

# **Tethys Petroleum Limited**

Interim Financial Information  
(Unaudited)  
**June 30, 2011**

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

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

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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

“D Robson”

***Dr D. Robson***

Chief Executive Officer

August 15, 2011

“B Murphy”

***B. Murphy***

Chief Financial Officer

August 15, 2011

## **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 2011. The condensed consolidated interim financial statements comprise the condensed consolidated statement of financial position as at 30 June 2011, 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 Services Authority ('the UK FSA'). Our responsibility is to express a conclusion on the condensed consolidated interim financial statements based on our review.

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

### *Scope of Review*

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

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements which form part of the Interim Report and Accounts for the period ended 30 June 2011 are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' and the DTR of the UK FSA.

*KPMG Audit Plc*

KPMG Audit Plc  
Chartered Accountants  
August 15, 2011  
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, 2011	December 31, 2010
	Note	\$'000	\$'000
<b>Non-current assets</b>			
Property, plant and equipment	7	129,179	115,653
Intangible assets	8	23,458	16,892
Investments		1,057	1,015
Prepayments and other receivables		14,590	12,320
Loan receivable from jointly controlled entity	9	48,821	35,460
		<u>217,105</u>	<u>181,340</u>
<b>Current assets</b>			
Inventories		3,228	2,121
Trade and other receivables		3,974	3,680
Cash and cash equivalents		32,346	79,135
Restricted cash	10	3,509	-
Derivative financial instruments – interest rate swap		982	1,472
		<u>44,039</u>	<u>86,408</u>
<b>Total assets</b>		<u>261,144</u>	<u>267,748</u>
<b>Equity attributable to shareholders</b>			
Share capital	12	26,063	26,063
Share premium	12	297,222	297,222
Other reserves		36,537	34,261
Accumulated deficit		(127,014)	(118,023)
<b>Total equity</b>		<u>232,808</u>	<u>239,523</u>
<b>Non-current liabilities</b>			
Deferred gain on sale of assets to jointly controlled entity		3,699	3,699
Financial liabilities - borrowings	11	-	2,853
Deferred taxation	5	3,880	4,070
Trade and other payables		636	721
Asset retirement obligations		219	192
		<u>8,434</u>	<u>11,535</u>
<b>Current liabilities</b>			
Financial liabilities - borrowings	11	7,999	5,047
Derivative financial instruments - warrants		44	405
Derivative financial instruments - forex hedge		194	-
Deferred revenue		674	2,450
Trade and other payables		10,991	8,788
		<u>19,902</u>	<u>16,690</u>
<b>Total liabilities</b>		<u>28,336</u>	<u>28,225</u>
<b>Total shareholders' equity and liabilities</b>		<u>261,144</u>	<u>267,748</u>

Commitments and contingencies

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The notes on pages 7 to 24 form part of these condensed consolidated interim financial statements. The condensed consolidated interim financial statements were approved by the Board on August 15, 2011 and were signed on its behalf.

“D Robson”

*Dr. D. Robson* Director

“B Murphy”

*B. Murphy* Director

# Tethys Petroleum Limited

## Condensed Consolidated Statement of Comprehensive Income

(Unaudited)

(in US Dollars)

		For the 3 months ended		For the 6 months ended	
	Note	June 30, 2011 \$'000	June 30, 2010 (re-presented) \$'000	June 30, 2011 \$'000	June 30, 2010 (re-presented) \$'000
Sales and other revenues		4,177	6,030	8,657	8,146
Other operating income	9	5,706	-	5,706	-
Finance income	9	764	22	796	25
Total revenue and other income		10,647	6,052	15,159	8,171
Production expenses		(1,773)	(1,938)	(3,525)	(2,875)
Depreciation, depletion and amortisation		(3,215)	(1,358)	(5,827)	(2,050)
Exploration and evaluation expenditure written off		-	(53)	-	(90)
Listing expenses	1	(327)	(573)	(333)	(1,200)
Business development expenses	2	(1,208)	(53)	(1,229)	(92)
Administrative expenses		(5,391)	(4,919)	(10,661)	(8,460)
Share based payments	2,4	(864)	(1,659)	(2,057)	(2,853)
Foreign exchange gain/(loss) – net		16	(167)	216	(152)
Fair value gain (loss) on derivative financial instrument		(315)	2,973	(323)	472
Loss from jointly controlled entity		(302)	(93)	(511)	(244)
Finance costs		(39)	(101)	(78)	(421)
Loss before taxation		(2,771)	(1,889)	(9,169)	(9,794)
Taxation	5	75	(1,433)	178	(1,527)
<b>Net loss and comprehensive loss for the period attributable to shareholders</b>		<b>(2,696)</b>	<b>(3,322)</b>	<b>(8,991)</b>	<b>(11,321)</b>
<b>Loss per share attributable to shareholders</b>					
Basic and diluted	6	(0.01)	(0.02)	(0.03)	(0.06)

