Tethys Petroleum Limited

Interim Consolidated Financial Statements
(Unaudited)
September 30, 2010

Notice of no auditor review of Interim Consolidated Financial Statements as at September 30, 2009 and for the periods then ended

The accompanying comparative unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of the comparative financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Tethys Petroleum Limited

Consolidated Statement of Financial Position
(Unaudited)

		As at	
		September 30, 2010	**December 31, 2009**
	Note	**$'000**	**$'000**
Non-current assets			
Property, plant and equipment	7	74,542	73,171
Intangible assets	8	44,835	24,378
Investments		770	659
Prepaids and other receivables		9,203	5,171
Loan receivable from jointly controlled entity	9	31,593	21,727
		160,943	125,106
Current assets			
Inventories		3,327	2,368
Trade and other receivables		3,558	2,311
Cash and cash equivalents		12,917	7,297
Derivative financial instruments – interest rate swap		1,336	-
		21,138	11,976
Total assets		182,081	137,082
Equity attributable to shareholders			
Share capital	11	18,797	13,455
Share premium	11	207,231	153,748
Other reserves		31,811	27,775
Accumulated deficit		(106,813)	(88,374)
Total equity		151,026	106,604
Non-current liabilities			
Deferred gain on sale of assets to jointly controlled entity		3,699	3,659
Financial liabilities - borrowings	10	8,003	9,324
Shares to be issued		-	3,750
Deferred taxation	5	3,320	598
Trade and other payables		762	808
Asset retirement obligations		179	206
		15,963	18,345
Current liabilities			
Financial liabilities - borrowings	10	3,515	1,086
Derivative financial instruments - warrants		2,399	1,053
Derivative financial instruments – interest rate swap		-	95
Current taxation		31	-
Deferred revenue		2,439	3,113
Trade and other payables		6,708	6,786
		15,092	12,133
Total liabilities		31,055	30,478
Total shareholders' equity and liabilities		182,081	137,082
Commitments and contingencies	14		

The notes on pages 1 to 17 form part of these interim consolidated financial statements. The interim consolidated financial statements were approved by the Board on 11 November 2010 and were signed on its behalf.

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

Tethys Petroleum Limited

Consolidated Statement of Comprehensive Loss
(Unaudited)
For the three and the nine months ended September 30, 2010

	Note	For the 3 months ended September 30, 2010 $'000	For the 3 months ended September 30, 2009 $'000	For the 9 months ended September 30, 2010 $'000	For the 9 months ended September 30, 2009 $'000
Sales and other operating revenues	3	3,173	2,426	11,319	5,752
Finance income		20	-	45	49
Total revenue and other income		3,193	2,426	11,364	5,801
Production expenses		(1,236)	(748)	(4,111)	(1,989)
Depreciation, depletion and amortisation		(1,635)	(1,120)	(3,685)	(3,035)
Exploration and evaluation expenditure written off		(5)	(14)	(94)	(140)
Listing expenses		(31)	-	(1,230)	-
Administrative expenses		(5,365)	(4,191)	(16,771)	(12,342)
Foreign exchange gain (loss) - net		(184)	147	(337)	(2,275)
Fair value loss on derivative financial instruments - net		(738)	(160)	(266)	(221)
Loss from jointly controlled entity	9	(178)	-	(422)	-
Finance costs		288	(284)	(134)	(1,353)
Loss before taxation		**(5,891)**	**(3,944)**	**(15,686)**	**(15,554)**
Taxation	5	(1,227)	-	(2,753)	-
Net loss and comprehensive loss for the year attributable to shareholders		**(7,118)**	**(3,944)**	**(18,439)**	**(15,554)**
Loss per share attributable to shareholders					
Basic and diluted	6	(0.04)	(0.03)	(0.10)	(0.16)

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

The notes on pages 1 to 17 form part of these interim consolidated financial statements

Tethys Petroleum Limited

Consolidated Statement of Change in Equity
(Unaudited)
For the three and the nine months ended September 30, 2010

