2011**
	Note	**$'000**	**$'000**
Non-current assets			
Property, plant and equipment	8	121,894	128,918
Intangible assets	9	104,165	99,959
Restricted cash		1,406	1,407
Prepayments and other receivables		10,629	10,217
Investment in jointly controlled entity		1,118	1,113
		239,212	241,614
Current assets			
Inventories		1,934	2,025
Trade and other receivables		7,449	5,478
Loan receivable from jointly controlled entity	10	1,868	2,013
Cash and cash equivalents		1,146	10,746
Restricted cash	11	474	885
Derivative financial instruments – interest rate swap		-	630
		12,871	21,777
Total assets		252,083	263,391
Equity attributable to shareholders			
Share capital	14	28,671	28,669
Share premium	14	306,725	306,725
Other reserves		41,200	38,530
Accumulated deficit		(161,527)	(144,962)
Non-controlling interest	19	8,648	8,918
Total equity		223,717	237,880
Non-current liabilities			
Financial liabilities - borrowings	12	5,874	1,632
Deferred taxation	6	2,913	2,111
Trade and other payables		402	547
Asset retirement obligations		248	386
		9,437	4,676
Current liabilities			
Financial liabilities - borrowings	12	7,411	8,396
Derivative financial instruments - warrants	13	688	264
Derivative financial instruments - foreign currency hedge		-	157
Deferred revenue		1,238	1,839
Trade and other payables		9,294	10,179
Current tax		298	-
		18,929	20,835
Total liabilities		28,366	25,511
Total shareholders' equity and liabilities		252,083	263,391
Commitments and contingencies	17		

The notes on pages 6 to 26 form part of these condensed consolidated interim financial statements. The condensed consolidated interim financial statements were approved by the Board on November 14, 2012 and were signed on its behalf**.**

Dr. D. Robson Director ***B. Murphy*** Director

Tethys Petroleum Limited

Condensed Consolidated Statement of Comprehensive Income
(Unaudited)
For the three and nine months ended September 30, 2012
(in US Dollars)

	Note	For the 3 months ended September 30,		For the 9 months ended September 30,	
		2012	2011	2012	2011
		$'000	$'000	$'000	$'000
Sales and other revenues		9,990	6,849	26,681	15,506
Other operating income	4	-	922	-	6,628
Total revenue and other income		9,990	7,771	26,681	22,134
Production expenses		(3,562)	(3,393)	(9,401)	(6,918)
Depreciation, depletion and amortisation		(4,766)	(3,857)	(12,557)	(9,684)
Exploration and evaluation expenditure written off		(138)	(1,807)	(138)	(1,807)
Listing expenses		-	(273)	-	(606)
Business development expenses		(42)	(697)	(621)	(1,926)
Administrative expenses		(4,490)	(4,859)	(15,248)	(15,520)
Share based payments	5	(582)	(1,054)	(2,459)	(3,111)
Foreign exchange (loss) / gain – net		(158)	(183)	(334)	33
Fair value loss on derivative financial instruments		(149)	(231)	(216)	(554)
Loss from jointly controlled entity		(395)	(291)	(294)	(802)
Net finance (costs) / income	4	(296)	194	(1,148)	912
Loss before taxation		**(4,588)**	**(8,680)**	**(15,735)**	**(17,849)**
Taxation	6	(529)	105	(1,100)	283
Loss for the period		**(5,117)**	**(8,575)**	**(16,835)**	**(17,566)**
Loss attributable to:					
Shareholders		(4,906)	(8,575)	(16,565)	(17,566)
Non-controlling interest		(211)	-	(270)	-
Loss for the period		**(5,117)**	**(8,575)**	**(16,835)**	**(17,566)**
Loss per share attributable to shareholders					
Basic and diluted	7	(0.02)	(0.03)	(0.06)	(0.07)

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

The notes on pages 6 to 26 form part of these condensed consolidated interim financial statements.