No dividends were paid or are declared for the period (2010 – \$Nil).

The notes on pages 7 to 24 form part of these condensed consolidated interim financial statements.

# Tethys Petroleum Limited

## Condensed Consolidated Statement of Changes in Equity

(Unaudited)

For the three and the six months ended June 30

(in US Dollars)

	Note	Attributable to shareholders					Total equity \$'000
		Share capital \$'000	Share premium \$'000	Accumulated deficit \$'000	Option reserves \$'000	Warrant reserves \$'000	
<b>Balance at January 1, 2010</b>		13,455	153,748	(88,374)	11,220	16,555	106,604
Comprehensive loss for the period		-	-	(11,321)	-	-	(11,321)
<b>Transactions with shareholders</b>							
Issue of share capital		5,262	54,663	-	-	-	59,925
Cost of share issue		-	(2,169)	-	-	-	(2,169)
Share-based payments		-	-	-	3,260	-	3,260
Exercise of options		20	168	-	(60)	-	128
<b>Total transactions with shareholders</b>		5,282	52,662	-	3,200	-	61,144
<b>Balance at June 30, 2010</b>		<b>18,737</b>	<b>206,410</b>	<b>(99,695)</b>	<b>14,420</b>	<b>16,555</b>	<b>156,427</b>
Comprehensive loss for the period		-	-	(18,328)	-	-	(18,328)
<b>Transactions with shareholders</b>							
Issue of share capital		7,060	93,117	-	-	-	100,177
Cost of share issue		-	(6,105)	-	-	-	(6,105)
Share-based payments		-	-	-	3,325	-	3,325
Exercise of warrants		250	3,681	-	-	-	3,931
Exercise of options		16	119	-	(39)	-	96
<b>Total transactions with shareholders</b>		7,326	90,812	-	3,286	-	101,424
<b>Balance at December 31, 2010</b>		<b>26,063</b>	<b>297,222</b>	<b>(118,023)</b>	<b>17,706</b>	<b>16,555</b>	<b>239,523</b>
Comprehensive loss for the period		-	-	(8,991)	-	-	(8,991)
<b>Transactions with shareholders</b>							
Share-based payments	4	-	-	-	2,276	-	2,276
<b>Total transactions with shareholders</b>		-	-	-	2,276	-	2,276
<b>Balance at June 30, 2011</b>		<b>26,063</b>	<b>297,222</b>	<b>(127,014)</b>	<b>19,982</b>	<b>16,555</b>	<b>232,808</b>