		Attributable to shareholders					
	Note	Share capital $'000	Share premium $'000	Accumulated deficit $'000	Option reserves $'000	Warrant reserves $'000	Total equity $'000
Balance at January 1, 2009		6,639	138,598	(66,654)	8,592	16,555	103,730
Comprehensive loss for the period		-	-	(15,554)	-	-	(15,554)
Transactions with shareholders							
Issue of share capital		6,816	17,246	-	-	-	24,062
Cost of share issue		-	(2,049)		-	-	(2,049)
Share-based payments		-	-	-	2,388	-	2,388
Total transactions with shareholders		6,816	15,197	-	2,388	-	24,401
Balance at September 30, 2009		13,455	153,795	(82,208)	10,980	16,555	112,577
Comprehensive loss for the period		-	-	(6,166)	-	-	(6,166)
Transactions with shareholders							
Issue of share capital		-		-	-	-	-
Cost of share issue		-	(47)	-	-	-	(47)
Share-based payments		-	-	-	240	-	240
Total transactions with shareholders		-	(47)	-	240	-	193
Balance at December 31, 2009		13,455	153,748	(88,374)	11,220	16,555	106,604
Comprehensive loss for the period		-	-	(18,439)	-	-	(18,439)
Transactions with shareholders							
Issue of share capital		5,262	54,947	-	-	-	60,209
Cost of share issue		-	(2,206)	-	-	-	(2,206)
Share-based payments	4	-	-	-	4,096	-	4,096
Exercise of options		20	168	-	(60)	-	128
Exercise of warrants		60	574	-	-	-	634
Total transactions with shareholders		5,342	53,483	-	4,036	-	62,861
Balance at September 30, 2010		**18,797**	**207,231**	**(106,813)**	**15,256**	**16,555**	**151,026**

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

Tethys Petroleum Limited

Consolidated Statement of Cash Flows
(Unaudited)
For the three and the nine months ended September 30, 2010

	Note	For the 3 months ended September 30, 2010 $'000	2009 $'000	For the 9 months ended September 30, 2010 $'000	2009 $'000
Cash flow from operating activities					
Loss before taxation for the period		(5,891)	(3,944)	(15,686)	(15,554)
Adjustments for					
Share based payments		836	768	4,096	2,388
Net finance cost		(303)	284	80	1,305
Unsuccessful exploration and evaluation expenditures		-	14	-	140
Depreciation, depletion and amortization		1,635	1,120	3,685	3,035
Payment of royalties		-	-	(78)	-
Fair value loss on derivative financial instruments - net		738	160	266	221
Listing expenses		-	-	351	
Net unrealised foreign exchange loss		(13)	65	(12)	1,200
Loss from jointly controlled entity		178	-	422	-
Deferred revenue		689	-	(674)	-
Net change in non-cash working capital	13	3,233	(10)	(411)	(17)
Net cash used in operating activities		1,102	(1,543)	(7,961)	(7,282)
Cash flow from investing activities					
Interest received		20	-	45	49
Expenditure on exploration and evaluation assets		(11,532)	(4,530)	(19,015)	(13,537)
Expenditures on property, plant and equipment		(418)	(3,807)	(4,694)	(9,816)
Investment in restricted cash		(84)	(7)	(111)	(27)
Acquisition of subsidiary, net of cash received		-	-	-	532
Payments made on behalf of jointly controlled entity		(3,079)	-	(10,248)	-
Movement in advances to construction contractors		1,452	126	(1,748)	1,280
Value added tax receivable		(1,600)	(350)	(2,924)	(395)
Net change in non-cash working capital	13	(2,659)	(1,189)	(1,927)	(1,011)
Net cash used in investing activities		(17,900)	(9,757)	(40,622)	(22,925)
Cash flow from financing activities					
Proceeds from issuance of short-term borrowings		-	-	-	2,500
Repayment of short-term borrowings		-	-	-	(2,500)
Proceeds from issuance of long-term borrowings		-	-	1,840	-
Repayment of long-term borrowings		(371)	(230)	(1,076)	(594)
Interest paid on long-term borrowings and other non-current payables		(364)	(182)	(739)	(574)
Other non-current liabilities		(75)	(22)	(220)	(65)
Proceeds from issuance of equity, net of issue costs		306	(68)	54,440	17,951
Net cash generated from financing activities		(504)	(502)	54,245	16,718
Effects of exchange rate changes on cash and cash equivalents		(13)	(36)	(42)	-
Net increase / (decrease) in cash and cash equivalents		(17,315)	(11,838)	5,620	(13,489)
Cash and cash equivalents at beginning of the period		30,232	20,549	7,297	22,200
Cash and cash equivalents at end of the period		12,917	8,711	12,917	8,711

