

Tethys Petroleum Limited

Annual Financial Information
December 31, 2013

The Tethys Petroleum Limited Annual Report and Accounts for 2013 consists of three documents as detailed below:

- 1) Management's Discussion & Analysis: this includes the documents required to be disclosed pursuant to National Instrument 51-102 of Canadian Securities Administrators "Continuous Disclosure Obligations" ("Canadian NI 51-102") in respect of an annual Management's Discussion & Analysis and the documents required to be disclosed pursuant to UK's Disclosure & Transparency Rules with respect to DTR 4.1 "Annual Financial Report" (DTR 4.1);
- 2) Annual financial information: this includes the Consolidated Financial Statements, the documents required to be disclosed pursuant to Canadian NI 51-102 with respect to an annual financial report and the documents required to be disclosed pursuant to DTR 4.1, Directors' Responsibility Statement and the Independent Auditor's Report to Tethys Petroleum Limited; and
- 3) The Annual Information Form ("AIF"): this includes the documents required to be disclosed pursuant to Canadian NI 51 – 102 and DTR 4.1 and the statement which is required to be presented in accordance with DTR 7.2 "Corporate Governance Statements".

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Responsibility Statement of the Directors in Respect of the Annual Report and Accounts

The accompanying consolidated financial statements and all the information in the Annual Report and Accounts are the responsibility of The Board of Directors. The consolidated financial statements have been prepared by management, acting on behalf of the Board of Directors, in accordance with the accounting policies described in the notes to the consolidated financial statements. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Financial Reporting Standards, appropriate in the circumstances, as issued by the International Accounting Standards Board. The consolidated financial information contained elsewhere in the Annual Report and Accounts has been reviewed to ensure consistency with that in the consolidated financial statements.

Management has developed and maintains systems of internal accounting controls, policies and procedures in order to provide reasonable assurance as to the reliability of the financial records and the safeguarding of assets.

External auditors, appointed by the shareholders of the Company, have examined the consolidated financial statements and have expressed an opinion on the consolidated statements. Their report is included with the consolidated financial statements.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board of Directors of the Company has established an Audit Committee, consisting of independent non-management directors, to review the consolidated financial statements with management and the auditors. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standard ("IFRSs"), give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Management Discussion & Analysis and the Annual Information Form include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

For and on behalf of the Board

Dr. D. Robson

Executive Chairman

March 31, 2014

D.S. Lay

Chief Financial Officer

March 31, 2014

Independent Auditor's Report to Tethys Petroleum Limited

We have audited the accompanying consolidated financial statements of Tethys Petroleum Limited ("the Company"), which comprise the consolidated statement of financial position as at 31 December 2013 and 31 December 2012, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

This report is made solely to the Company in accordance with the terms of our engagement. Our audit work 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. We have conferred on the Company's shareholders, as a body, in the engagement terms agreed with the Company, the right to rely on this report and to assert claims in relation thereto, on the basis that such right is enforceable subject to and in accordance with those engagement terms and the Contracts (Rights of Third Parties) Act 1999. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and, on the basis stated above, the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibility for the Consolidated Financial Statements

The directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to audit and to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the terms of our engagement letter dated November 6, 2013, International Standards on Auditing and International Standards on Auditing (UK and Ireland). Those standards require that we comply with ethical requirements, including the UK Ethical Standards for Auditors, and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

Scope of the Audit of the Consolidated Financial Statements

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements sufficient to give reasonable assurance that the consolidated financial statements are free from material misstatement, whether caused by fraud or error. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating: the appropriateness, to the group's circumstances, of the accounting policies used and whether these have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors, as well as the overall presentation of the consolidated financial statements.

In addition we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited consolidated financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on Consolidated Financial Statements

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at 31 December 2013 and 31 December 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.



Juliette Lowes
for and on behalf of KPMG Audit Plc, Statutory auditor¹
Chartered Accountants
March 31, 2014
15 Canada Square, London, E14 5GL, United Kingdom

¹ This designation is defined in and required by UK Audit Regulations

Tethys Petroleum Limited
Consolidated Statement of Financial Position
(in thousands of US dollars)