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 24 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, 2011 \$'000	June 30, 2010 \$'000	June 30, 2011 \$'000	June 30, 2010 \$'000
<b>Cash flow from operating activities</b>					
Loss before taxation for the period		(2,771)	(1,889)	(9,169)	(9,794)
Adjustments for					
Share based payments		864	1,659	2,057	2,853
Net finance (income) / cost		(723)	74	(716)	383
Depreciation, depletion and amortization		3,215	1,358	5,827	2,050
Loss on disposal of assets		136	-	136	-
Payment of royalties		-	(78)	-	(78)
Fair value gain (loss) on derivative financial instrument		315	(2,973)	323	(472)
Listing expenses		-	-	-	351
Net unrealised foreign exchange loss / (gain)		5	(32)	48	1
Loss from jointly controlled entity		302	93	511	244
Deferred revenue		646	(454)	(1,776)	(1,363)
Other operating income		(5,706)	-	(5,706)	-
Net change in non-cash working capital	14	1,091	(1,858)	769	(3,644)
<b>Net cash used in operating activities</b>		<b>(2,626)</b>	<b>(4,100)</b>	<b>(7,696)</b>	<b>(9,469)</b>
<b>Cash flow from investing activities</b>					
Interest received		44	22	76	25
Expenditure on exploration and evaluation assets		(4,423)	(5,305)	(6,289)	(7,076)
Expenditures on property, plant and equipment		(10,411)	(1,603)	(19,397)	(4,276)
Investment in restricted cash		(3,549)	1	(3,551)	(27)
Payments made on behalf of jointly controlled entity		(4,486)	(4,889)	(7,364)	(7,169)
Movement in advances to construction contractors		1,710	(2,173)	(117)	(3,200)
Value added tax receivable		(1,248)	(873)	(2,153)	(1,324)
Net change in non-cash working capital	14	406	742	354	732
<b>Net cash used in investing activities</b>		<b>(21,957)</b>	<b>(14,078)</b>	<b>(38,441)</b>	<b>(22,315)</b>
<b>Cash flow from financing activities</b>					
Proceeds from issuance of long term borrowings		-	-	-	1,840
Repayment of long-term borrowings		(90)	(358)	(176)	(705)
Interest paid on long-term borrowings and other non-current payables		(97)	(182)	(197)	(375)
Other non-current liabilities		(75)	(75)	(151)	(145)
Proceeds from issuance of equity, net of issue costs		-	112	-	54,134
<b>Net cash (used) / generated from financing activities</b>		<b>(262)</b>	<b>(503)</b>	<b>(524)</b>	<b>54,749</b>
Effects of exchange rate changes on cash and cash equivalents		(209)	(14)	(128)	(30)
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(25,054)</b>	<b>(18,695)</b>	<b>(46,789)</b>	<b>22,935</b>
Cash and cash equivalents at beginning of the period		57,400	48,927	79,135	7,297
<b>Cash and cash equivalents at end of the period</b>		<b>32,346</b>	<b>30,232</b>	<b>32,346</b>	<b>30,232</b>

The notes on pages 7 to 24 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, 2011

(tabular amounts in thousands of US dollars)

### **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. Subsequent to the period end the Company was admitted to the London Stock Exchange with respect to a Standard Listing (note 16). Costs associated with the Standard Listing are disclosed as listing expenses in the consolidated statement of comprehensive income.

### **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, 2010.

From 1 January 2011 the Company started to present business development expenses and share-based payments separately in the condensed consolidated statement of comprehensive income. The comparative information has been re-presented to conform to the current presentation. The management of the Group believes that due to the nature of business development costs which are incurred in Afghanistan and Uzbekistan this presentation provides more relevant and meaningful information about the financial performance of the Company.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the condensed consolidated financial statements.

The accounting policies adopted in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the Company’s annual financial statements for the year ended December 31, 2010 except for:

#### New and amended accounting standards

- IFRS 7 – Financial Instruments – amendments to disclosures requiring an implicit statement that the interaction between qualitative and quantitative disclosures better enables users to evaluate the

# **Tethys Petroleum Limited**

## **Notes to Condensed Consolidated Financial Statements**

(Unaudited)

For the six months ended June 30, 2011

(tabular amounts in thousands of US dollars)

Company's exposure to risks arising from financial instruments. This amendment will not result in a material impact on the Company's financial statements.

- Amendments to IAS 34 have been adopted in these Condensed Consolidated Interim Financial Statements. These amendments have not resulted in a material impact on the Company's financial statements.

No other accounting standards are considered to have an impact on the Company's 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 gas from the Kyzylai and Akkulka fields and is undertaking exploration and evaluation activity in the Kulbas fields. In addition the Company is producing oil from the Akkulka field. 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 are utilised in Kazakhstan, Tajikistan, and Uzbekistan according to operational requirements.

# Tethys Petroleum Limited

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended June 30, 2011

(tabular amounts in thousands of US dollars)