The notes on pages 1 to 17 form part of these interim consolidated financial statements.

1 General information

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

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

2 Basis of preparation and accounting policies

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

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

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

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

<u>New and amended accounting standards</u>

- IFRS 3 'Business Combinations' - the Company has adopted the revised version of this standard, with effect from January 1 2010. The revised standard still requires the purchase method of accounting to be applied to business combinations but introduces some changes to the accounting treatment. Assets and liabilities arising from business combinations that occurred before January 1, 2010 were not required to be re-stated and thus there was no effect on the company's reported income or net assets on adoption.

- IAS 27 'Consolidated and Separate Financial Statements' - the Company has adopted the amended version of IAS 27, also with effect from January 1, 2010. This requires the effects of all transactions with minority interests to be recorded in equity if there is no change in control. When control is lost, any remaining interest in the entity is re-measured to fair value and a gain or loss recognized in profit or loss. There was no effect on the Company's reported income or net assets on adoption.

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

3 Segmental Reporting

Geographical segments

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

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

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

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

The segment results for nine months ended September 30, 2010 are as follows:

	Kazakhstan $'000	Tajikistan $'000	Uzbekistan $'000	Other and Corporate $'000	Interim consolidated $'000
Refined product sales	-	-	9,220	-	9,220
Gas sales	1,785	-	-	-	1,785
Other income	3,096	-	-	392	3,488
Finance income	3	1	-	41	45
Segment revenue and other income	**4,884**	**1**	**9,220**	**433**	**14,538**
Inter-segment revenue	(2,782)	-	-	(392)	(3,174)
Segment revenue and other income from external customers	**2,102**	**1**	**9,220**	**41**	**11,364**
Loss from jointly controlled entity	-	(422)	-	-	(422)
(Loss)/ profit before taxation	**156**	**(624)**	**3,461**	**(18,679)**	**(15,686)**
Taxation	(2,134)	-	(611)	(8)	(2,753)
Net (loss)/profit attributable to shareholders	**(1,978)**	**(624)**	**2,850**	**(18,687)**	**(18,439)**

Borrowing costs of $1,383,150 were capitalised in the Kazakh segment during the period. Amortisation of $326,529 of assets held in the Corporate segment, was capitalised in the Kazakh segment during the period.

The segment results for nine months ended September 30, 2009 are as follows:

	Kazakhstan $'000	Tajikistan $'000	Uzbekistan $'000	Other and Corporate $'000	Interim consolidated $'000
Refined product sales	-	-	2,830	-	2,830
Gas sales	2,862	35	-	-	2,897
Other income	25	-	-	507	532
Finance income	5	2	-	42	49
Segment revenue and other income	**2,892**	**37**	**2,830**	**549**	**6,308**
Inter-segment revenue	-	-	-	(507)	(507)
Segment revenue and other income from external customers	**2,892**	**37**	**2,830**	**42**	**5,801**
(Loss)/ profit before taxation	**(4,282)**	**(1,008)**	**514**	**(10,778)**	**(15,554)**
Taxation	-	-	-	-	-
Net (loss)/profit attributable to shareholders	**(4,282)**	**(1,008)**	**514**	**(10,778)**	**(15,554)**

There were no borrowing costs capitalised in the Kazakh segment during the period. No amortisation of assets held in the Corporate segment, was capitalised in the Kazakh segment during the period.

