

Tethys Petroleum Limited

Interim Financial Information (Unaudited) June 30, 2013

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

Dr. D. Robson

Executive Chairman

August 14, 2013

B. Murphy

Chief Financial Officer

August 14, 2013

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 2013. The condensed consolidated interim financial statements comprise the condensed consolidated statement of financial position as at 30 June 2013, the condensed consolidated statement 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 Conduct Authority ('the UK FCA'). 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 FCA. 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 2013 are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' and the DTR of the UK FCA.



Juliette Lowes
for and on behalf of KPMG Audit Plc
Chartered Accountants
August 14, 2013
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, 2013	December 31, 2012
	Note	\$'000	\$'000
Non-current assets			
Property, plant and equipment	7	113,258	121,097
Intangible assets	8	54,438	107,374
Restricted cash		2,168	1,543
Prepayments and other receivables		5,812	6,444
Investment in jointly controlled entities		1,120	1,116
		<u>176,796</u>	<u>237,574</u>
Current assets			
Inventories		1,583	2,046
Trade and other receivables		8,051	7,703
Loan receivable from jointly controlled entity	9	2,482	2,403
Cash and cash equivalents		64,535	1,750
Restricted cash	10	477	477
		<u>77,128</u>	<u>14,379</u>
Total assets		<u>253,924</u>	<u>251,953</u>
Equity attributable to shareholders			
Share capital	13	28,756	28,671
Share premium	13	307,295	306,725
Other reserves		42,291	41,705
Accumulated deficit		(166,785)	(165,385)
Non-controlling interest	18	8,208	8,437
Total equity		<u>219,765</u>	<u>220,153</u>
Non-current liabilities			
Financial liabilities - borrowings	11	7,153	3,688
Deferred taxation	5	4,926	2,912
Trade and other payables		287	351
Asset retirement obligations		175	524
		<u>12,541</u>	<u>7,475</u>
Current liabilities			
Financial liabilities - borrowings	11	11,736	13,625
Derivative financial instruments - warrants	12	815	523
Asset retirement obligations		209	-
Deferred revenue		1,155	1,713
Trade and other payables		7,552	8,231
Current tax		151	233
		<u>21,618</u>	<u>24,325</u>
Total liabilities		<u>34,159</u>	<u>31,800</u>
Total shareholders' equity and liabilities		<u>253,924</u>	<u>251,953</u>

Commitments and contingencies

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The notes on pages 7 to 26 form part of these condensed consolidated interim financial statements. The condensed consolidated interim financial statements were approved by the Board on August 14, 2013 and were signed on its behalf.

Dr. D. Robson Executive Chairman

B. Murphy Chief Financial Officer

Tethys Petroleum Limited

Condensed Consolidated Statement of Comprehensive Income

(Unaudited)

For the six months ended June 30

(in US Dollars)

	Note	For the 3 months ended June 30, 2013	June 30, 2012	For the 6 months ended June 30, 2013	June 30, 2012
		\$'000	\$'000	\$'000	\$'000
			(re-presented)		(re-presented)
Sales and other revenues	2	8,951	10,204	21,504	16,691
Sales expenses	2	(880)	-	(1,525)	-
Production expenses		(3,063)	(2,930)	(7,125)	(5,840)
Depreciation, depletion and amortisation		(3,534)	(4,755)	(8,513)	(7,791)
Business development expenses		(767)	(611)	(1,269)	(984)
Administrative expenses		(4,915)	(5,555)	(9,585)	(10,352)
Share based payments	4	(215)	(1,274)	(546)	(1,877)
Gain on Tajik farm-out	7	8,659	-	8,659	-
Foreign exchange (loss) / gain – net		(53)	(112)	78	(176)
Fair value gain / (loss) on derivative financial instrument		462	829	32	(67)
Profit from jointly controlled entity		131	163	388	101
Net finance costs		(833)	(398)	(1,515)	(852)
Profit / (loss) before taxation		3,943	(4,439)	583	(11,147)
Taxation	5	(1,245)	(431)	(2,212)	(571)
Profit / (loss) for the period		2,698	(4,870)	(1,629)	(11,718)
Profit / (loss) attributable to:					
Shareholders		2,829	(4,811)	(1,400)	(11,559)
Non-controlling interest		(131)	(59)	(229)	(159)
Profit / (loss) for the period		2,698	(4,870)	(1,629)	(11,718)
Earnings/(loss) per share attributable to shareholders					
Basic and diluted	6	\$0.01	\$(0.02)	\$0.00	\$(0.04)

No dividends were paid or declared for the period (2012 – \$Nil).