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

	<b>Kazakhstan</b>	<b>Tajikistan</b>	<b>Uzbekistan</b>	<b>Other and Corporate</b>	<b>Interim consolidated</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Refined product sales	-	-	3,368	-	3,368
Gas sales	3,354	-	-	-	3,354
Oil sales	1,608	-	-	-	1,608
Other income	132	-	195	290	617
Other operating income	-	-	-	5,706	5,706
Finance income	1	721	-	74	796
<b>Segment revenue and other income</b>	<b>5,095</b>	<b>721</b>	<b>3,563</b>	<b>6,070</b>	<b>15,449</b>
Inter-segment revenue	-	-	-	(290)	(290)
<b>Segment revenue and other income from external customers</b>	<b>5,095</b>	<b>721</b>	<b>3,563</b>	<b>5,780</b>	<b>15,159</b>
Loss from jointly controlled entity	-	(511)	-	-	(511)
<b>(Loss)/ profit before taxation</b>	<b>(4,723)</b>	<b>41</b>	<b>838</b>	<b>(5,325)</b>	<b>(9,169)</b>
Taxation	709	-	(531)	-	178
<b>Net (loss)/profit attributable to shareholders</b>	<b>(4,014)</b>	<b>41</b>	<b>307</b>	<b>(5,325)</b>	<b>(8,991)</b>

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

# Tethys Petroleum Limited

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended June 30, 2011

(tabular amounts in thousands of US dollars)

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

	<b>Kazakhstan</b>	<b>Tajikistan</b>	<b>Uzbekistan</b>	<b>Other and Corporate</b>	<b>Interim consolidated</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Refined product sales	-	-	7,670	-	7,670
Gas sales	475	-	-	-	475
Other income	1	-	-	263	264
Finance income	2	1	-	22	25
<b>Segment revenue and other income</b>	<b>478</b>	<b>1</b>	<b>7,670</b>	<b>285</b>	<b>8,434</b>
Inter-segment revenue	-	-	-	(263)	(263)
<b>Segment revenue and other income from external customers</b>	<b>478</b>	<b>1</b>	<b>7,670</b>	<b>22</b>	<b>8,171</b>
Loss from jointly controlled entity	-	(244)	-	-	(244)
<b>(Loss)/ profit before taxation</b>	<b>(1,980)</b>	<b>(382)</b>	<b>3,340</b>	<b>(10,772)</b>	<b>(9,794)</b>
Taxation	(954)	-	(573)	-	(1,527)
<b>Net (loss)/profit attributable to shareholders</b>	<b>(2,934)</b>	<b>(382)</b>	<b>2,767</b>	<b>(10,772)</b>	<b>(11,321)</b>

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

# Tethys Petroleum Limited

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended June 30, 2011

(tabular amounts in thousands of US dollars)

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

	<b>Kazakhstan</b>	<b>Tajikistan</b>	<b>Uzbekistan</b>	<b>Other and Corporate</b>	<b>Interim consolidated</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Refined product sales	-	-	946	-	946
Gas sales	1,863	-	-	-	1,863
Oil sales	1,107	-	-	-	1,107
Other income	66	-	195	146	407
Other operating income	-	-	-	5,706	5,706
Finance income	1	721	-	42	764
<b>Segment revenue and other income</b>	<b>3,037</b>	<b>721</b>	<b>1,141</b>	<b>5,894</b>	<b>10,793</b>
Inter-segment revenue	-	-	-	(146)	(146)
<b>Segment revenue and other income from external customers</b>	<b>3,037</b>	<b>721</b>	<b>1,141</b>	<b>5,748</b>	<b>10,647</b>
Loss from jointly controlled entity	-	(302)	-	-	(302)
<b>(Loss)/ profit before taxation</b>	<b>(2,592)</b>	<b>313</b>	<b>(501)</b>	<b>9</b>	<b>(2,771)</b>
Taxation	357	-	(282)	-	75
<b>Net (loss)/profit attributable to shareholders</b>	<b>(2,235)</b>	<b>313</b>	<b>(783)</b>	<b>9</b>	<b>(2,696)</b>

# Tethys Petroleum Limited

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended June 30, 2011

(tabular amounts in thousands of US dollars)

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

	Kazakhstan \$'000	Tajikistan \$'000	Uzbekistan \$'000	Other and Corporate \$'000	Interim consolidated \$'000
Refined product sales	-	-	5,643	-	5,643
Gas sales	475	-	-	-	475
Other income	(88)	-	-	163	75
Finance income	1	1	-	20	22
<b>Segment revenue and other income</b>	<b>388</b>	<b>1</b>	<b>5,643</b>	<b>183</b>	<b>6,215</b>
Inter-segment revenue	-	-	-	(163)	(163)
<b>Segment revenue and other income from external customers</b>	<b>388</b>	<b>1</b>	<b>5,643</b>	<b>20</b>	<b>6,052</b>
Loss from jointly controlled entity	-	(94)	-	-	(94)
<b>(Loss)/ profit before taxation</b>	<b>(1,391)</b>	<b>(151)</b>	<b>2,783</b>	<b>(3,130)</b>	<b>(1,889)</b>
Taxation	(957)	-	(476)	-	(1,433)
<b>Net (loss)/profit attributable to shareholders</b>	<b>(2,348)</b>	<b>(151)</b>	<b>2,307</b>	<b>(3,130)</b>	<b>(3,322)</b>