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

	Kazakhstan $'000	Tajikistan $'000	Uzbekistan $'000	Other and Corporate $'000	Interim consolidated $'000
Refined product sales	-	-	1,550	-	1,550
Gas sales	1,433	-	-	-	1,433
Other income	2,971	-	-	129	3,100
Finance income	1	1	-	19	21
Segment revenue and other income	**4,405**	**1**	**1,550**	**148**	**6,104**
Inter-segment revenue	(2,782)	-	-	(129)	(2,911)
Segment revenue and other income from external customers	**1,623**	**1**	**1,550**	**19**	**3,193**
Loss from jointly controlled entity	-	(178)	-	-	(178)
(Loss)/ profit before taxation	**2,137**	**(242)**	**121**	**(7,907)**	**(5,891)**
Taxation	(1,181)	-	(38)	(8)	(1,227)
Net (loss)/profit attributable to shareholders	**956**	**(242)**	**83**	**(7,915)**	**(7,118)**

Borrowing costs of $764,576 were capitalised in the Kazakh segment during the period. Amortisation of $74,324 of assets held in the Corporate segment, was capitalised in the Kazakh segment during the period.

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

	Kazakhstan $'000	Tajikistan $'000	Uzbekistan $'000	Other and Corporate $'000	Interim consolidated $'000
Refined product sales	-	-	1,194	-	1,194
Gas sales	1,173	-	-	-	1,173
Other income	59	-	-	507	566
Segment revenue and other income	**1,232**	**-**	**1,194**	**507**	**2,933**
Inter-segment revenue	-	-	-	(507)	(507)
Segment revenue and other income from external customers	**1,232**	**-**	**1,194**	**-**	**2,426**
(Loss)/ profit before taxation	**(626)**	**(470)**	**376**	**(3,224)**	**(3,944)**
Taxation	-	-	-	-	-
Net (loss)/profit attributable to shareholders	**(626)**	**(470)**	**376**	**(3,224)**	**(3,944)**

There were no borrowing costs capitalised in the Kazakh segment during the period. No amortisation of assets held in the Corporate segment, was capitalised in the Kazakh segment during the period.

The segment assets at September 30, 2010 and capital expenditures for the nine months then ended are as follows:

	Kazakhstan $'000	Tajikistan $'000	Uzbekistan $'000	Other and Corporate $'000	Interim consolidated $'000
Total assets	102,965	31,825	13,749	33,542	182,081
Cash expenditure to exploration & evaluation assets, property, plant and equipment	19,764	1	3,634	310	23,709

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

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

	Kazakhstan $'000	Tajikistan $'000	Uzbekistan $'000	Other and Corporate $'000	Interim consolidated $'000
Total assets	72,152	21,984	11,015	31,931	137,082
Cash expenditure on exploration & evaluation assets, property, plant and equipment	6,473	12,031	1,227	3,622	23,353

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

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

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

The other and corporate segment assets consist mainly of oil and gas equipment such as drilling rigs and related equipment and cash and cash equivalents.

4 Share-based payments

Share options

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

During the three months ended September 30, 2010, no options were issued or exercised. The total value of services amounted to $836,047 for the period.

During the nine months ended September 30, 2010, the Company issued 6,990,000 options to various officers and employees of the Company with a weighted average exercise price of $1.46 per share. The options under the plan vest in three tranches with one third vesting immediately, one third after one year and one third after two years. These options are equity settled share based payment transactions. 200,000 options have been exercised in the period to date, as disclosed in the Consolidated Statement of Changes in Equity. The total value of services amounted to $4,096,059 for the period. The total number of options outstanding at September 30, 2010 was 18,313,000.

During the three months ended September 30, 2009, 5,358,000 options were issued. None were exercised. The total value of services amounted to $767,890 for the period.

During the nine months ended September 30, 2009, the Company issued 5,688,000 options to various officers and employees of the Company with a weighted average exercise price of $0.71 per share. The options under the plan vest in three tranches with one third vesting immediately, one third after one period and one third after two periods. These options are equity settled share based payment transactions. No options were exercised in the period. The total number of options outstanding at September 30, 2009 was 12,363,000. The total value of services amounted to $2,387,750 was recorded for the period.