Tethys Petroleum Limited

Condensed Consolidated Statement of Changes in Equity
(Unaudited)
For the three and nine months ended September 30, 2012
(in US Dollars)

		Attributable to shareholders						
		Share capital	**Share premium**	**Accumulated deficit**	**Option reserves**	**Warrant reserves**	**Non-controlling interest**	**Total equity**
	Note	**$'000**	**$'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		-	-	(17,566)	-	-	-	(17,566)
Transactions with shareholders								
Share-based payments		-	-	-	3,492	-	-	3,492
Total transactions with shareholders		-	-	-	3,492	-	-	3,492
Balance at September 30, 2011		**26,063**	**297,222**	**(135,589)**	**21,198**	**16,555**	**-**	**225,449**
Comprehensive loss for the period		-	-	(9,373)	-	-	(50)	(9,423)
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		-	-	-	777	-	-	777
Total transactions with shareholders		2,606	9,503	-	777	-	-	12,886
Balance at December 31, 2011		**28,669**	**306,725**	**(144,962)**	**21,975**	**16,555**	**8,918**	**237,880**
Comprehensive loss for the period		-	-	(16,565)	-	-	(270)	(16,835)
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	-	-	-	2,637	-	-	2,637
Total transactions with shareholders		2	-	-	2,633	37	-	2,672
Balance at September 30, 2012		**28,671**	**306,725**	**(161,527)**	**24,608**	**16,592**	**8,648**	**223,717**

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 6 to 26 form part of these condensed consolidated interim financial statements.

Tethys Petroleum Limited

Condensed Consolidated Statement of Cash Flows
(Unaudited)
For the three and nine months ended September 30, 2012
(in US dollars)

	Note	For the 3 months ended September 30,		For the 9 months ended September 30,	
		2012 $'000	2011 $'000	2012 $'000	2011 $'000
Cash flow from operating activities					
Loss before taxation for the period		(4,588)	(8,680)	(15,735)	(17,849)
Adjustments for					
Share based payments		582	1,054	2,459	3,111
Net finance cost / (income)		296	(194)	1,148	(910)
Unsuccessful exploration and evaluation expenditure written off		-	1,807	-	1,807
Depreciation, depletion and amortization		4,766	3,857	12,557	9,684
(Gain)/loss on disposal of assets		-	(16)	-	120
Fair value loss on derivative financial instruments		149	231	216	554
Net unrealised foreign exchange (gain) / loss		228	(70)	216	(22)
Loss from jointly controlled entity		395	291	294	802
Deferred revenue		(157)	1,721	(601)	(55)
Other operating income		-	(922)	-	(6,628)
Net change in non-cash working capital	16	84	(1,252)	(1,903)	(483)
Net cash generated / (used) in operating activities		1,755	(2,173)	(1,349)	(9,869)
Cash flow from investing activities					
Interest received		-	36	5	112
Expenditure on exploration and evaluation assets		(2,412)	(3,335)	(4,014)	(9,624)
Expenditures on property, plant and equipment		(3,609)	(7,813)	(5,317)	(27,210)
Movement in restricted cash		1	2,100	412	(1,451)
Investment in jointly controlled entity		-	-	(5)	-
Payments made on behalf of jointly controlled entity		-	(5,071)	-	(12,435)
Movement in advances to construction contractors		(643)	1,304	(1,677)	1,187
Movement in value added tax receivable		251	(980)	1,098	(3,133)
Net change in non-cash working capital	16	1,476	726	(924)	1,080
Net cash used in investing activities		(4,936)	(13,033)	(10,422)	(51,474)
Cash flow from financing activities					
Proceeds from issuance of borrowings, net of issue costs		999	-	10,334	-
Repayment of borrowings		(246)	(93)	(7,112)	(269)
Interest paid on borrowings		(283)	(69)	(804)	(266)
Movement in other non-current liabilities		(71)	(76)	(213)	(227)
Net cash generated / (used) in financing activities		399	(238)	2,205	(762)
Effects of exchange rate changes on cash and cash equivalents		(44)	114	(34)	(14)
Net decrease in cash and cash equivalents		(2,826)	(15,330)	(9,600)	(62,119)
Cash and cash equivalents at beginning of the period		3,972	32,346	10,746	79,135
Cash and cash equivalents at end of the period		1,146	17,016	1,146	17,016

The notes on pages 6 to 26 form part of these condensed consolidated interim financial statements.

