Tethys Petroleum Limited

Interim Consolidated Financial Statements
(Unaudited)
March 31, 2011

Tethys Petroleum Limited

Consolidated Statement of Financial Position
(Unaudited)
(in USD dollars)

	Note	As at March 31, 2011 $'000	As at December 31, 2010 $'000
Non-current assets			
Property, plant and equipment	7	122,250	115,653
Intangible assets	8	18,738	16,892
Investments		1,017	1,015
Prepaids and other receivables		14,937	12,320
Loan receivable from jointly controlled entity	9	38,179	35,460
		195,121	181,340
Current assets			
Inventories		2,452	2,121
Trade and other receivables		3,230	3,680
Cash and cash equivalents		57,400	79,135
Derivative financial instruments – interest rate swap		1,274	1,472
		64,356	86,408
Total assets		259,477	267,748
Equity attributable to shareholders			
Share capital	11	26,063	26,063
Share premium	11	297,222	297,222
Other reserves		35,555	34,261
Accumulated deficit		(124,318)	(118,023)
Total equity		234,522	239,523
Non-current liabilities			
Deferred gain on sale of assets to jointly controlled entity		3,699	3,699
Financial liabilities - borrowings	10	1,950	2,853
Deferred taxation	5	3,956	4,070
Trade and other payables		679	721
Asset retirement obligations		208	192
		10,492	11,535
Current liabilities			
Financial liabilities - borrowings	10	6,005	5,047
Derivative financial instruments - warrants		214	405
Deferred revenue		27	2,450
Trade and other payables		8,217	8,788
		14,463	16,690
Total liabilities		24,955	28,225
Total shareholders' equity and liabilities		259,477	267,748
Commitments and contingencies	14		

The notes on pages 1 to 14 form part of these interim consolidated financial statements. The interim consolidated financial statements were approved by the Board on May 13, 2011 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 months ended March 31
(in US Dollars)

	Note	2011 $'000	2010 $'000
Sales and other operating revenues		4,480	2,116
Finance income		32	3
Total revenue and other income		4,512	2,119
Production expenditures		(1,752)	(974)
Depreciation, depletion and amortization		(2,612)	(692)
Listing expenses		(6)	(626)
Administrative expenses		(6,484)	(4,775)
Foreign exchange gains (net)		200	14
Fair value loss on derivative financial instrument		(8)	(2,501)
Loss from jointly controlled entity		(209)	(150)
Finance costs		(39)	(321)
Loss before taxation		(6,398)	(7,906)
Taxation	5	103	(93)
Net loss and comprehensive loss for the period attributable to shareholders		(6,295)	(7,999)
Loss per share attributable to shareholders			
Basic and diluted	6	(0.02)	(0.05)

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

The notes on pages 1 to 14 form part of these interim consolidated financial statements.

Tethys Petroleum Limited

Consolidated Statement of Changes in Equity

(Unaudited)

(in US dollars)

	Note	Share capital $'000	Share premium $'000	Accumulated deficit $'000	Option reserves $'000	Warrant reserves $'000	Total equity $'000
		Attributable to shareholders					
Balance at January 1, 2010		13,455	153,748	(88,374)	11,220	16,555	106,604
Comprehensive loss for the period		-	-	(7,999)	-	-	(7,999)
Transactions with shareholders							
Issue of share capital		5,262	54,663	-	-	-	59,925
Cost of share issue		-	(2,153)	-	-	-	(2,153)
Share-based payments		-	-	-	1,193	-	1,193
Total transactions with shareholders		5,262	52,510	-	1,193	-	58,965
Balance at March 31, 2010		18,717	206,258	(96,373)	12,413	16,555	157,570
Comprehensive loss for the period		-	-	(21,650)	-	-	(21,650)
Transactions with shareholders							
Issue of share capital		7,060	93,117	-	-	-	100,177
Cost of share issue		-	(6,121)	-	-	-	(6,121)
Share-based payments		-	-	-	5,392	-	5,392
Exercise of warrants		250	3,681	-	-	-	3,931
Exercise of options		36	287	-	(99)	-	224
Total transactions with shareholders		7,346	90,964	-	5,293	-	103,603
Balance at December 31, 2010		26,063	297,222	(118,023)	17,706	16,555	239,523
Comprehensive loss for the period		-	-	(6,295)	-	-	(6,295)
Transactions with shareholders							
Share-based payments	4	-	-	-	1,294	-	1,294
Total transactions with shareholders		-	-	-	1,294	-	1,294
Balance at March 31, 2011		**26,063**	**297,222**	**(124,318)**	**19,000**	**16,555**	**234,522**

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.

