

# **Tethys Petroleum Limited**

Interim Consolidated Financial Statements  
(Unaudited)

**March 31, 2010**

(in thousands of US dollars)

# Tethys Petroleum Limited

## Consolidated Statement of Financial Position

(Unaudited)

(in thousands of US Dollars)

|  |      | As at             |                      |
|--|------|-------------------|----------------------|
|  |      | March 31,<br>2010 | December 31,<br>2009 |
|  | Note | \$                | \$                   |
| <b>Non-current assets</b>                                    |      |                   |                      |
| Property, plant and equipment                                | 7    | 75,356            | 73,171               |
| Intangible assets  | 8    | 26,186            | 24,378               |
| Investments  |      | 687               | 659                  |
| Prepays and other receivables                                |      | 6,491             | 5,171                |
| Loan receivable from jointly controlled entity               | 9    | 23,897            | 21,727               |
|  |      | <u>132,617</u>    | <u>125,106</u>       |
| <b>Current assets</b>  |      |                   |                      |
| Inventories  |      | 2,439             | 2,368                |
| Prepays and other receivables                                |      | 2,422             | 2,311                |
| Cash and cash equivalents                                    |      | 48,927            | 7,297                |
|  |      | <u>53,788</u>     | <u>11,976</u>        |
| <b>Total assets</b>  |      | <u>186,405</u>    | <u>137,082</u>       |
| <b>Equity attributable to shareholders</b>                   |      |                   |                      |
| Share capital  | 11   | 18,717            | 13,455               |
| Share premium  | 11   | 206,258           | 153,748              |
| Other reserves   |      | 28,968            | 27,775               |
| Accumulated deficit  |      | (96,373)          | (88,374)             |
| <b>Total equity</b>  |      | <u>157,570</u>    | <u>106,604</u>       |
| <b>Non-current liabilities</b>                               |      |                   |                      |
| Deferred gain on sale of assets to jointly controlled entity |      | 3,698             | 3,659                |
| Financial liabilities - borrowings                           | 10   | 8,031             | 9,324                |
| Shares to be issued  |      | -                 | 3,750                |
| Deferred taxation  | 5    | 692               | 598                  |
| Trade and other payables                                     |      | 838               | 808                  |
| Asset retirement obligations                                 |      | 160               | 206                  |
|  |      | <u>13,419</u>     | <u>18,345</u>        |
| <b>Current liabilities</b>                                   |      |                   |                      |
| Financial liabilities - borrowings                           | 10   | 3,789             | 1,086                |
| Derivative financial instruments - warrants                  |      | 3,405             | 1,053                |
| Derivative financial instruments – interest rate swap        |      | 292               | 95                   |
| Deferred revenue   |      | 2,204             | 3,113                |
| Trade and other payables                                     |      | 5,726             | 6,786                |
|  |      | <u>15,416</u>     | <u>12,133</u>        |
| <b>Total liabilities</b>                                     |      | <u>28,835</u>     | <u>30,478</u>        |
| <b>Total shareholders' equity and liabilities</b>            |      | <u>186,405</u>    | <u>137,082</u>       |

Commitments and contingencies

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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 14, 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 months ended March 31

(in thousands of US Dollars, except for per share data)

|  | Note | 2010<br>\$     | 2009<br>\$     |
|--|------|----------------|----------------|
| Sales and other operating revenues   |      | 2,116          | 529            |
| Finance income   |      | 3              | 30             |
| Total revenue and other income   |      | <u>2,119</u>   | <u>559</u>     |
| Production expenditures  |      | (974)          | (285)          |
| Depreciation, depletion and amortization   |      | (692)          | (517)          |
| Exploration and evaluation expenditure written off                                     |      | -              | (17)           |
| Listing expenses   | 12   | (626)          | -              |
| Administrative expenses  |      | (4,775)        | (3,720)        |
| Foreign exchange gains / (losses) net  |      | 14             | (1,753)        |
| Fair value gain / (loss) on derivative financial instrument                            |      | (2,501)        | 40             |
| Loss from jointly controlled entity  |      | (150)          | -              |
| Finance costs  |      | <u>(321)</u>   | <u>(323)</u>   |
| <b>Loss before taxation</b>  |      | (7,906)        | (6,016)        |
| Taxation   | 5    | <u>(93)</u>    | -              |
| <b>Net loss and comprehensive loss for the period<br/>attributable to shareholders</b> |      | <u>(7,999)</u> | <u>(6,016)</u> |
| <b>Loss per share attributable to shareholders</b>                                     |      |                |                |
| Basic and diluted  | 6    | <u>(0.05)</u>  | <u>(0.09)</u>  |