The notes on pages 7 to 26 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

(in US Dollars)

	Note	Attributable to shareholders						Total equity
		Share capital	Share premium	Accumulated deficit	Option reserves	Warrant reserves	Non-controlling interest	
		\$'000	\$'000	\$'000	\$'000	\$'000		\$'000
Balance at January 1, 2012		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		-	-	-	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
Comprehensive loss for the period		-	-	(8,864)	-	-	(322)	(9,186)
Transactions with shareholders								
Share-based payments		-	-	-	1,148	-	-	1,148
Total transactions with shareholders		-	-	-	1,148	-	-	1,148
Balance at December 31, 2012		28,671	306,725	(165,385)	25,113	16,592	8,437	220,153
Comprehensive loss for the period		-	-	(1,400)	-	-	(229)	(1,629)
Transactions with shareholders								
Issue of warrants		-	-	-	-	9	-	9
Exercise of options		85	570	-	-	-	-	655
Share-based payments	4	-	-	-	577	-	-	577
Total transactions with shareholders		85	570	-	577	9	-	1,241
Balance at June 30, 2013		28,756	307,295	(166,785)	25,690	16,601	8,208	219,765

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 26 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

(in US dollars)

		For the 3 months ended		For the 6 months ended	
	Note	June 30, 2013 \$'000	June 30, 2012 \$'000	June 30, 2013 \$'000	June 30, 2012 \$'000
Cash flow from operating activities					
Profit / (loss) before taxation for the period		3,943	(4,439)	583	(11,147)
Adjustments for					
Share based payments		215	1,274	546	1,877
Net finance cost		833	398	1,515	852
Depreciation, depletion and amortization		3,534	4,755	8,513	7,791
Fair value (gain) / loss on derivative financial instrument		(462)	(829)	(32)	67
Net unrealised foreign exchange gain		(67)	(47)	(115)	(12)
Gain on Tajik farm-out	7	(8,659)	-	(8,659)	-
Profit from jointly controlled entity		(131)	(163)	(388)	(101)
Movement in deferred revenue		1,056	65	(558)	(444)
Net change in non-cash working capital	15	(162)	(425)	1,257	(1,987)
Cash (used) / generated in operating activities		100	589	2,662	(3,104)
Corporation tax paid		(226)	-	(226)	-
Net cash (used) / generated in operating activities		(126)	589	2,436	(3,104)
Cash flow from investing activities					
Interest received		42	(83)	92	5
Expenditure on exploration and evaluation assets		(279)	(607)	(513)	(1,602)
Expenditure on property, plant and equipment		(771)	(1,494)	(1,801)	(1,708)
Movement in restricted cash		(607)	150	(625)	411
Investment in jointly controlled entity		(4)	(2)	(4)	(5)
Repayment of loan receivable from jointly controlled entity		400	-	400	-
Proceeds of Tajik farm-out	7	63,405	-	63,405	-
Movement in advances to construction contractors		(954)	(1,401)	(912)	(1,034)
Movement in value added tax receivable		661	790	1,545	847
Net change in non-cash working capital	15	(1,146)	(1,121)	(2,091)	(2,400)
Net cash generated / (used) in investing activities		60,747	(3,768)	59,496	(5,486)
Cash flow from financing activities					
Proceeds from issuance of borrowings, net of issue costs		3,977	3,509	4,714	9,335
Repayment of borrowings		(1,125)	(251)	(2,987)	(6,866)
Interest paid on borrowings		(622)	(317)	(1,183)	(521)
Proceeds from issuance of equity, net of issue costs		475	-	523	-
Movement in other non-current liabilities		(71)	(68)	(142)	(142)
Net cash generated in financing activities		2,634	2,873	925	1,806
Effects of exchange rate changes on cash and cash equivalents		(78)	98	(72)	10
Net decrease in cash and cash equivalents		63,177	(208)	62,785	(6,774)
Cash and cash equivalents at beginning of the period		1,358	4,180	1,750	10,746
Cash and cash equivalents at end of the period		64,535	3,972	64,535	3,972

The notes on pages 7 to 26 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, 2013

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), a secondary listing on the Kazakhstan Stock Exchange (KASE) in Almaty and a Standard Listing on the London Stock Exchange.