The notes on pages 1 to 14 form part of these interim consolidated financial statements.

Tethys Petroleum Limited

Consolidated Statement of Cash Flows
(Unaudited)
For the three months ended March 31
(in USD dollars)

	Note	2011 $'000	2010 $'000
Cash flow from operating activities			
Loss before taxation for the period		(6,398)	(7,906)
Adjustments for			
Share based payments		1,193	1,193
Net finance cost		7	309
Depreciation, depletion and amortization		2,612	692
Fair value loss on derivative financial instrument		8	2,501
Listing expenses		-	351
Net unrealised foreign exchange loss		43	33
Loss from jointly controlled entity		209	150
Deferred revenue		(2,422)	(909)
Net change in non-cash working capital	13	(322)	(1,786)
Net cash used in operating activities		(5,070)	(5,372)
Cash flow from investing activities			
Interest received		32	3
Expenditure on exploration and evaluation assets		(1,866)	(1,770)
Expenditures on property, plant and equipment		(8,986)	(2,673)
Investment in restricted cash		(2)	(28)
Payments made on behalf of jointly controlled entity		(2,878)	(2,280)
Movement in advances to construction contractors		(1,827)	(1,027)
Value added tax receivable		(905)	(451)
Net change in non-cash working capital	13	(52)	(10)
Net cash used in investing activities		(16,484)	(8,236)
Cash flow from financing activities			
Proceeds from issuance of long term borrowings		-	1,840
Repayment of long-term borrowings		(86)	(347)
Interest paid on long-term borrowings and other non-current payables		(100)	(193)
Other non-current liabilities		(76)	(70)
Proceeds from issuance of equity, net of issue costs		-	54,022
Net cash generated from financing activities		(262)	55,252
Effects of exchange rate changes on cash and cash equivalents		81	(14)
Net increase / (decrease) in cash and cash equivalents		(21,735)	41,630
Cash and cash equivalents at beginning of the period		79,135	7,297
Cash and cash equivalents at end of the period		57,400	48,927

The notes on pages 1 to 14 form part of these interim consolidated financial statements.

1 General information

Tethys Petroleum Limited and its subsidiaries (collectively "Tethys" or "the Company") are headquartered 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) and a secondary listing on the Kazakhstan Stock Exchange (KASE) in Almaty.

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 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, 2010. Certain comparative figures have been re-classified to conform with current year presentation.

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, 2010.

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 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.

(tabular amounts in thousands of US dollars)

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 and possibly throughout the rest of Central Asia.

The segment results for the period ended March 31, 2011 are as follows:

	Kazakhstan $'000	Tajikistan $'000	Uzbekistan $'000	Other and Corporate $'000	Interim consolidated $'000
Refined product sales	-	-	2,422	-	2,422
Gas sales	1,491	-	-	-	1,491
Oil sales	501	-	-	-	501
Other income	66	-	-	144	210
Finance income	-	-	-	32	32
Segment revenue and other income	**2,058**	**-**	**2,422**	**176**	**4,656**
Inter-segment revenue	-	-	-	(144)	(144)
Segment revenue and other income from external customers	**2,058**	**-**	**2,422**	**32**	**4,512**
Loss from jointly controlled entity	-	(209)	-	-	(209)
(Loss)/ profit before taxation	**(2,131)**	**(272)**	**1,339**	**(5,334)**	**(6,398)**
Taxation	-	-	(249)	352	103
Net (loss)/profit attributable to shareholders	**(2,131)**	**(272)**	**1,090**	**(4,982)**	**(6,295)**

Borrowing costs of $250,920 were capitalised in the Kazakh segment during the period. Amortisation of $161,524 of assets held in the Corporate segment were also capitalised in the Kazakh segment during the period.