No dividends were paid or are declared for the period  
(2009– \$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 thousands of US dollars)

|   | Note | Attributable to shareholders |                     |                           |                       |                        | Total equity<br>\$ |
|---|------|------------------------------|---------------------|---------------------------|-----------------------|------------------------|--------------------|
|   |      | Share capital<br>\$          | Share premium<br>\$ | Accumulated deficit<br>\$ | Option reserves<br>\$ | Warrant reserves<br>\$ |                    |
| <b>Balance at January 1, 2009</b>           |      | 6,639                        | 138,598             | (66,654)                  | 8,592                 | 16,555                 | 103,730            |
| Comprehensive loss for the period           |      | -                            | -                   | (6,016)                   | -                     | -                      | (6,016)            |
| <b>Transactions with shareholders</b>       |      |                              |                     |                           |                       |                        |                    |
| Issue of share capital                      |      | 140                          | 701                 | -                         | -                     | -                      | 841                |
| Share-based payments                        |      | -                            | -                   | -                         | 704                   | -                      | 704                |
| <b>Total transactions with shareholders</b> |      | 140                          | 701                 | -                         | 704                   | -                      | 1,545              |
| <b>Balance at March 31, 2009</b>            |      | 6,779                        | 139,299             | (72,670)                  | 9,296                 | 16,555                 | 99,259             |
| Comprehensive loss for the period           |      | -                            | -                   | (15,704)                  | -                     | -                      | (15,704)           |
| <b>Transactions with shareholders</b>       |      |                              |                     |                           |                       |                        |                    |
| Issue of share capital                      |      | 6,676                        | 16,544              | -                         | -                     | -                      | 23,220             |
| Cost of share issue                         |      | -                            | (2,095)             | -                         | -                     | -                      | (2,095)            |
| Share-based payments                        |      | -                            | -                   | -                         | 1,924                 | -                      | 1,924              |
| <b>Total transactions with shareholders</b> |      | 6,676                        | 14,449              | -                         | 1,924                 | -                      | 23,049             |
| <b>Balance at December 31, 2009</b>         |      | 13,455                       | 153,748             | (88,374)                  | 11,220                | 16,555                 | 106,604            |
| Comprehensive loss for the period           |      | -                            | -                   | (7,999)                   | -                     | -                      | (7,999)            |
| <b>Transactions with shareholders</b>       |      |                              |                     |                           |                       |                        |                    |
| Issue of share capital                      |      | 5,262                        | 54,663              | -                         | -                     | -                      | 59,925             |
| Cost of share issue                         |      | -                            | (2,153)             | -                         | -                     | -                      | (2,153)            |
| Share-based payments                        | 4    | -                            | -                   | -                         | 1,193                 | -                      | 1,193              |
| <b>Total transactions with shareholders</b> |      | 5,262                        | 52,510              | -                         | 1,193                 | -                      | 58,965             |
| <b>Balance at March 31, 2010</b>            |      | 18,717                       | 206,258             | (96,373)                  | 12,413                | 16,555                 | 157,570            |

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 thousands of US dollars)