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 Conduct Authority (‘FCA’) 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, 2012.

Changes in presentation

From January 1, 2012, the Company re-classified the administrative costs associated with two of its subsidiaries to business development expenses in the consolidated statement of comprehensive income. The comparative information has been reclassified to conform to the current presentation. The amount re-classified from administrative costs to business development during the first six months of 2012 was \$404,964. Business development expenses are costs associated with identifying new business opportunities for the Company either within countries in which the Company is currently operating, or in new countries.

New accounting policies

Sales expenses

From January 1, 2013, the Company adopted a new accounting policy with respect to its sales expenses. Sales expenses represent agent commissions paid in relation to securing its gas sales contracts and are accrued as gas sales revenue is generated.

Farm-out arrangements

The Company reflects exploration and evaluation asset farm-out arrangements, when the farmee (the acquirer) correspondingly undertakes to fund carried interests as part of the consideration, on a historical cost basis by

Tethys Petroleum Limited

Notes to Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended June 30, 2013

recognizing only cash payments received, with no consideration in respect of the value of the work to be performed by the farmee. The Company carries the remaining interest at the previous cost of the full interest reduced by the amount of any cash consideration received from the farmees entering the agreement, through crediting any proceeds pro rata to the accounts, whether capital or expense, in which such costs were initially recorded. As farm-out terms are likely to be unique to any single transaction, this policy will be reviewed on a transaction by transaction basis.

New and amended accounting standards adopted by the Company

The following new or amended standards have been introduced for the current accounting year:

- IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in other entities, and revised standards IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures were adopted on January 1, 2013. The standards reinforce the principles for determining when an investor controls another entity and in certain cases amend the accounting for arrangements where an investor has joint control. The amendments do not result in a material impact on the Company's consolidated financial statements.
- IFRS 13 Fair Value Measurement was adopted on January 1, 2013, with prospective effect. The standard affects nearly all instances where assets and liabilities are currently recognised at fair value, primarily by refining the measurement concept to represent an asset or liability's exit value. The standard also introduces certain additional considerations to the measurement process and additional disclosures have been provided where considered material (see note 12). The amendments do not result in a material impact on the Company's consolidated financial statements.
- IAS 34 "Interim Financial Reporting" – minimum disclosure requirements have been amended. Changes relevant to the Company have been incorporated into these interim financial statements.

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

There are no significant new or amended standards that have been early adopted by the Company.

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.

Tethys Petroleum Limited

Notes to Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended June 30, 2013

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 Kyzylai 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. As of June 18, 2013, the date of completion of the Tajik farm-out (note 7), production has ceased. 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 six months ended June 30, 2013 are as follows:

	Kazakhstan	Tajikistan	Uzbekistan	Other and Corporate	Interim consolidated
	\$'000	\$'000	\$'000	\$'000	\$'000
Refined product sales	-	-	2,168	-	2,168
Gas sales	5,493	-	-	-	5,493
Oil sales	13,113	550	-	-	13,663
Other income	165	-	-	15	180
Other operating income	-	-	-	1,946	1,946
Segment revenue and other income	18,771	550	2,168	1,961	23,450
Inter-segment revenue	-	-	-	(1,946)	(1,946)
Segment revenue and other income from external customers	18,771	550	2,168	15	21,504
Profit from jointly controlled entity	388	-	-	-	388
Profit / (loss) before taxation	2,977	7,282	(130)	(9,546)	583
Taxation	(2,131)	-	(58)	(23)	(2,212)
Profit / (loss) for the period	846	7,282	(188)	(9,569)	(1,629)

Borrowing costs of \$21,683 and \$17,524 were capitalised in the Tajik and Kazakh segments respectively during the period.

Tethys Petroleum Limited

Notes to Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended June 30, 2013

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 three months ended June 30, 2013 are as follows:

	Kazakhstan	Tajikistan	Uzbekistan	Other and Corporate	Interim consolidated
	\$'000	\$'000	\$'000	\$'000	\$'000
Refined product sales	-	-	89	-	89
Gas sales	3,170	-	-	-	3,170
Oil sales	5,459	141	-	-	5,600
Other income	92	-	-	-	92
Other operating income	-	-	-	1,028	1,028
Segment revenue and other income	8,721	141	89	1,028	9,979
Inter-segment revenue	-	-	-	(1,028)	(1,028)
Segment revenue and other income from external customers	8,721	141	89	-	8,951
Profit from jointly controlled entity	131	-	-	-	131
Profit / (loss) before taxation	1,227	7,865	(599)	(4,550)	3,943
Taxation	(1,277)	-	55	(23)	(1,245)
Profit / (loss) for the period	(50)	7,865	(544)	(4,573)	2,698