(tabular amounts in thousands of US dollars)

The segment assets at March 31, 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	128,462	38,395	17,033	75,587	259,477
Cash expenditure to exploration & evaluation assets, property, plant and equipment	8,045	-	2,777	30	10,852

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.

The segment results for the period ended March 31, 2010 are as follows:

	Kazakhstan $'000	Tajikistan $'000	Uzbekistan $'000	Other and Corporate $'000	Interim consolidated $'000
Refined product sales	-	-	2,027	-	2,027
Other income	62	-	-	100	162
Finance income	28	-	-	2	30
Segment revenue and other income	**90**	**-**	**2,027**	**102**	**2,219**
Inter-segment revenue	-	-	-	(100)	(100)
Segment revenue and other income from external customers	**90**	**-**	**2,027**	**2**	**2,119**
Loss from jointly controlled entity	-	(150)	-	-	(150)
(Loss)/ profit before taxation	**(589)**	**(231)**	**556**	**(7,642)**	**(7,906)**
Taxation	4	-	(97)	-	(93)
Net (loss)/profit attributable to shareholders	**(585)**	**(231)**	**459**	**(7,642)**	**(7,999)**

Borrowing costs of $189,193 were capitalised in the Kazakh segment during the period. Amortisation of $121,576 of assets held in the Corporate segment were also capitalised in the Kazakh segment during the period.

(tabular amounts in thousands of US dollars)

The segment assets at December 31, 2010 and capital expenditures for the 3 months ended 31 March 2010 are as follows:

	Kazakhstan $'000	Tajikistan $'000	Uzbekistan $'000	Other and Corporate $'000	Interim consolidated $'000
Total assets	117,144	35,683	14,203	100,718	267,748
Cash expenditure on exploration & evaluation assets, property, plant and equipment	2,140	2	2,261	40	4,443

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.

	Number of options	Weighted average exercise price $
Outstanding at January 1, 2011	22,263,000	1.65
Granted	450,000	1.95
Forfeited	-	n/a
Exercised	-	n/a
Expired	-	n/a
Outstanding at March 31, 2011	22,713,000	1.66
Exercisable at March 31, 2011	14,564,000	1.79

(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	3,552,000	0.83
Forfeited	-	n/a
Exercised	-	n/a
Expired	(51,000)	0.90
Outstanding at March 31, 2010	15,207,000	1.54
Exercisable at March 31, 2010	8,612,000	2.02

A charge for the value of services of $1,293,566 (2010 - $1,193,658) was recorded for the period.

Warrants

The following tables summarize the warrant activity for the period ended March 31, 2011 and March 31, 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	(795,000)	C$3.25
Outstanding at March 31, 2011	9,488,455	4.59
Exercisable at March 31, 2011	9,488,455	4.59
Outstanding at January 1, 2010	12,783,455	3.73
Granted	-	n/a
Forfeited	-	n/a
Exercised	-	n/a
Expired	-	n/a
Outstanding at March 31, 2010	12,783,455	3.73
Exercisable at March 31, 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.

(tabular amounts in thousands of US dollars)

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 are as follows:

	March 31, 2011 $'000	**December 31, 2010 $'000**
Capital assets	5,094	5,107
Tax losses	(1,123)	(1,048)
Other	(15)	11
	3,956	4,070

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

	March 31, 2011 $'000	**March 31, 2010 $'000**
Loss before income taxes	(6,398)	(7,906)
Income tax rate	20%	20%
Expected income tax (recovery)	(1,280)	(1,581)
Increase / (decrease) resulting from:		
Non-deductible expenses	279	160
Impact of effective tax rates in other foreign jurisdictions	779	1,257
Losses and tax assets not utilised/recognised	75	250
Other	44	7
	(103)	93
Current income tax expense	11	-
Deferred tax (recovery) / expense	(114)	93
	(103)	93

(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 $
Period ended March 31, 2011			
Loss attributable to ordinary shareholders			
– Basic and diluted	(6,295)	260,630	(0.02)
Period ended March 31, 2010			
Loss attributable to ordinary shareholders			
– Basic and diluted	(7,999)	163,543	(0.05)

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.