|  | Note | 2010<br>\$     | 2009<br>\$     |
|--|------|----------------|----------------|
| <b>Cash flow from operating activities</b>                           |      |                |                |
| Loss before taxation for the period                                  |      | (7,906)        | (6,016)        |
| Adjustments for  |      |                |                |
| Share based payments   |      | 1,193          | 704            |
| Net finance cost   |      | 309            | 293            |
| Unsuccessful exploration and evaluation expenditures                 |      | -              | 17             |
| Depreciation, depletion and amortization                             |      | 692            | 517            |
| Fair value gain (loss) on derivative financial instrument            |      | 2,501          | (40)           |
| Listing expenses   |      | 351            | -              |
| Net unrealised foreign exchange loss                                 |      | 33             | 1,250          |
| Loss from jointly controlled entity                                  |      | 150            | -              |
| Deferred revenue   |      | (909)          | -              |
| Net change in non-cash working capital                               | 14   | (1,786)        | (1,250)        |
| <b>Net cash used in operating activities</b>                         |      | <u>(5,372)</u> | <u>(4,525)</u> |
| <b>Cash flow from investing activities</b>                           |      |                |                |
| Interest received  |      | 3              | 30             |
| Expenditure on exploration and evaluation assets                     |      | (1,770)        | (5,950)        |
| Expenditures on property, plant and equipment                        |      | (2,673)        | (4,287)        |
| Investment in restricted cash  |      | (28)           | (8)            |
| Payments made on behalf of jointly controlled entity                 |      | (2,280)        | -              |
| Movement in advances to construction contractors                     |      | (1,027)        | 920            |
| Value added tax receivable   |      | (451)          | (75)           |
| Net change in non-cash working capital                               | 14   | (10)           | 93             |
| <b>Net cash used in investing activities</b>                         |      | <u>(8,236)</u> | <u>(9,277)</u> |
| <b>Cash flow from financing activities</b>                           |      |                |                |
| Proceeds from issuance of long term borrowings                       |      | 1,840          | -              |
| Repayment of long-term borrowings                                    |      | (347)          | (212)          |
| Interest paid on long-term borrowings and other non-current payables |      | (193)          | (162)          |
| Other non-current liabilities  |      | (70)           | (22)           |
| Proceeds from issuance of equity, net of issue costs                 |      | 54,022         | -              |
| <b>Net cash generated from financing activities</b>                  |      | <u>55,252</u>  | <u>(396)</u>   |
| Effects of exchange rate changes on cash and cash equivalents        |      | (14)           | (36)           |
| <b>Net increase / (decrease) in cash and cash equivalents</b>        |      | 41,630         | (14,234)       |
| Cash and cash equivalents at beginning of the period                 |      | 7,297          | 22,200         |
| <b>Cash and cash equivalents at end of the period</b>                |      | <u>48,927</u>  | <u>7,966</u>   |

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

# Tethys Petroleum Limited

## Notes to Interim Consolidated Financial Statements

(Unaudited)

For the three months ended March 31, 2010

(tabular amounts in thousands of US dollars)

### 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).

### 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 year 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.

#### New and amended accounting standards

- IFRS 3 ‘Business Combinations’ - the Company has adopted the revised version of this standard, with effect from 1 January 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.

# **Tethys Petroleum Limited**

## **Notes to Interim Consolidated Financial Statements**

(Unaudited)

For the three months ended March 31, 2010

(tabular amounts in thousands of US dollars)

- 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.

### **Going concern**

Since inception, the Company has incurred significant losses from operations and negative cash flows from operating activities, and has an accumulated deficit at March 31, 2010. The Company has significant short-term and longer term contractual commitments that will necessitate cash outflows. During the first quarter of 2010 the Company raised \$55.2 million (net of transactions costs) to fund its development and exploration programmes as well as its administrative and operating expenses. In the longer term, the ability of the Company to successfully carry out its business plan will be dependent upon its ability not only to maintain the current level of gas and oil production but also to achieve further production of commercial oil and gas and to control the costs of operating and capital expenditures. If in the future, the Company is unable to generate significant revenues and cash flows from operations it may need to seek further funding from its shareholders or alternative sources. There can be no assurances that management will be successful with these initiatives. While these factors create doubt about the Company’s ability to continue as a going concern, management is confident of achieving the Company’s short term plans.

### **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 Kulbas 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 the period ended March 31, 2010 are as follows:

# Tethys Petroleum Limited

## Notes to Interim Consolidated Financial Statements

(Unaudited)

For the three months ended March 31, 2010

(tabular amounts in thousands of US dollars)