The segment assets at June 30, 2011 and capital expenditures for the period then ended are as follows:

	Kazakhstan \$'000	Tajikistan \$'000	Uzbekistan \$'000	Other and Corporate \$'000	Interim consolidated \$'000
Total assets	136,189	48,821	17,903	58,039	261,144
Cash expenditure to exploration & evaluation assets, property, plant and equipment	22,209	-	3,351	126	25,686

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, 2010.

# Tethys Petroleum Limited

## Notes to Condensed Consolidated Financial Statements (Unaudited)

For the six months ended June 30, 2011

(tabular amounts in thousands of US dollars)

The segment assets at December 31, 2010 and capital expenditures for the 6 months ended 30 June, 2010 are as follows:

	<b>Kazakhstan</b>	<b>Tajikistan</b>	<b>Uzbekistan</b>	<b>Other and Corporate</b>	<b>Interim consolidated</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Total assets	117,144	35,683	14,203	100,718	267,748
Cash expenditure to exploration & evaluation assets, property, plant and equipment	8,251	2	3,006	93	11,352

The segment assets attributable to the Tajikistan segment consist mainly of the loan receivable from the Joint Venture. The segment assets attributable to the Uzbekistan segment consist mainly of well costs related to the North Urtabulak field.

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

## 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, 2010. 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 under the 2007 Long Term Stock Incentive Plan.

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

# Tethys Petroleum Limited

## Notes to Condensed Consolidated Financial Statements (Unaudited)

For the six months ended June 30, 2011

(tabular amounts in thousands of US dollars)

	Number of options	Weighted average exercise price \$
Outstanding at January 1, 2010	11,706,000	1.75
Granted	6,990,000	1.46
Forfeited	(80,000)	0.65
Exercised	(200,000)	0.64
Expired	(91,000)	0.79
Outstanding at June 30, 2010	18,325,000	1.66
Exercisable at June 30, 2010	10,289,000	2.09

A charge for the value of services of \$2,276,379 (2010 - \$3,260,000) was recorded for the period.

### Warrants

The following tables summarize the warrant activity for the period ended June 30, 2011 and June 30, 2010.

	Number of warrants	Weighted average exercise price \$
Outstanding at January 1, 2011	10,283,455	4.48
Granted	-	n/a
Forfeited	-	n/a
Exercised	-	n/a
Expired	(3,050,835)	4.91
Outstanding at June 30, 2011	7,232,620	4.30
Exercisable at June 30, 2011	7,232,620	4.30
Outstanding at January 1, 2010	12,783,455	3.73
Granted	-	n/a
Forfeited	-	n/a
Exercised	-	n/a
Expired	-	n/a
Outstanding at June 30, 2010	12,783,455	3.73
Exercisable at June 30, 2010	12,783,455	3.73

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.



# Tethys Petroleum Limited

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended June 30, 2011

(tabular amounts in thousands of US dollars)

### 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, 2011 \$'000	December 31, 2010 \$'000
Capital Assets	4,942	5,107
Tax losses	(1,111)	(1,048)
Other	49	11
	<u>3,880</u>	<u>4,070</u>

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

	June 30, 2011 \$'000	June 30, 2010 \$'000
Loss before income taxes	(2,771)	(9,794)
Income tax rate	20%	20%
Expected income tax (recovery)	<u>(554)</u>	<u>(1,959)</u>
<i>Increase / (decrease) resulting from:</i>		
Non-deductible expenses	379	33
Impact of effective tax rates in other foreign jurisdictions	(1,029)	1,681
Losses and tax assets not utilised/recognised	982	1,734
Other	44	38
	<u>(178)</u>	<u>1,527</u>
Current income tax expense	11	-
Deferred tax (recovery) / expense	<u>(189)</u>	<u>1,527</u>
	<u>(178)</u>	<u>1,527</u>