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 September 30, 2012. The Company’s activities, together with the factors likely to affect its future development, performance and position are set out in pages 18 to 21 of 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 receipt of a USD16 million debt facility via its partners in Kazakhstan to finance its capital expenditure in Kazakhstan. The financial position of the Company, its cash flows and liquidity position are as set out in the Management Discussion & Analysis document on pages 16 to 19. The Company reports a loss for the nine months ended September 30, 2012 of USD16.8 million (2011: USD17.6 million). As at October 31, 2012, the Company held cash of USD2.5 million while the net current liabilities were USD6.1 million. The current liabilities include USD6.3 million of borrowings secured against the company’s drilling equipment, USD2.1 million of which is anticipated to roll over in December, once all lenders have provided their consent, while the Company will look to roll over some of the remainder 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. It should be noted that Tethys Aral Gas sells the oil at the wellhead and does not participate in the trucking operation and therefore relies on a third party to ensure that the maximum amount of oil produced is trucked and sold. In the third quarter the oil produced and trucked has steadily increased every month and this trend has continued in October. The increase has not been as quick as originally hoped due to various issues experienced by the trucking company such as a serious shortage of rail trucks in Kazakhstan in July, which necessitated a reduction in the Company's daily production levels at that time, and generally learning how to optimise operating 120+ trucks over a 460km round trip through the Kazakh Steppe. The gradual increase in production since then has demonstrated that these issues are being successfully addressed, be it slower than TAG would have liked, and it is expected in the fourth quarter that further improvements will be seen on route to achieving maximum production output by year end, which Tethys believes is 4,500 bopd with the current wells drilled.

A take or pay agreement, signed November 8 2012, has been put in place for the period September to December 2012 whereby Eurasia Gas have agreed to pay for 4,000 bopd even if they collect less than 4,000 bopd. Eurasia Gas did pay for 4,000 bopd for September even though the actual volumes trucked was less than this figure.

While as stated above, management is confident that, with production levels at 4,000 – 4,500 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 current cashflow assumes that only $12.5 of the $16.0 million loan facility is drawn down so the Company could draw down the remaining USD3.5 million to fund Kazakh capital expenditure and/or with the postponement of capital expenditure items and with respect to its capital expenditure plans it could 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 on 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 stated above on October 26, 2012 the Company announced its subsidiary, which is the Contractor party to the Bokhtar Production Sharing Contract ("Bokhtar PSC") in Tajikistan, has signed a Memorandum of Understanding ("MOU") to execute a farmout agreement on the PSC. The potential acquiring party is an international oil and gas company.

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,

- IAS 1 Presentation of financial statements – comparative information beyond minimum requirements ad 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.

The segment results for the nine months ended September 30, 2012 are as follows:

	Kazakhstan $'000	Tajikistan $'000	Uzbekistan $'000	Other and Corporate $'000	Interim consolidated $'000
Refined product sales	-	-	4,376	-	4,376
Gas sales	4,546	-	-	-	4,546
Oil sales	16,250	1,305	-	-	17,555
Other income	204	-	-	-	204
Other operating income	-	-	-	2,889	2,889
Segment revenue and other income	**21,000**	**1,305**	**4,376**	**2,889**	**29,570**
Inter-segment revenue	-	-	-	(2,889)	(2,889)
Segment revenue and other income from external customers	**21,000**	**1,305**	**4,376**	**-**	**26,681**
Loss from jointly controlled entity	(294)	-	-	-	(294)
Profit / (loss) before taxation	**1,358**	**(2,280)**	**745**	**(15,558)**	**(15,735)**
Taxation	(841)	-	(272)	13	(1,100)
Profit / (loss) for the period	**517**	**(2,280)**	**473**	**(15,545)**	**(16,835)**

Borrowing costs of $264,118 and $247,008 were capitalised in the Tajik and Kazakh segments respectively during the period. Amortisation of $81,778 was capitalised in the Kazakh segment during the period.

The segment results for the nine months ended September 30, 2011 are as follows:

	Kazakhstan $'000	Tajikistan $'000	Uzbekistan $'000	Other and Corporate $'000	Interim consolidated $'000
Refined product sales	-	-	5,386	-	5,386
Gas sales	5,227	-	-	-	5,227
Oil sales	4,503	-	-	-	4,503
Other income	195	-	195	-	390
Other operating income	-	-	-	11,904	11,904
Segment revenue and other income	**9,925**	**-**	**5,581**	**11,904**	**27,410**
Inter-segment revenue	-	-	-	(5,276)	(5,276)
Segment revenue and other income from external customers	**9,925**	**-**	**5,581**	**6,628**	**22,134**
Loss from jointly controlled entity	-	(802)	-	-	(802)
Profit / (loss) before taxation	**(7,461)**	**(163)**	**801**	**(11,026)**	**(17,849)**
Taxation	846	-	(563)	-	283
Profit / (loss) for the period	**(6,615)**	**(163)**	**238**	**(11,026)**	**(17,566)**