|   | Kazakhstan   | Tajikistan   | Uzbekistan   | Other and Corporate | Interim consolidated |
|---|--------------|--------------|--------------|---------------------|----------------------|
|   | \$           | \$           | \$           | \$                  | \$                   |
| Refined product sales   | -            | -            | 2,027        | -                   | 2,027                |
| Other income  | 810          | -            | -            | 431                 | 1,241                |
| Finance income  | 53           | -            | -            | 2                   | 55                   |
| <b>Segment revenue and other income</b>                         | <b>863</b>   | <b>-</b>     | <b>2,027</b> | <b>433</b>          | <b>3,323</b>         |
| Inter-segment revenue   | (773)        | -            | -            | (431)               | (1,204)              |
| <b>Segment revenue and other income from external customers</b> | <b>90</b>    | <b>-</b>     | <b>2,027</b> | <b>2</b>            | <b>2,119</b>         |
| Loss from jointly controlled entity                             | -            | (150)        | -            | -                   | (150)                |
| <b>(Loss)/ profit before taxation</b>                           | <b>(589)</b> | <b>(231)</b> | <b>556</b>   | <b>(7,642)</b>      | <b>(7,906)</b>       |
| Taxation  | 4            | -            | (97)         | -                   | (93)                 |
| <b>Net (loss)/profit attributable to shareholders</b>           | <b>(585)</b> | <b>(231)</b> | <b>459</b>   | <b>(7,642)</b>      | <b>(7,999)</b>       |

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.

The segment results for the period ended March 31, 2009 are as follows:

|   | Kazakhstan     | Tajikistan   | Uzbekistan | Other and Corporate | Interim consolidated |
|---|----------------|--------------|------------|---------------------|----------------------|
|   | \$             | \$           | \$         | \$                  | \$                   |
| Gas sales   | 494            | 35           | -          | -                   | 529                  |
| Other income  | 907            | -            | -          | 376                 | 1,283                |
| Finance income  | 272            | -            | -          | 20                  | 292                  |
| <b>Segment revenue and other income</b>                         | <b>1,673</b>   | <b>35</b>    | <b>-</b>   | <b>396</b>          | <b>2,104</b>         |
| Inter-segment revenue   | (1,169)        | -            | -          | (376)               | (1,545)              |
| <b>Segment revenue and other income from external customers</b> | <b>504</b>     | <b>35</b>    | <b>-</b>   | <b>20</b>           | <b>559</b>           |
| <b>Loss before taxation</b>                                     | <b>(2,923)</b> | <b>(219)</b> | <b>-</b>   | <b>(2,874)</b>      | <b>(6,016)</b>       |
| Taxation  | -              | -            | -          | -                   | -                    |
| <b>Net loss attributable to shareholders</b>                    | <b>(2,923)</b> | <b>(219)</b> | <b>-</b>   | <b>(2,874)</b>      | <b>(6,016)</b>       |



# Tethys Petroleum Limited

## Notes to Interim Consolidated Financial Statements

(Unaudited)

For the three months ended March 31, 2010

(tabular amounts in thousands of US dollars)

The segment assets at March 31, 2010 and capital expenditures for the period then ended are as follows:

|   | <b>Kazakhstan</b> | <b>Tajikistan</b> | <b>Uzbekistan</b> | <b>Other and<br/>Corporate</b> | <b>Interim<br/>consolidated</b> |
|---|-------------------|-------------------|-------------------|--------------------------------|---------------------------------|
|   | \$                | \$                | \$                | \$                             | \$                              |
| Total assets  | 78,346            | 24,134            | 13,562            | 70,363                         | 186,405                         |
| Cash expenditure to<br>exploration & evaluation<br>assets, property, plant<br>and equipment | 2,140             | 2                 | 2,261             | 40                             | 4,443                           |

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 three months ended March 31, 2009 are as follows:

|   | <b>Kazakhstan</b> | <b>Tajikistan</b> | <b>Uzbekistan</b> | <b>Other and<br/>Corporate</b> | <b>Interim<br/>consolidated</b> |
|---|-------------------|-------------------|-------------------|--------------------------------|---------------------------------|
|   | \$                | \$                | \$                | \$                             | \$                              |
| Total assets  | 72,152            | 21,984            | 11,015            | 31,931                         | 137,082                         |
| Cash expenditure on<br>exploration & evaluation<br>assets, property, plant<br>and equipment | 1,683             | 5,851             | -                 | 2,703                          | 10,237                          |

The segment assets attributable to the Kazakhstan segment consist mainly of capital additions related to the Kyzylai 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. The other and corporate segment liabilities consist mainly of the loans obtained to finance the purchase of two drilling rigs.