# Tethys Petroleum Limited

## Notes to Condensed Consolidated Financial Statements (Unaudited)

For the six months ended June 30, 2011

(tabular amounts in thousands of US dollars)

### 6 Loss per share

#### Basic and diluted loss per share

	Loss for the period \$'000	Weighted average number of shares (thousands)	Per share amount \$
<b>Six months ended June 30, 2011</b>			
Loss attributable to ordinary shareholders			
– Basic and diluted	<u>(8,991)</u>	<u>260,630</u>	<u>(0.03)</u>
<b>Three months ended June 30, 2011</b>			
Loss attributable to ordinary shareholders			
– Basic and diluted	<u>(2,696)</u>	<u>260,630</u>	<u>(0.01)</u>
<b>Six months ended June 30, 2010</b>			
Loss attributable to ordinary shareholders			
– Basic and diluted	<u>(11,321)</u>	<u>175,436</u>	<u>(0.06)</u>
<b>Three months ended June 30, 2010</b>			
Loss attributable to ordinary shareholders			
– Basic and diluted	<u>(3,322)</u>	<u>187,267</u>	<u>(0.02)</u>

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

# Tethys Petroleum Limited

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended June 30, 2011

(tabular amounts in thousands of US dollars)

### 7 Property, plant and equipment

	Oil and gas properties \$'000	Oil and gas equipment \$'000	Vehicles \$'000	Office and computer equipment \$'000	Total \$'000
<b>At December 31, 2010</b>					
Cost	101,349	25,171	1,780	1,801	130,101
Accumulated depreciation	(10,423)	(3,048)	(532)	(445)	(14,448)
<b>Net book amount</b>	<b>90,926</b>	<b>22,123</b>	<b>1,248</b>	<b>1,356</b>	<b>115,653</b>
<b>Period ended June 30, 2011</b>					
Opening net book amount	90,926	22,123	1,248	1,356	115,653
Additions	18,765	167	928	216	20,076
Disposals	-	-	(28)	(215)	(243)
Depreciation charge	(4,195)	(1,524)	(512)	(183)	(6,414)
Accumulated depreciation on disposal	-	-	5	102	107
<b>Closing net book amount</b>	<b>105,496</b>	<b>20,766</b>	<b>1,641</b>	<b>1,276</b>	<b>129,179</b>
<b>At June 30, 2011</b>					
Cost	120,114	25,338	2,680	1,802	149,934
Accumulated depreciation	(14,618)	(4,572)	(1,039)	(526)	(20,755)
<b>Net book amount</b>	<b>105,496</b>	<b>20,766</b>	<b>1,641</b>	<b>1,276</b>	<b>129,179</b>
Assets under construction at net book amount included in above:					
At June 30, 2011	41,249	-	-	-	41,249
At December 31, 2010	26,612	-	-	-	26,612

# Tethys Petroleum Limited

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended June 30, 2011

(tabular amounts in thousands of US dollars)

### 8 Intangible assets

	Other intangible asset \$'000	Exploration and evaluation assets \$'000	Total \$'000
<b>At December 31, 2010</b>			
Cost	5,553	12,332	17,885
Accumulated amortisation and impairment	(993)	-	(993)
<b>Net book amount</b>	<b>4,560</b>	<b>12,332</b>	<b>16,892</b>
<b>Period ended June 30, 2011</b>			
Opening net book amount	4,560	12,332	16,892
Additions	-	6,744	6,744
Amortisation charge	(178)	-	(178)
<b>Closing net book amount</b>	<b>4,382</b>	<b>19,076</b>	<b>23,458</b>
<b>At June 30, 2011</b>			
Cost	5,553	19,076	24,629
Accumulated amortisation and impairment	(1,171)	-	(1,171)
<b>Net book amount</b>	<b>4,382</b>	<b>19,076</b>	<b>23,458</b>

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.