Borrowing costs of $713,008 were capitalised in the Kazakh segment during the period. Amortisation of $491,834 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 September 30, 2012 are as follows:

	Kazakhstan $'000	Tajikistan $'000	Uzbekistan $'000	Other and Corporate $'000	Interim consolidated $'000
Refined product sales	-	-	1,055	-	1,055
Gas sales	1,406	-	-	-	1,406
Oil sales	7,009	459	-	-	7,468
Other income	61	-	-	-	61
Other operating income	-	-	-	648	648
Segment revenue and other income	**8,476**	**459**	**1,055**	**648**	**10,638**
Inter-segment revenue	-	-	-	(648)	(648)
Segment revenue and other income from external customers	**8,476**	**459**	**1,055**	**-**	**9,990**
Loss from jointly controlled entity	(395)	-	-	-	(395)
Profit / (loss) before taxation	**949**	**(954)**	**40**	**(4,623)**	**(4,588)**
Taxation	(476)	-	(52)	(1)	(529)
Profit / (loss) for the period	**473**	**(954)**	**(12)**	**(4,624)**	**(5,117)**

Borrowing costs of $199,370 and $196,996 were capitalised in the Tajik and Kazakh segments respectively during the period. Amortisation of $81,778 was capitalised in the Kazakh segment during the period.

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

	Kazakhstan $'000	Tajikistan $'000	Uzbekistan $'000	Other and Corporate $'000	Interim consolidated $'000
Refined product sales	-	-	2,018	-	2,018
Gas sales	1,873	-	-	-	1,873
Oil sales	2,895	-	-	-	2,895
Other income	63	-	-	-	63
Other operating income	-	-	-	1,731	1,731
Segment revenue and other income	**4,831**	**-**	**2,018**	**1,731**	**8,580**
Inter-segment revenue	-	-	-	(809)	(809)
Segment revenue and other income from external customers	**4,831**	**-**	**2,018**	**922**	**7,771**
Loss from jointly controlled entity	-	(291)	-	-	(291)
Loss before taxation	**(2,738)**	**(204)**	**(37)**	**(5,701)**	**(8,680)**
Taxation	137	-	(32)	-	105
Loss for the period	**(2,601)**	**(204)**	**(69)**	**(5,701)**	**(8,575)**

Borrowing costs of $231,467 were capitalised in the Kazakh segment during the period. Amortisation of $187,754 of assets held in the Corporate segment were also capitalised in the Kazakh segment during the period.

The segment assets at September 30, 2012 and capital expenditures for the 9 month period then ended are as follows:

	Kazakhstan $'000	Tajikistan $'000	Uzbekistan $'000	Other and Corporate $'000	Interim consolidated $'000
Total assets	143,831	82,353	6,687	19,212	252,083
Cash expenditure to exploration & evaluation assets, property, plant and equipment	4,990	3,912	373	56	9,331

The segment assets at December 31, 2011 and capital expenditures for the 9 months ended September 30, 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	33,018	-	3,605	211	36,834

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 9 months ended September 30 2011 includes $6,627,900 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 $914,177 was recognised for the period to September 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 September 30, 2012 and September 30, 2011.

	Number of options	**Weighted average exercise price $**
Outstanding at January 1, 2012	28,923,000	1.45
Granted	5,505,000	0.87
Forfeited	(20,000)	1.83
Exercised	(15,000)	0.60
Expired	(220,000)	1.87
Outstanding at September 30, 2012	34,173,000	1.35
Exercisable at September 30, 2012	26,883,000	1.45
Outstanding at January 1, 2011	22,263,000	1.65
Granted	6,600,000	0.78
Forfeited	(40,000)	1.56
Exercised	-	n/a
Expired	(20,000)	1.56
Outstanding at September 30, 2011	28,803,000	1.45
Exercisable at September 30, 2011	19,361,000	1.59

A charge for the value of services of $2,637,193 (2011 - $3,492,141) was recorded for the period, of which $177,815 (2011 – $381,006) was capitalised in accordance with the Company’s time writing policy.

Warrants

The following tables summarize the warrant activity for the period ended September 30, 2012 and September 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	-	N/A
Exercised	-	N/A
Expired	-	N/A
Outstanding at September 30, 2012	5,412,706	5.01
Exercisable at September 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 September 30, 2011	5,248,168	5.14
Exercisable at September 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).