(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
At December 31, 2010					
Cost	101,349	25,171	1,780	1,801	130,101
Accumulated depreciation	(10,423)	(3,048)	(532)	(445)	(14,448)
Net book amount	90,926	22,123	1,248	1,356	115,653
Period ended March 31, 2011					
Opening net book amount	90,926	22,123	1,248	1,356	115,653
Additions	8,526	166	792	94	9,578
Disposals	-	-	(29)	(200)	(229)
Depreciation charge	(1,698)	(694)	(353)	(69)	(2,814)
Accumulated depreciation on disposal	-	-	5	57	62
Closing net book amount	97,754	21,595	1,663	1,238	122,250
At March 31, 2011					
Cost	109,875	25,337	2,543	1,695	139,450
Accumulated depreciation	(12,121)	(3,742)	(880)	(457)	(17,200)
Net book amount	97,754	21,595	1,663	1,238	122,250
Assets under construction at net book amount included in above:					
At March 31, 2011	32,296	-	-	-	32,296
At December 31, 2010	26,612	-	-	-	26,612

(tabular amounts in thousands of US dollars)

8 Intangible assets

	Other intangible asset $'000	Exploration and evaluation assets $'000	Total $'000
At December 31, 2010			
Cost	5,553	12,332	17,885
Accumulated amortisation and impairment	(993)	-	(993)
Net book amount	4,560	12,332	16,892
Period ended March 31, 2011			
Opening net book amount	4,560	12,332	16,892
Additions	-	1,940	1,940
Amortisation charge	(94)	-	(94)
Closing net book amount	4,466	14,272	18,738
At March 31, 2011			
Cost	5,553	14,272	19,825
Accumulated amortisation and impairment	(1,087)	-	(1,087)
Net book amount	4,466	14,272	18,738

(tabular amounts in thousands of US dollars)

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:

	March 31, 2011 $'000	December 31, 2010 $'000
Balance, beginning of year	35,460	21,727
Share of loss	(209)	(634)
Movement in deferred gain	-	40
Contributions made on behalf of jointly controlled entity	2,928	14,327
Balance, end of period / year	38,179	35,460

10 Financial liabilities – borrowings

	Effective interest rate %	Maturity date	March 31, 2011 $'000	December 31, 2010 $'000
Current				
Short-term portion of long-term loans	19 – 23 p.a.	2011	6,005	5,047
Non-current				
Long-term loans	19 – 23 p.a.	2012	1,950	2,853
			7,955	7,900

	$'000
Balance at January 1, 2011	7,900
Movement in exchange	11
Principal repayments	(86)
Amortisation of debt discount during the period	130
Balance at March 31, 2011	7,955

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%.

(tabular amounts in thousands of US dollars)

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 March 31, 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 (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

	March 31, 2011 Number	December 31, 2010 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, 2010	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
At December 31, 2010 and at March 31, 2011	260,629,769	26,063	297,222

(tabular amounts in thousands of US dollars)

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 period ended March 31, 2011 was $765,362 (March 31, 2010 – $541,849).

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 and has consulted on certain reservoir modelling work on projects in Tajikistan and Uzbekistan. Total fees for the period ended March 31, 2011 were $11,422 (March 31, 2010 – $27,000).

13 Changes in working capital

	Period ended	
	March 31, 2011 $'000	**March 31, 2010 $'000**
Trade and other receivables	450	(111)
Inventories	(331)	(71)
Trade and other payables	(571)	(1,060)
Change in non-cash working capital	(452)	(1,242)
Non-cash transactions	78	(554)
Net changes in non-cash working capital	(374)	(1,796)

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

	Period ended	
	March 31, 2011 $'000	**March 31, 2010 $'000**
Operating activities	(322)	(1,786)
Investing activities	(52)	(10)
Balance	(374)	(1,796)

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. With respect to 2011, a work program amounting to $120,000 has been agreed, which has been fulfilled through payments amounting to $513,473 during the 3 months ended March 31, 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 $5,151,238 during the 3 months ended March 31, 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^2) 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).

(tabular amounts in thousands of US dollars)

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 $273,000 has been agreed, which has been fulfilled through payments amounting to $1,497,988 during the 3 months ended March 31, 2011.

Operating leases

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

	Total	Less than 1 year	1 – 3 years
	$'000	$'000	$'000
Operating leases	759	433	326