Warrants

During the three months ended September 30, 2010, no warrants were issued. 600,000 warrants were exercised in the period, as disclosed in the Consolidated Statement of Changes in Equity.

During the nine months ended September 30, 2010, there were no warrants issued and 600,000 warrants have been exercised in the period to date. The total number of warrants outstanding at September 30, 2010 was 12,183,455.

During the three months ended September 30, 2009, no warrants were issued or exercised.

During the nine months ended September 30, 2009, the Company issued 2,500,000 warrants at a weighted average exercise price of C$0.60. No warrants were exercised during this period. The total number of warrants outstanding at September 30, 2009 was 14,136,956.

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

5 Taxation

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

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

	September 30, 2010 $'000
Capital assets	(4,124)
Tax losses	705
Other	99
	(3,320)

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

	9 months ended September 30, 2010 $'000
Loss before income taxes	(15,686)
Income tax rate	20%
Expected income tax expense (recovery)	(3,137)
Increase / (decrease) resulting from:	
Non-deductible expenses	(82)
Impact of effective tax rates in other foreign jurisdictions	2,084
Losses and tax assets not utilised/recognised	3,820
Other	68
	2,753
Current income tax expense (recovery)	31
Deferred tax expense (recovery)	2,722
	2,753

6 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, 2010			
Loss attributable to ordinary shareholders –			
Basic and diluted	(18,439)	179,652	(0.10)
Three months ended September 30, 2010			
Loss attributable to ordinary shareholders –			
Basic and diluted	(7,118)	187,618	(0.04)
Nine months ended September 30, 2009			
Loss attributable to ordinary shareholders –			
Basic and diluted	(15,554)	96,944	(0.16)
Three months ended September 30, 2009			
Loss attributable to ordinary shareholders –			
Basic and diluted	(3,944)	134,555	(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.

7 Property, plant and equipment

	Oil and gas properties $’000	Oil and gas equipment $’000	Vehicles $’000	Office and computer equipment $’000	Total $’000
At December 31, 2009					
Cost	54,462	24,893	1,324	1,099	81,778
Accumulated depreciation and depletion	(6,935)	(1,105)	(304)	(263)	(8,607)
Net book amount	47,527	23,788	1,020	836	73,171
Period ended September 30, 2010					
Opening net book amount	47,527	23,788	1,020	836	73,171
Additions	3,150	185	300	1,072	4,707
Depreciation and depletion charge	(1,733)	(1,283)	(175)	(145)	(3,336)
Closing net book amount	48,944	22,690	1,145	1,763	74,542
At September 30, 2010					
Cost	57,612	25,078	1,624	2,171	86,485
Accumulated depreciation and depletion	(8,668)	(2,388)	(479)	(408)	(11,943)
Net book amount	48,944	22,690	1,145	1,763	74,542
Asset retirement obligation at net book amount included in above:					
At September 30, 2010	14	-	-	-	14
At December 31, 2009	18	-	-	-	18

8 Intangible assets

	Other intangible asset $'000	Exploration and evaluation assets $'000	Total $'000
At December 31, 2009			
Cost	5,553	19,331	24,884
Accumulated amortisation	(506)	-	(506)
Net book amount	5,047	19,331	24,378
Period ended September 30, 2010			
Opening net book amount	5,047	19,331	24,378
Additions	-	20,852	20,852
Amortisation charge	(395)	-	(395)
Closing net book amount	4,652	40,183	44,835
At September 30, 2010			
Cost	5,553	40,183	45,736
Accumulated amortisation	(901)	-	(901)
Net book amount	4,652	40,183	44,835
Asset retirement obligation asset at net book amount included in above			
At September 30, 2010	-	21	21
At December 31, 2009	-	47	47

9 Loan receivable from jointly controlled entity

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

	September 30, 2010 $'000
Gross receivable as at September 30, 2010	32,015
Net share of loss for the period	(422)
Net receivable as at September 30, 2010	31,593

The purpose of the loan, which is interest bearing, is to enable the jointly controlled entity to finance work programmes and field development plans of any of its subsidiaries in Tajikistan. Repayment shall commence during the calendar quarter during which the first revenues are generated from production sharing oil and/or gas sales under any production sharing contracts in Tajikistan. The properties in Tajikistan are still currently in the exploration phase.