# Tethys Petroleum Limited

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended June 30, 2011

(tabular amounts in thousands of US dollars)

### 9 Loan receivable from jointly controlled entity

The loan receivable from the jointly controlled entity, Seven Stars Energy Corporation, is net of the 51% share of loss of the joint venture as calculated using the equity method of accounting:

	June 30, 2011 \$'000	December 31, 2010 \$'000
Balance, beginning of year	35,460	21,727
Share of loss	(511)	(634)
Finance income on loan receivable	720	-
Movement in deferred gain	-	40
Increase in loan to jointly controlled entity	13,152	14,327
Balance, end of period / year	<u>48,821</u>	<u>35,460</u>

During 2010 and the first half of 2011, a drilling rig together with associated equipment, all owned by the group, was rented to a subsidiary of the jointly controlled entity 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 group's equity accounted interest, and no income was recognised. Following the recent progress made on the EOL09 well as set out in more detail on page 8 of the Management's Discussion and Analysis document the directors have reconsidered this matter and considered it appropriate that the income now be included. Accordingly, other operating income for the 6 months ended 30 June 2011 includes \$5,706,435 in respect of these transactions, of which \$3,835,320 relates to the year ended 31 December 2010. The invoices have not been settled and there is consequently no impact on the Company's cash flows. There is also no impact on tax expense as a result of this income being recognised.

In addition, the Directors have given similar consideration to the position of interest on the loan to jointly controlled entity SSEC with the result that cumulative interest income of \$719,785 on the loan of \$48,821,005 as at 30 June 2011 has been recognised for the period to 30 June 2011. Of this amount, \$420,489 relates to the year ended 31 December 2010. This change also has no effect on tax expense or cash flows.

# Tethys Petroleum Limited

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

For the six months ended June 30, 2011

(tabular amounts in thousands of US dollars)

### 10 Restricted cash

Restricted cash consists of monies placed on temporary deposit as security against the forex hedge.

### 11 Financial liabilities – borrowings

	Effective interest rate %	Maturity date	June 30, 2011 \$'000	December 31, 2010 \$'000
<b>Current</b>				
Short-term portion of long-term loans	19 – 23 p.a.	2011	7,999	5,047
<b>Non-current</b>				
Long-term loans	19 – 23 p.a.	2012	-	2,853
			<u>7,999</u>	<u>7,900</u>

	<b>\$'000</b>
Balance at January 1, 2011	7,900
Movement in exchange	11
Principal repayments	(176)
Amortisation of debt discount during the period	264
Balance at June 30, 2011	<u>7,999</u>

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

By the end of December 2009, \$1,000,000 loan notes had been issued. During the period to March 31, 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 18.3 of the Company's annual consolidated financial statements for the year ended December 31, 2010.

Issue of the loan notes was completed via a broker to whom a royalty commission is payable at 4.5% for every \$1.0 million placed. The fair value of the commission payable at June 30, 2011 is \$nil (2010 – \$262,467). The Company measured the fair value of the commission payable 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

# Tethys Petroleum Limited

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(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.

### 12 Share capital

		June 30, 2011 Number	December 31, 2010 Number
<b>Authorized</b>			
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
<b>Ordinary equity share capital</b>	<b>Number</b>	<b>Share capital</b>	<b>Share</b>
<b>Allotted and fully paid</b>		<b>\$'000</b>	<b>premium</b>
			<b>\$'000</b>
<b>At January 1, 2010</b>	134,554,769	13,455	153,748
Issued during the period in connection with the exercise of share options	360,000	36	287
Issued during the in connection with the exercise of warrants	2,500,000	250	2,711
Issued during the period for cash	123,215,000	12,322	140,476
<b>At December 31, 2010 and at June 30, 2011</b>	<b>260,629,769</b>	<b>26,063</b>	<b>297,222</b>

### 13 Related party transactions

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

#### Vazon Energy Limited

Vazon Energy Limited ("Vazon") is a corporation organized under the laws of the Bailiwick of Guernsey, of which Dr. David Robson, Chief Executive Officer, is the sole owner and managing director. Tethys has a management services contract with Vazon that came into effect from June 27, 2007 whereby the services of Dr. Robson and other Vazon employees are provided to the Company. The total cost charged to Tethys for services from Vazon in the period ended June 30, 2011 was \$1,576,734 (June 30, 2010 – \$1,142,828).

#### Oilfield Production Consultants

# Tethys Petroleum Limited

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

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Oilfield Production Consultants (OPC) Limited and Oilfield Production Consultants (OPC) USA LLC, both of which have one common director with the Company, has charged Tethys a monthly retainer fee for engineering expertise, provided services relating to compression optimization and has consulted on certain reservoir modelling work on projects in Tajikistan and Uzbekistan. Total fees for the period ended June 30, 2011 were \$11,422 (June 30, 2010 – \$166,526).