# Tethys Petroleum Limited

## Notes to Interim Consolidated Financial Statements

(Unaudited)

For the three months ended March 31, 2010

(tabular amounts in thousands of US dollars)

### 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 quarter ended March 31, 2010, the Company issued 3,552,000 options to various officers and employees of the Company with a weighted average exercise prices of \$0.83 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 and the total number of options outstanding at March 31, 2010 was 15,207,000. A charge for the value of services of \$1.193m was recorded for the period.

During the quarter ended March 31, 2009, the Company issued 330,000 options to various officers and employees of the Company with exercise prices of \$2.50 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 and the total number of options outstanding at March 31, 2009 was 7,005,000. A charge for the value of services of \$0.7m was recorded for the period.

#### *Warrants*

During the period ended March 31, 2010, there were no warrants issued (March 31, 2009 – nil). At March 31, 2010 there were 12,783,455 warrants outstanding (March 31, 2009 – 11,636,956).

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 March 31, 2010 are as follows:

|                | <b>March 31,<br/>2010</b> |
|----------------|---------------------------|
| Capital assets | \$ (1,808)                |
| Tax losses     | 768                       |
| Other          | 348                       |
|                | <u>(692)</u>              |

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

# Tethys Petroleum Limited

## Notes to Interim Consolidated Financial Statements

(Unaudited)

For the three months ended March 31, 2010

(tabular amounts in thousands of US dollars)

|  | <b>March 31,<br/>2010</b> |
|--|---------------------------|
|  | <b>\$</b>                 |
| Loss before income taxes                                     | (7,906)                   |
| Income tax rate  | 20%                       |
| Expected income tax expense (recovery)                       | <u>(1,581)</u>            |
| <i>Increase / (decrease) resulting from:</i>                 |                           |
| Non-deductible expenses                                      | 160                       |
| Impact of effective tax rates in other foreign jurisdictions | 1,254                     |
| Rate reduction on future income taxes                        | 3                         |
| Losses and tax assets not utilised/recognised                | 250                       |
| Other  | 7                         |
|  | <u>93</u>                 |
| Current income tax expense (recovery)                        | -                         |
| Deferred tax expense (recovery)                              | 93                        |
|  | <u>93</u>                 |

## 6 Loss per share

### Basic and diluted loss per share

|  | <b>Loss for the<br/>period<br/>\$</b> | <b>Weighted<br/>average<br/>number of<br/>shares<br/>(thousands)</b> | <b>Per share<br/>amount<br/>\$</b> |
|--|---------------------------------------|--|------------------------------------|
| <b>Period ended March 31, 2010</b>         |                                       |  |                                    |
| Loss attributable to ordinary shareholders |                                       |  |                                    |
| – Basic and diluted                        | <u>(7,999)</u>                        | <u>163,543</u>   | <u>(0.05)</u>                      |
| <b>Period ended March 31, 2009</b>         |                                       |  |                                    |
| Loss attributable to ordinary shareholders |                                       |  |                                    |
| – Basic and diluted                        | <u>(6,016)</u>                        | <u>67,591</u>  | <u>(0.09)</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 Interim Consolidated Financial Statements

(Unaudited)

For the three months ended March 31, 2010

(tabular amounts in thousands of US dollars)

### 7 Property, plant and equipment

|   | Oil and gas<br>properties<br>\$ | Oil and gas<br>equipment<br>\$ | Vehicles<br>\$ | Office and<br>computer<br>equipment<br>\$ | Total<br>\$   |
|---|---------------------------------|--------------------------------|----------------|---|---------------|
| <b>At December 31, 2009</b>                                       |                                 |                                |                |   |               |
| Cost  | 54,462                          | 24,893                         | 1,324          | 1,099                                     | 81,778        |
| Accumulated depreciation  | (6,935)                         | (1,105)                        | (304)          | (263)                                     | (8,607)       |
| <b>Net book amount</b>  | <b>47,527</b>                   | <b>23,788</b>                  | <b>1,020</b>   | <b>836</b>                                | <b>73,171</b> |
| <b>Period ended March 31, 2010</b>                                |                                 |                                |                |   |               |
| Opening net book amount   | 47,527                          | 23,788                         | 1,020          | 836                                       | 73,171        |
| Additions   | 2,567                           | -                              | 246            | 110                                       | 2,923         |
| Depreciation charge   | (245)                           | (405)                          | (58)           | (30)                                      | (738)         |
| <b>Closing net book amount</b>                                    | <b>49,849</b>                   | <b>23,383</b>                  | <b>1,208</b>   | <b>916</b>                                | <b>75,356</b> |
| <b>At March 31, 2010</b>  |                                 |                                |                |   |               |
| Cost  | 57,029                          | 24,893                         | 1,570          | 1,209                                     | 84,701        |
| Accumulated depreciation  | (7,180)                         | (1,510)                        | (362)          | (293)                                     | (9,345)       |
| <b>Net book amount</b>  | <b>49,849</b>                   | <b>23,383</b>                  | <b>1,208</b>   | <b>916</b>                                | <b>75,356</b> |
| Asset retirement obligation at net book amount included in above: |                                 |                                |                |   |               |
| At March 31, 2010   | 18                              | -                              | -              | -   | 18            |
| At December 31, 2009  | 18                              | -                              | -              | -   | 18            |