Tethys Petroleum Limited

Notes to Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended June 30, 2013

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, 2013

The segment assets at June 30, 2013 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	135,871	29,966	6,261	81,826	253,924
Total liabilities	20,325	539	2,768	10,527	34,159
Cash expenditure related to exploration & evaluation assets, property, plant and equipment	1,216	593	467	38	2,314

The segment assets at December 31, 2012 and capital expenditures for the 6 months ended 30 June, 2012 are as follows:

	Kazakhstan	Tajikistan	Uzbekistan	Other and Corporate	Interim consolidated
	\$'000	\$'000	\$'000	\$'000	\$'000
Total assets	138,510	87,075	6,815	19,553	251,953
Total liabilities	13,945	2,989	4,367	10,499	31,800
Cash expenditure related to exploration & evaluation assets, property, plant and equipment	1,680	1,438	185	7	3,310

Tethys Petroleum Limited

Notes to Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended June 30, 2013

4 Share-based payments

Share options

Full details of the share options and stock incentive plan are outlined in the Company's annual consolidated financial statements for the year ended December 31, 2012. 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, 2013 and June 30, 2012.

	Number of options	Weighted average exercise price \$
Outstanding at January 1, 2013	33,864,000	1.35
Granted	-	-
Forfeited	(60,000)	0.81
Exercised	-	-
Expired	(105,000)	1.09
Outstanding at June 30, 2013	33,699,000	1.35
Exercisable at June 30, 2013	29,825,000	1.43
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

A charge for the value of services of \$576,452 (2012 - \$1,993,739) was recorded for the period, of which \$30,469 (2012 - \$116,782) was capitalised in accordance with the Company's time writing policy.

Tethys Petroleum Limited

Notes to Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended June 30, 2013

Warrants

The following tables summarize the warrant activity for the period ended June 30, 2013 and June 30, 2012.

	Number of warrants	Weighted average exercise price \$
Outstanding at January 1, 2013	2,254,538	2.39
Granted	77,205	0.82
Forfeited	-	-
Exercised	-	-
Expired	(64,705)	0.98
Outstanding at June 30, 2013	2,267,038	2.38
Exercisable at June 30, 2013	2,267,038	2.38
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

There are no performance conditions attached to the warrants and all the granted warrants immediately vested. Warrants are equity settled share based payment transactions. The 77,205 and 164,538 warrants granted above were issued in connection with commissions payable to brokers with respect to the Rig loans rolled over in 2012 and 2013 (note 11).

5 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, 2013 \$'000	December 31, 2012 \$'000
Capital Assets	5,026	1,861
Tax losses	(920)	(582)
Other	820	1,633
	<u>4,926</u>	<u>2,912</u>

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

	June 30, 2013 \$'000	June 30, 2012 \$'000
Profit / (loss) before income taxes	583	(11,147)
Income tax rate	20%	20%
Expected income tax charge / (recovery)	<u>117</u>	<u>(2,229)</u>
<i>Increase / (decrease) resulting from:</i>		
Non-chargeable expenses / (income)	32	(37)
Impact of effective tax rates in other foreign jurisdictions	(i) 93	2,141
Losses and tax assets not utilised/recognised	608	705
Prior year true-ups	1,344	-
Other	<u>18</u>	<u>(9)</u>
	<u>2,212</u>	<u>571</u>
Current income tax expense	198	210
Deferred tax expense	<u>2,014</u>	<u>361</u>
	<u>2,212</u>	<u>571</u>

(i) Included in the 2013 figure is the gain arising from the Tajik farm-out, which is not subject to taxation.

6 Earnings per share

Basic and diluted profit /(loss) per share

	Profit /(loss) for the period \$'000	Weighted average number of shares (thousands)	Per share amount \$
Six months ended June 30, 2013			
Loss attributable to ordinary shareholders – Basic and diluted	<u>(1,400)</u>	<u>286,946</u>	<u>0.00</u>
Three months ended June 30, 2013			
Profit attributable to ordinary shareholders – Basic and diluted	<u>2,829</u>	<u>287,141</u>	<u>0.01</u>
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>

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Basic profit/(loss) per share is calculated by dividing the profit/(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.