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:

	September 30, 2012 $'000	**December 31, 2011 $'000**
Capital Assets	2,740	2,937
Tax losses	(205)	(969)
Other	378	143
	2,913	2,111

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

	September 30, 2012 $'000	**September 30, 2011 $'000**
Loss before income taxes	(15,735)	(17,849)
Income tax rate	20%	20%
Expected income tax (recovery)	(3,147)	(3,570)
Increase / (decrease) resulting from:		
Non-deductible expenses/ (Non-chargeable income)	14	177
Impact of effective tax rates in other foreign jurisdictions	3,168	3,963
Losses and tax assets not utilised/recognised	1,084	(853)
Other	(19)	-
	1,100	(283)
Current income tax expense	298	11
Deferred tax (recovery) / expense	802	(294)
	1,100	(283)

7 Loss per share

Basic and diluted loss per share

	Loss for the period $'000	Weighted average number of shares (thousands)	Per share amount $
Nine months ended September 30, 2012			
Loss attributable to ordinary shareholders – Basic and diluted	(16,565)	286,704	(0.06)
Three months ended September 30, 2012			
Loss attributable to ordinary shareholders – Basic and diluted	(4,906)	286,708	(0.02)
Nine months ended September 30, 2011			
Loss attributable to ordinary shareholders – Basic and diluted	(17,566)	260,630	(0.07)
Three months ended September 30, 2011			
Loss attributable to ordinary shareholders – Basic and diluted	(8,575)	260,630	(0.03)

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.

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 September 30, 2012					
Opening net book amount	106,879	19,524	1,253	1,262	128,918
Additions	5,576	-	421	81	6,078
Disposals	-	-	-	(1)	(1)
Depreciation charge	(11,109)	(763)	(918)	(312)	(13,102)
Accumulated depreciation on disposal	-	-	-	1	1
Closing net book amount	101,346	18,761	756	1,031	121,894
At September 30, 2012					
Cost	138,898	25,337	2,681	2,058	168,974
Accumulated depreciation	(37,552)	(6,576)	(1,925)	(1,027)	(47,080)
Net book amount	101,346	18,761	756	1,031	121,894
Assets under construction at net book amount included in above:					
At September 30, 2012	23,096	-	-	-	23,096
At December 31, 2011	19,613	-	-	-	19,613

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 September 30, 2012			
Opening net book amount	1,601	98,358	99,959
Additions	-	4,376	4,376
Amortisation charge	(170)	-	(170)
Closing net book amount	1,431	102,734	104,165
At September 30, 2012			
Cost	5,553	102,734	108,287
Accumulated amortisation and impairment	(4,122)	-	(4,122)
Net book amount	1,431	102,734	104,165

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:

	September 30, 2012 $'000	December 31, 2011 $'000
Balance, beginning of year	2,013	-
Share of loss	(294)	-
Finance income on loan receivable (at market rate)	149	13
Increase in loan to jointly controlled entity	-	2,000
Balance, end of period / year	1,868	2,013

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	September 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.	2012/2013	5,581	2,036
Rig loans – Option B	19.54% p.a.	2012/2012	793	-
Kazakh loan	16.47% to 16.56% p.a.	2012/2013	1,037	-
			7,411	8,396
Non-current				
Rig loans – Option B	19.54% p.a.	2013/2014	2,411	1,632
Kazakh loan	16.47% to 16.56% p.a.	2013/2016	3,463	-
			5,874	1,632
Total			13,285	10,028

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

<u>Rig loans</u>

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 September 30, 2012, a total of 5,000,000 such warrants have been granted to lenders (note 13).

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. 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.

Kazakh loan

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 525 million KZT($3,510,072) of funds had been advanced to the Company.

During the quarter a formal loan agreement was 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 agreed for each drawdown, upon drawdown.

With respect to the 525 million KZT advanced in the last quarter, the repayment period has been agreed at 4 years, with monthly repayments of both principal and interest (at 16.1%). A further 150 million KZT ($1,000,000) was also advanced during the quarter with a repayment period of 4 years and monthly repayments of both principal and interest (at 16.1%).

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.

Certain assets have been pledged by both Tethys Aral Gas LLP (“TAG”) and the Joint Venture Aral Oil Terminal (“AOT”) at Shalkar as security for the above-mentioned bank loan facility.