10 Financial liabilities – borrowings

	Effective interest rate %	**Maturity date**	**September 30, 2010 $'000**	**December 31, 2009 $'000**
Current				
Short-term portion of long-term loans	19 – 23 p.a.	2010	3,515	1,086
Non-current				
Long-term loans	19 – 23 p.a.	2011	-	8,199
		2012	8,003	1,125
			11,518	10,410

	$'000
Balance at January 1, 2010	10,410
Issue of loan notes	2,000
Debt issuance costs	(408)
Exchange rate movement	(11)
Principal repayments	(1,076)
Amortisation of debt discount during the period	603
	11,518

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

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

Issue of the loan notes was completed via a broker to whom a royalty commission is payable at 4.5% for every $1.0 million placed. The fair value of the commission payable at September 30, 2010 is $469 (2009 – nil). The Company measured the fair value of the commission payables by applying a valuation technique based on the discounted estimated future net cash flows expected to be derived from the royalty entitlement. A discounted cash flow (DCF) method requires management to estimate future cash flows associated with the instrument and then discount those amounts to present value at a rate of return that considers the relative risk of the cash flows (5%). The fair value associated with the royalty entitlement has been recognised as a transaction cost and presented as a direct reduction to the face value of the borrowing with the effective interest rate method being used to amortise the cost over the life of the loan. The commission liability has been included in current trade and other payables.

11 Share capital

	September 30, 2010 Number	December 31, 2009 Number
Authorized		
Ordinary shares with a par value of $0.10 each	700,000,000	700,000,000
Preference shares with a par value of $0.10 each	50,000,000	50,000,000

Ordinary equity share capital **Allotted and fully paid**	**Number**	**Share capital** **$'000**	**Share premium** **$'000**
At January 1, 2009	66,393,292	6,639	138,598
Issued during the period for purchase of oil and gas equipment	1,400,000	140	701
Issued during the period in connection with finance charges	81,477	8	226
Issued during the period for purchase of a subsidiary	15,000,000	1,500	1,487
Issued during the period for cash	51,680,000	5,168	12,736
At December 31, 2009	134,554,769	13,455	153,748
Issued during the period for cash	52,615,000	5,262	52,741
Exercise of options	200,000	20	168
Exercise of warrants	600,000	60	574
At September 30, 2010	187,969,769	18,797	207,231

12 Related party transactions

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

Vazon Energy Limited

Vazon Energy Limited ("Vazon") is a corporation organized under the laws of the Bailiwick of Guernsey, of which Dr. David Robson, Chief Executive Officer, is the sole owner and managing director. Tethys has a management services contract with Vazon that came into effect from June 27, 2007 whereby the services of Dr.Robson and other Vazon employees are provided to the Company. The total cost charged to Tethys for services from Vazon in the nine month period ended September 30, 2010 was $1,799,557 (September 30, 2009 – $1,176,330).

Oilfield Production Consultants

Oilfield Production Consultants (OPC) Limited and Oilfield Production Consultants (OPC) USA LLC, both of which have one common director with the Company, has charged Tethys a monthly retainer fee for engineering expertise, provided services relating to compression optimization in Kazakhstan and has consulted on certain reservoir modelling work on projects in Tajikistan and Uzbekistan. Total fees for the nine month period ended September 30, 2010 were $182,470 (September 30, 2009 – $377,611).

13 Changes in working capital

	Three months ended		Nine months ended	
	September 30, 2010 $'000	September 30, 2009 $'000	September 30, 2010 $'000	September 30, 2009 $'000
Trade and other receivables	(593)	(1,124)	(1,247)	(962)
Inventories	(977)	(357)	(959)	(602)
Trade and other payables	1,744	282	(78)	536
Change in non-cash working capital	174	(1,199)	(2,284)	(1,028)
Non-cash transactions	400	-	(54)	-
Net changes in non-cash working capital	574	(1,199)	(2,338)	(1,028)

The principal non-cash transactions are related to the royalty entitlement as disclosed in Note 10 and capitalised depreciation within inventory.