7 Property, plant and equipment

	Oil and gas properties \$'000	Oil and gas equipment \$'000	Vehicles \$'000	Office and computer equipment \$'000	Total \$'000
At December 31, 2012					
Cost	144,243	25,337	2,681	2,071	174,332
Accumulated depreciation	(43,076)	(6,952)	(2,077)	(1,130)	(53,235)
Net book amount	101,167	18,385	604	941	121,097
Period ended June 30, 2013					
Opening net book amount	101,167	18,385	604	941	121,097
Additions	1,578	-	61	68	1,707
Tajik farm-out – costs recovered	(2,682)	-	(61)	(130)	(2,873)
Depreciation charge	(7,381)	(451)	(291)	(196)	(8,319)
Tajik farm-out - accumulated depreciation on disposal of interest	1,509	-	57	80	1,646
Closing net book amount	94,191	17,934	370	763	113,258
At June 30, 2013					
Cost	143,139	25,337	2,681	2,009	173,166
Accumulated depreciation	(48,948)	(7,403)	(2,311)	(1,246)	(59,908)
Net book amount	94,191	17,934	370	763	113,258
Assets under construction at net book amount included in above:					
At June 30, 2013	28,038	-	-	-	28,038
At December 31, 2012	27,202	-	-	-	27,202

On June 18, 2013, a subsidiary of the Company, Kulob Petroleum Limited ("Kulob"), completed a farm-out agreement with subsidiaries of Total Exploration and Production ("Total") and China National Petroleum Corporation ("CNPC") whereby each acquired a one third interest in Kulob's Bokhtar Production Sharing Contract. Cash consideration received amounted to \$63,404,444. As part of the agreement, a review was undertaken of the underlying exploration assets. As a result of this review, net book values of \$1,226,548

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relating to Property, plant and equipment and \$53,519,223 relating to Intangible assets were applied against the proceeds, with surplus proceeds booked to profit (\$8,658,673).

8 Intangible assets

	Other intangible asset \$'000	Exploration and evaluation assets \$'000	Total \$'000
At December 31, 2012			
Cost	5,553	105,973	111,526
Accumulated amortisation and impairment	(4,152)	-	(4,152)
Net book amount	1,401	105,973	107,374
Period ended June 30, 2013			
Opening net book amount	1,401	105,973	107,374
Additions	-	652	652
Tajik farm-out – costs recovered (note 7)	-	(53,519)	(53,519)
Amortisation charge	(69)	-	(69)
Closing net book amount	1,332	53,106	54,438
At June 30, 2013			
Cost	5,553	53,106	58,659
Accumulated amortisation and impairment	(4,221)	-	(4,221)
Net book amount	1,332	53,106	54,438

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.

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9 Loan receivable from jointly controlled entity

The following amounts represent the movements in the loan receivable:

	June 30, 2013 \$'000	December 31, 2012 \$'000
Balance, January 1	2,403	2,013
Share of profit	388	191
Finance income on loan receivable (at market rate)	91	199
Repayments	(400)	-
Balance, end of period / year	<u>2,482</u>	<u>2,403</u>

10 Restricted cash

Non current restricted cash consists of interest bearing deposits held in Kazakhstan that have been placed to satisfy local Kazakh requirements in respect of asset retirement obligations and a deposit of GBP 400,000 placed as security with respect to amounts owed to Vazon Limited (note 14).

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.

11 Financial liabilities – borrowings

	Effective interest rate	Maturity date	June 30, 2013 \$'000	December 31, 2012 \$'000
Current				
Rig loans – Option A	19.95% p.a.	2013/14	5,349	5,637
Rig loans – Option B	19.54% p.a.	2013/14	2,571	1,711
Kazakh loan	14.01% to 15.93% p.a.	2013	3,816	6,277
			<u>11,736</u>	<u>13,625</u>
Non-current				
Rig loans – Option B	19.54% p.a.		-	1,311
Kazakh loan	14.01% to 15.93% p.a.	2016	7,153	2,377
			<u>7,153</u>	<u>3,688</u>
Total			<u>18,889</u>	<u>17,313</u>

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Rig loans

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. 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, 2013, a total of 7,594,051 warrants had 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.

The Company recorded a total discount to the \$10 million loan in the amount of \$1,031,779 based on the relative fair value of the warrants. The loan was then amortised using the effective interest rate method. Lenders have security over the shares of Imperial Oilfield Services Limited which has no other assets except the drilling rigs and associated equipment.