# Tethys Petroleum Limited

## Notes to Interim Consolidated Financial Statements

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### 8 Intangible assets

|   | Other intangible<br>asset<br>\$ | Exploration and<br>evaluation assets<br>\$ | Total<br>\$   |
|---|---------------------------------|--|---------------|
| <b>At December 31, 2009</b>   |                                 |  |               |
| Cost  | 5,553                           | 19,331                                     | 24,884        |
| Accumulated amortisation and impairment                                   | (506)                           | -  | (506)         |
| <b>Net book amount</b>  | <b>5,047</b>                    | <b>19,331</b>                              | <b>24,378</b> |
| <b>Period ended March 31, 2010</b>  |                                 |  |               |
| Opening net book amount   | 5,047                           | 19,331                                     | 24,378        |
| Additions   | -                               | 1,959                                      | 1,959         |
| Amortisation charge   | (151)                           | -  | (151)         |
| <b>Closing net book amount</b>  | <b>4,896</b>                    | <b>21,290</b>                              | <b>26,186</b> |
| <b>At March 31, 2010</b>  |                                 |  |               |
| Cost  | 5,553                           | 21,290                                     | 26,843        |
| Accumulated amortisation and impairment                                   | (657)                           | -  | (657)         |
| <b>Net book amount</b>  | <b>4,896</b>                    | <b>21,290</b>                              | <b>26,186</b> |
| Asset retirement obligation asset at net book amount<br>included in above |                                 |  |               |
| At March 31, 2010   | -                               | 8  | 8             |
| At December 31, 2009  | -                               | 47   | 47            |

# Tethys Petroleum Limited

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### 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:

|                                    |               |
|------------------------------------|---------------|
|                                    | \$            |
| Gross receivable at March 31, 2010 | 24,047        |
| Net share of loss for the period   | <u>(150)</u>  |
| Net receivable at March 31, 2010   | <u>23,897</u> |

### 10 Financial liabilities – borrowings

|  | Effective<br>interest rate<br>% | Maturity<br>date | March 31,<br>2009<br>\$ | December 31,<br>2009<br>\$ |
|--|---------------------------------|------------------|-------------------------|----------------------------|
| <b>Current</b>                           |                                 |                  |                         |                            |
| Short-term portion of<br>long-term loans | 19 – 23 p.a.                    | 2010             | 3,789                   | 1,086                      |
| <b>Non-current</b>                       |                                 |                  |                         |                            |
| Long-term loans                          | 19 – 23 p.a.                    | 2011<br>2012     | 5,479<br><u>2,552</u>   | 8,199<br><u>1,125</u>      |
|  |                                 |                  | <u>11,820</u>           | <u>10,410</u>              |

|   |               |
|---|---------------|
|   | \$            |
| Balance at January 1, 2010                      | 10,410        |
| Issue of loan notes                             | 2,000         |
| Debt discount and transaction costs             | (408)         |
| Movement in exchange                            | (25)          |
| Principal repayments                            | (347)         |
| Amortisation of debt discount during the period | <u>190</u>    |
|   | <u>11,820</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



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### 12 Events occurring after the reporting period

On November 9, 2009, Tethys announced its submission of a Form A1 listing application to the Hong Kong Stock Exchange (HKSE) with respect to a possible secondary listing of its ordinary shares on the main board of the HKSE. Subsequent to March 31, 2010, the Company has decided not to proceed with this listing. Deferred expenses in relation to the possible listing have been written off during the period.