### 14 Changes in working capital

	Three months ended		Six months ended	
	June 30,	June 30,	June 30,	June 30,
	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000
Trade and other receivables	(744)	(542)	(294)	(653)
Inventories	(776)	90	(1,107)	19
Trade and other payables	2,774	(762)	2,203	(1,822)
Change in non-cash working capital	1,254	(1,214)	802	(2,456)
Non-cash transactions	243	98	321	(456)
Net changes in non-cash working capital	1,497	(1,116)	1,123	(2,912)

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,
	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000
Operating activities	1,091	(1,858)	769	(3,644)
Investing activities	406	742	354	732
Balance	1,497	(1,116)	1,123	(2,912)

### 15 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<sup>2</sup>) 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. With



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## **Notes to Condensed Consolidated Financial Statements**

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respect to 2011, a work program amounting to \$273,000 has been agreed, which has been fulfilled through payments amounting to \$1,446,507 during the 6 months ended June 30, 2011.

### *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 November 19, 2010, the Ministry of Oil and Gas approved an extension to the exploration period until March 10, 2013. With respect to 2011, a work program amounting to \$3,210,000 has been agreed, which has been fulfilled through payments amounting to \$12,989,110 during the 6 months ended June 30, 2011.

### *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 US\$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. For that part of the contractual territory from which production commenced 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. There are no contractual commitments regarding production in 2011.

### *Kul-Bas Exploration and Production Contract*

The Kul-Bas Exploration and Production Contract was signed between Kul-Bas and the MEMR on November 11, 2005. This contract, which is for a period of 25 years (unless extended by mutual agreement of the parties), with an initial six-year exploration period and a 19-year production period, grants Kul-Bas exploration and production rights over an original 2,688,695 acres (10,881 km<sup>2</sup>) surrounding the Akkulka Block. Pursuant to the original contract, 20% of the area was to be relinquished at the end of the second year of the contract, with 20% to be relinquished annually thereafter up to the end of the six year exploration period. However, in response to an application on behalf of the Company, on April 27, 2009, Amendment 1 to the Kul-Bas Exploration and Production Contract was signed, according to which 20% is relinquished by the end of contract year 2 (completed), 0% in contract year 3 (2008), 10% by the end of contract year 4 (2009), 20% by the end of year 5 (2010) and all remaining contract area, outside commercial discovery areas, by the end of year 6 (2011). On December 23, 2010 an extension of the exploration period for a further 2 years to November 11, 2013 was agreed by the Ministry of Oil and Gas.

The work program on this area amounted to a total of approximately \$7,773,500 over the initial six-year exploration period. The remaining commitment of \$2,894,000 relating to the contractual territory is required to be satisfied by November 11, 2011 and is included within the 2010 work program of \$3,045,150. As at December 31, 2010, this requirement had been satisfied by the expenditure of \$3,039,150. In addition to the minimum work program commitments, the Kazakhstan Government is to be compensated for the historical costs related to the contractual territory in the amount of US\$3,275,780. The Company has previously paid an amount of \$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. With respect to 2011, a work program amounting to \$120,000 has been agreed, which has been fulfilled through payments amounting to \$3,641,370 during the 6 months ended June 30, 2011.

### *Joint Venture*

# Tethys Petroleum Limited

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On February 16, 2011 a wholly owned subsidiary of the Company entered into a joint venture agreement to construct and operate a rail oil loading terminal in Kazakhstan. Under the terms of the agreement, the Company has an obligation to provide funding to the Joint Venture amounting to not less than \$3,000,000. To date no funds have been advanced although the Company's share of budgeted spend has been agreed at \$4,933,054.

### Tajikistan

#### *Joint Venture*

An agreement has been entered into with respect to an airborne high-resolution geophysical survey over the Bokhtar licence in Tajikistan. The estimated value of the contract is \$3,688,000, of which \$806,300 has been paid to date. The Company's share of termination fees in the event of early termination is \$249,288.

### Operating leases

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

	<b>Total</b>	<b>Less than 1</b>	<b>1 – 3 years</b>
	<b>\$'000</b>	<b>year</b>	<b>\$'000</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Operating leases	940	628	312

### 16 Subsequent events

On July 25, 2011 the Company was admitted to the London Stock Exchange with respect to a Standard Listing. No funds were raised and no new shares were issued in connection with this listing.