During December 2012, following the agreement of all loan holders, Tranche 1 Option A loan holders with loans maturing in December 2012 rolled over their loans for a further period of one year. In February and March 2013, Tranche 2 and Tranche 3 Option A loan holders with loans maturing in February and March 2013 also rolled over their loans for a further period of one year.

The original loans were de-recognised and the new loans recognised at fair value. Associated warrants were re-issued at exercise prices of CAD0.64, CAD0.71 and CAD0.92. Furthermore, extensions of warrant expiry dates were granted to all loan holders, except two officers of the company who were re-issued with warrants upon expiry of the original warrants.

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, whereby Eurasia Gas Group LLP draws down on the bank loan facility with the approval of the Company and funds are transferred to the Company's subsidiary, Tethys Aral Gas ("TAG"). The bank loan facility has a term of up to

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four years depending on the Company's requirements and bears an interest rate of between 12% and 15% per annum on sums drawn down.

A formal loan agreement was signed with Eurasia Gas Group LLP 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.

In January 2013, the Kazakh loan arrangement was terminated and replaced by way of an arrangement whereby funds are advanced to the Company and repaid as a deduction against oil revenue. Terms of the arrangement are principally the same (i.e. the principal repayment to be completed by April 2016 with monthly repayments of both principal and interest) and therefore under IFRS, the amounts advanced continue to be treated as a loan.

As at June 30, 2013, 1.935 billion KZT (\$12.9 million) of funds had been advanced to the Company in relation to the loan agreement, with a remaining repayment period over 3 years and monthly repayments of both principal and interest (at a weighted average effective interest rate of 14.99%).

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 TAG and AOT as security for the above-mentioned bank loan facility which represents a financial guarantee to the Company. The value of this guarantee has been assessed as nil, primarily due to the credit worthiness of Eurasia Gas Group LLP.

12 Derivative financial instruments - warrants

	June 30, 2013 \$'000	December 31, 2012 \$'000
Balance, January 1	523	264
Issued	461	778
Fair value loss on extension of warrants	-	233
Fair value gain	(37)	(752)
Exercised	(132)	-
Balance, end of period / year	815	523

The following table summarizes the warrant activity for the period ended June, 30 2013 and June 30, 2012.

	Number of warrants	Weighted average exercise price \$
Outstanding at January 1, 2013	5,775,000	0.81
Granted	1,819,051	0.78
Exercised	(850,000)	0.63
Outstanding at June 30, 2013	6,744,051	0.83
Exercisable at June 30, 2013	6,744,051	0.83

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	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

Warrants granted during the period were in connection with loans raised (note 11). Of the warrants outstanding and exercisable at the end of the period, 392,620 (2012 – 307,620) relate to warrants granted to the Company's officers.

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 fair value of the liability is estimated using the Black-Scholes pricing model using the following average assumptions:

	June 30, 2013	December 31, 2012
Weighted average fair value	\$0.12	\$0.09
Risk free rate	1.07%	1.06%
Expected term	7.8 months	1 year
Volatility	54.2%	76.5%
Dividend	Nil	Nil

Warrants have been designated as Level 2 financial instruments as disclosed in the annual financial statements.

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13 Share capital

	June 30, 2013 Number	December 31, 2012 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, 2012	286,692,744	28,669	306,725
Issued during the period in connection with the exercise of options	15,000	2	11
Cost of share issue	-	-	(11)
At December 31, 2012	286,707,744	28,671	306,725
Issued during the period in connection with the exercise of warrants	850,000	85	570
At June 30, 2013	287,557,744	28,756	307,295

14 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, Executive Chairman and President, 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, 2013 was \$756,050 (2012 – \$1,559,647). As at the date of these consolidated financial statements, the services of Dr. Robson and two other Vazon employees are provided to the Company. The remainder of the employees previously employed by Vazon were transferred to Tethys Services Guernsey Limited during the last quarter of 2012.

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.

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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. This guarantee was discharged on June 17, 2013 and replaced with a GBP 400,000 deposit made by Tethys Petroleum Limited. The deposit is non-current and is restricted (note 10).

Oilfield Production Consultants

Oilfield Production Consultants (OPC) Limited and Oilfield Production Consultants (OPC) USA LLC have one common director with the Company. Total fees for the six months ended June 30, 2013 were \$40,169 (2012 – \$64,631). OPC participated in the 2011 loan financing described in note 11, 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. As a result of agreeing to the rollover, discussed in note 11, the term of the warrants was extended which did not result in any change in fair value.