13 Derivative financial instruments - warrants

	September 30, 2012 $'000	December 31, 2011 $'000
Balance, beginning of year	264	405
Issued during the period / year	683	233
Fair value loss / (gain)	(259)	(374)
Exercised during the period / year	-	-
Balance, end of period / year	688	264

The following table summarizes the warrant activity for the period ended September, 30 2012 and September 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 September 30, 2012	5,000,000	0.84
Exercisable at September 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	(2,141,154)	2.80
Outstanding at September 30, 2011	638,298	1.29
Exercisable at September 30, 2011	638,298	1.29

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.

14 Share capital

	September 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 September 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.

<u>Vazon Energy Limited</u>

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 September 30, 2012 was $2,400,767 (September 30, 2011 – $2,352,118).

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"), equalling amounts owing under the management services contract from time to time. At September 30, 2012 the amount owed to Vazon by the Company was $76,723.

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 September 30, 2012 were $66,150 (September 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.

On July 6, 2012, Ambassador Khalilzad was appointed a director of the Company. His company, Khlilzad Associates provides consultancy services with respect to business development. Total fees for these services amounted to $15,000 for the period ended September 2012.

16 Changes in working capital

	Three months ended		Nine months ended	
	September 30, 2012 $'000	September 30, 2011 $'000	September 30, 2012 $'000	September 30, 2011 $'000
Trade and other receivables	(319)	(367)	(1,971)	(661)
Inventories	141	584	91	(523)
Trade and other payables	1,890	(395)	(885)	1,808
Change in non-cash working capital	1,712	(178)	(2,765)	624
Non-cash transactions	(152)	(348)	(62)	(27)
Net changes in non-cash working capital	1,560	(526)	(2,827)	597

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

	Three months ended		Nine months ended	
	September 30, 2012 $'000	**September 30, 2011 $'000**	**September 30, 2012 $'000**	**September 30, 2011 $'000**
Operating activities	84	(1,252)	(1,903)	(483)
Investing activities	1,476	726	(924)	1,080
Balance	1,560	(526)	(2,827)	597

17 Commitments and contingencies

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. A work program commitment for 2012 has been agreed at $2,718,000 against which payments of $1,023,340 have been made to date.

Kyzyloi Production Contract

On August 9, 2012 a work program commitment for 2012 was agreed at $2,930,900 against which payments of $1,542,409 have been made to date. A 2013 work program has also been agreed at $2,519,900.

Akkulka Exploration Contract

On August 9, 2012 a work program commitment for 2012 was agreed at $12,025,000 against which payments of $7,437,210 have been made to date. Work programs for 2013 to end of March 2015 have been agreed totalling $19,142,000.

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 $1,780,000 has been agreed, of which $634,694 has been paid during the period ended September 30, 2012. On September 5, 2012 a further work program for 2013 was agreed at $4,200,000.

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 September 30, 2012 236 kilometres had been completed.

18 Operating leases

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

September 30, 2012	Total $'000	Less than 1 year $'000	1 – 3 years $'000	Greater than 3 years $'000
Operating leases	787	624	109	54

December 31, 2011	Total $'000	Less than 1 year $'000	1 – 3 years $'000	Greater than 3 years $'000
Operating leases	1,055	670	290	95

19 Non-controlling interest

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

	September 30, 2012 $'000	December 31, 2011 $'000
Balance at start of the year	8,918	4,888
Fair value uplift arising from debt waiver	-	4,080
Share of loss for the period	(270)	(50)
Balance at end of period / year	8,648	8,918

20 Subsequent events

Memorandum of Understanding to execute a farmout agreement

On October 26, 2012, the Company announced that Kulob Petroleum Limited, its subsidiary, which is the Contractor party to the Bokhtar Production Sharing Contract ("Bokhtar PSC") in Tajikistan, signed a Memorandum of Understanding ("MOU") to execute a farmout agreement on the Bokhtar PSC. The potential acquiring party is an international oil and gas company ("IOC"). Based on the terms contained in the MOU, the parties will negotiate a farmout agreement and a joint operating agreement, which are planned to be executed in the near future, whereupon the farmee and all commercial terms will be disclosed. The farmout is subject to final agreement on commercial and legal issues, finalisation of due diligence and Tajik governmental approval. A period of exclusivity has been granted to the farmee during the negotiations.