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

	Three months ended		Nine months ended	
	September 30, 2010 $'000	September 30, 2009 $'000	September 30, 2010 $'000	September 30, 2009 $'000
Operating activities	3,233	(10)	(411)	(17)
Investing activities	(2,659)	(1,189)	(1,927)	(1,011)
Balance	574	(1,199)	(2,338)	(1,028)

14 Commitments and contingencies

Kazakhstan

Kyzyloi Field and the Kyzyloi Field Licence and Production Contract

The Kyzyloi Field Licence and Production Contract grants TAG exploration and production rights over an area of approximately 70,967 acres (287.2 km^2) and extends down to the base of the Paleogene sequence. Pursuant to the contract, TAG must reimburse the Kazakh government for approximately $1,211,000 in historical costs, to be paid in equal quarterly instalments from the commencement of production until full reimbursement. Under the latest extension of the Kyzyloi Field Licence and Production Contract, TAG has committed to spending approximately $2,700,000 for a workover program over the seven year period until 2014. In November 2009, the Company finalised and agreed the 2010 work program with a commitment of $131,300. As at September 30, 2010, this requirement had been satisfied by the expenditure of some $125,400.

Akkulka Exploration Licence and Contract

The Akkulka Exploration Licence and Contract was entered into between the Kazakh State Committee of Investments and TAG on September 17, 1998. On December 9, 2009, TAG entered into an amendment agreement with the MEMR to extend the period of the Akkulka Exploration Licence and Contract from September 17, 2009 until March 10, 2011. Under the amendment agreement, TAG committed to spending an additional $850,000 over the 18 month period and the 2010 work program for Akkulka was agreed with a capital commitment of $676,700. As of March 15, 2010, a revised Annual Work Program for Akkulka Exploration was approved which committed the Company to spend $11,190,000 in 2010 which has been satisfied through payments incurred by September 30, 2010 in excess of $18,000,000.

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

Akkulka Production Contract

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

Kul-Bas Exploration and Production Contract

The work program on this area amounts to a total of approximately $7,773,500 over the initial six-year exploration period. The remaining commitment of $2,894,000 relating to the contractual territory is required to be satisfied by November 11, 2011 and is included within the 2010 work program of $3,045,200 of which $955,100 had been incurred by September 30, 2010.

In addition to the minimum work program commitments, the Kazakhstan Government is to be compensated for the historical costs related to the contractual territory in the amount of $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 has been paid in full.

Tajikistan

Pursuant to the Production Sharing Contract, Tethys has committed to funding a work program designed to provide data for a focused exploration of the Contract Area and which will be carried out in two stages (the “Work Program”). The first phase of the Work Program included geological studies, reprocessing of existing seismic and other geophysical data, acquisition of seismic and other geophysical data and the commencement of initial rehabilitation activities on the Beshtentak and Khoja Sartez fields. The minimum spend commitment under Phase 1 of the contract was $3,000,000 which was satisfied in 2009 by payments relating to a seismic survey work program.

The total cost of the seismic work program agreement is $9,850,600, which can be unilaterally terminated at any point by the Company with immediate repayment of amounts remitted in advance of the fulfilled scope of works at the moment of termination, provided the Contractor has reached Stage One Completion. By September 30, 2010, a total of $7,935,000 had been incurred. Phase 2 of the seismic survey commenced in October 2009. The Company’s share of the remaining commitment is $976,956.

Uzbekistan

On August 11, 2010 a turnkey contract was signed for the provision of sidetracking equipment and associated services with a total commitment of $2,592,550 payable in January 2011.

Operating leases

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

	Total $'000	Less than 1 year $'000	1 – 3 years $'000
Operating leases	687	441	246

15 Events occurring after the reporting period

On October 20, 2010 the Company completed a public placement of 70,600,000 Ordinary shares at a price of C$1.45 (US$1.417) per share for total maximum gross proceeds of approximately US$100,000,000.