Related party transactions with key management personnel

Two officers of the Company participated in the 2011 loan financing described in note 11 for which they received 75,000 and 232,620 warrants at a fair value of \$6,143 and \$21,983 respectively. Loans advanced were \$150,000 and GBP300,000 respectively and were rolled over upon maturity of their one year term for a further term of one year under the same conditions and terms afforded to non-related parties, except that the warrants originally issued were not extended. Upon rollover, there was a re-issue of 75,000 and 232,620 warrants were issued at a fair value of \$2,940 and \$25,891 respectively.

On July 6, 2012, Ambassador Khalilzad was appointed a director of the Company. His company, Khalilzad Associates provides consultancy services with respect to business development. Total fees for these services amounted to \$38,466 for the six months ended June 30 2013.

Dr. David Robson has a close family member employed by the Company on standard terms and conditions.

During 2012, an interest bearing loan of GBP 32,278 was advanced to a Board Director at an interest rate of 3%. The loan was repaid in January 2013.

Non-interest bearing loans of \$101,342 and \$76,251 have been advanced to two officers during 2012 and 2013 for relocation costs. Balances outstanding at June 30, 2013 were \$12,710 and \$51,788 respectively (2012 – nil and \$53,545).

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15 Changes in working capital

	Three months ended		Six months ended	
	June 30,	June 30,	June 30,	June 30,
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
Trade and other receivables	(285)	(1,286)	(348)	(1,652)
Inventories	(350)	(2)	463	(50)
Trade and other payables	(723)	(354)	(679)	(2,775)
Change in non-cash working capital	(1,358)	(1,642)	(564)	(4,477)
Non-cash transactions	50	96	(270)	90
Net changes in non-cash working capital	(1,308)	(1,546)	(834)	(4,387)

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

	Three months ended		Six months ended	
	June 30,	June 30,	June 30,	June 30,
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
Operating activities	(162)	(425)	1,257	(1,987)
Investing activities	(1,146)	(1,121)	(2,091)	(2,400)
Balance	(1,308)	(1,546)	(834)	(4,387)

16 Commitments, contingencies and guarantees

Kazakhstan

Akkulka Production Contract

On December 23, 2009, TAG and the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan ("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.

Kyzyloi Production Contract

A work program for 2013 has been agreed at \$2,519,000, against which payments of \$1,841,497 have been made to date.

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Akkulka Exploration Contract

Work programs for 2013 to end of March 2015 have been agreed totalling \$27,277,000, against which payments of \$5,027,214 have been made to date.

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. A work program for 2013 has been agreed at \$4,200,000, against which payments of \$172,109 have been made to date.

17 Operating leases

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

	Total	Less than 1 year	1 – 3 years	Greater than 3
June 30, 2013	\$'000	\$'000	\$'000	years
				\$'000
Operating leases	1,406	844	360	202

	Total	Less than 1 year	1 – 3 years	Greater than 3
December 31, 2012	\$'000	\$'000	\$'000	years
				\$'000
Operating leases	1,612	913	407	292

18 Non-controlling interest

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

	June 30, 2013 \$'000	December 31, 2012 \$'000
Balance, January 1	8,437	8,918
Share of loss for the period	(229)	(481)
Balance, end of period / year	<u>8,208</u>	<u>8,437</u>

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19 Subsequent events

On July 8, 2013, the Company announced the conditional acquisition of interests in a number of Production Sharing Contracts "PSCs" in Georgia.

In the Block XI^A, XI^M and XI^N transaction (Project "Iberia") Tethys will gain a 56% interest in these three PSCs for a payment of USD 9.6 million, which will be paid to the current owners by issuing 12,000,000 ordinary shares in Tethys (based on a price of CDN 0.84 per share) and funding a USD 4.4 million carry on the next USD 10 million work programme. The shares will be restricted from trading for 4 months and their issuance is subject to TSX approval.

In the Block VIII and XI^G transaction (Project "Tamar") Tethys will gain a 100% interest in these PSCs for a payment of USD 6.4 million, which will be paid to the current owners by issuing 8,000,000 ordinary shares in Tethys (based on a price of CDN 0.84 per share). These shares will be restricted from trading for 4 months and their issuance is subject to TSX approval.