### 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 March 31, 2010 was \$541,849 (March 31, 2009 – \$343,505).

#### 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, 2010 were \$27,000 (March 31, 2009 – \$136,103).

### 14 Changes in working capital

|   | Period ended      |                   |
|---|-------------------|-------------------|
|   | March 31,<br>2010 | March 31,<br>2009 |
| Trade and other receivables             | (111)             | (570)             |
| Inventories                             | (71)              | (116)             |
| Trade and other payables                | (1,060)           | (471)             |
| Change in non-cash working capital      | (1,242)           | (1,157)           |
| Non-cash transactions                   | (554)             | -                 |
| Net changes in non-cash working capital | <u>(1,796)</u>    | <u>(1,157)</u>    |

The principal non-cash transactions are related to the royalty entitlement as disclosed on Note 10.



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

|                      | Period ended      |                   |
|----------------------|-------------------|-------------------|
|                      | March 31,<br>2010 | March 31,<br>2009 |
| Operating activities | (1,786)           | (1,250)           |
| Investing activities | (10)              | 93                |
| Balance              | <u>(1,796)</u>    | <u>(1,157)</u>    |

## 15 Commitments and contingencies

### Kazakhstan

#### *Kyzyloi Field and the Kyzyloi Field Licence and Production Contract*

The Kyzyloi Field Licence and Production Contract for production of gas on the Kyzyloi Field was initially issued by the Kazakh government to the state holding company Kazakhgas on June 12, 1997 and was transferred to Tethys Aral Gas (TAG) on May 15, 2001. The contract was entered into between the MEMR and TAG on May 5, 2005, initially until June 12, 2007. However, in January 2005, the Ministry of Energy and Mineral Resources (MEMR) agreed to extend the contract until June 2014. Gas production commenced under the contract in December 2007.

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 \$2.7 million 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 \$100,000. As at March 31, 2010, no expenditure had as yet been incurred in relation to this work programme.

#### *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. The Akkulka Exploration Licence initially granted TAG exploration rights for a period of five years and both the Akkulka Exploration Licence and Contract were valid until September 17, 2003. 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

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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 AKK Exploration was approved which committed the Company to spend \$11,190,000 in 2010 of which \$1,514,000 had been incurred by March 31 2010.

### *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 US\$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 (note 18). The 2010 minimum work program was agreed with a capital commitment of \$141,400. As at March 31, 2010, no expenditure had as yet been incurred in relation to this work programme.

### *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 with 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).

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 million which is outlined for one new 4,000 meter exploration well. As at March 31, 2010, no expenditure had yet been incurred in relation to the drilling of this well.

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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 US\$49,137 in relation to this balance. If and when commercial production commences, US\$88,666 is due in quarterly instalments until the remaining historical costs of US\$3,226,643 has been paid in full.

### Tajikistan

On June 13, 2008, the Company's (former) wholly owned subsidiary, Kulob Petroleum Limited ("KPL"), signed a Production Sharing Contract ("PSC") with the Government of the Republic of Tajikistan. Under the PSC, KPL will recover 100% of its costs from up to 70% of total production (the maximum allowed under the newly approved production sharing legislation of Tajikistan) and the remaining production (termed "Profit Oil and Gas") will be shared 70% to KPL and 30% to the Government whose share includes all taxes, levies and duties. The terms are fixed over the life of the PSC which is a minimum of 25 years.

Pursuant to the PSC, 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 will include 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 Sartzet fields. The minimum spend commitment under Phase 1 of the contract is US\$3,000,000. This expenditure was required to be met within 18 months of the effective date of the contract, which was December 13, 2009. This commitment was satisfied through the payment on January 2, 2009 of \$4,925,000 for a contract agreed on November 14, 2008 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 March 31, 2010, a total of \$5,935,000 had been advanced (including the \$4,925,000 above). Phase 2 of the seismic survey commenced in October 2009.

The Company's share of Phase 2 commitment is \$2,009,000.

### Operating leases

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

|                  | <b>Total</b> | <b>Less than 1 year</b> | <b>1 – 3 years</b> |
|------------------|--------------|-------------------------|--------------------|
|                  | <b>\$</b>    | <b>\$</b>               | <b>\$</b>          |
| Operating leases | 636          | 336                     | 300                |