	Note	As at December 31	
		2013	2012
Non-current assets			
Deferred tax	10	322	-
Intangible assets	12	31,074	107,374
Property, plant and equipment	13	15,291	121,097
Restricted cash	14	660	1,543
Prepayments and other receivables	15	-	6,444
Investment in joint arrangements	17	4	1,116
		47,351	237,574
Current assets			
Inventories	18	-	2,046
Trade and other receivables	15	1,358	7,703
Advances	30	4,000	-
Loan receivable from jointly venture	16	-	2,403
Cash and cash equivalents	20	25,109	1,750
Restricted cash	14	475	477
Assets of a disposal group classified as held for sale	19	156,325	-
		187,267	14,379
Total assets		234,618	251,953
Equity			
Share capital	24	28,756	28,671
Share premium	24	307,295	306,725
Other reserves	24	42,621	41,705
Accumulated deficit		(182,533)	(165,385)
Non-controlling interest	25	6,454	8,437
Total equity		202,593	220,153
Non-current liabilities			
Financial liabilities - borrowings	21	-	3,688
Deferred taxation	10	-	2,912
Trade and other payables	22	-	351
Asset retirement obligations	23	-	524
		-	7,475
Current liabilities			
Financial liabilities - borrowings	21	4,965	13,625
Derivative financial instruments – warrants	21	17	523
Current taxation		144	233
Deferred revenue		-	1,713
Trade and other payables	22	4,946	8,231
Provisions	5	520	-
Liabilities of a disposal group classified as held for sale	19	21,433	-
		32,025	24,325
Total liabilities		32,025	31,800
Total equity and liabilities		234,618	251,953
Commitments and contingencies	28		

The notes on pages 8 to 57 form part of these consolidated financial statements. The consolidated financial statements were approved by the Board on March 31, 2014 and were signed on its behalf.

Dr. D Robson
Executive Chairman

D.S. Lay
Chief Financial Officer

Tethys Petroleum Limited

Consolidated Statement of Comprehensive Income (in thousands of US dollars)

	Note	Year ended December 31,	
		2013	2012 Restated ⁽¹⁾
Sales and other revenues	7	36,945	33,629
Sales expenses	2	(3,036)	-
Production expenses		(13,640)	(11,363)
Depreciation, depletion and amortization		(12,619)	(17,313)
Unsuccessful exploration and evaluation expenditures		-	(1,093)
Business development expenses		(2,695)	(858)
Administrative expenses	8	(18,703)	(18,942)
Transaction costs of assets held for sale	19	(611)	-
Share based payments	9	(862)	(2,932)
Gain on Tajik farm-out		8,214	-
Foreign exchange loss - net		(113)	(451)
Fair value gain on derivative financial instrument - net		830	53
Profit from jointly controlled entity	16	298	191
Finance costs - net	21	(1,460)	(1,083)
Loss before taxation from continuing operations		(7,452)	(20,162)
Taxation	10	(3,083)	(798)
Loss for the year from continuing operations		(10,535)	(20,960)
(Loss)/profit for the year from discontinued operations net of tax	5	(7,096)	56
Loss and total comprehensive income for the year		(17,631)	(20,904)
Loss and total comprehensive income attributable to:			
Shareholders		(17,148)	(20,423)
Non-controlling interest		(483)	(481)
Loss and total comprehensive income for the year		(17,631)	(20,904)
Loss per share attributable to shareholders:			
Basic and diluted – from continuing operations	11	(0.03)	(0.07)
Basic and diluted - from discontinued operations	11	(0.02)	-

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

(1) 2012 figures have been restated to exclude operations discontinued during 2013 (note 5)

The notes on pages 8 to 57 form part of these consolidated financial statements.

Tethys Petroleum Limited

Consolidated Statement of Changes in Equity

(in thousands of US dollars)

	Note	Attributable to shareholders					Non-controlling interest	Total equity
		Share capital	Share premium	Accumulated deficit	Option reserves	Warrant reserves		
Balance at January 1, 2012		28,669	306,725	(144,962)	21,975	16,555	8,918	237,880
Comprehensive loss for the year		-	-	(20,423)	-	-	(481)	(20,904)
Transactions with shareholders								
Share-based payments		-	-	-	3,142	-	-	3,142
Issue of warrants		-	-	-	-	37	-	37
Exercise of options		2	11	-	(4)	-	-	9
Cost of share issue		-	(11)	-	-	-	-	(11)
Total transactions with shareholders		2	-	-	3,138	37	-	3,177
Balance at January 1, 2013	24	28,671	306,725	(165,385)	25,113	16,592	8,437	220,153
Comprehensive loss for the year		-	-	(17,148)	-	-	(483)	(17,631)
Dividend paid to non-controlling interest		-	-	-	-	-	(1,500)	(1,500)
Transactions with shareholders								
Share-based payments		-	-	-	907	-	-	907
Issue of warrants		-	-	-	-	9	-	9
Exercise of options		85	570	-	-	-	-	655
Total transactions with shareholders		85	570	-	907	9	-	1,571
At December 31, 2013	24	28,756	307,295	(182,533)	26,020	16,601	6,454	202,593

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

The notes on pages 8 to 57 form part of these consolidated financial statements.

Tethys Petroleum Limited
Consolidated Statement of Cash Flows
(in thousands of US dollars)

	Note	Year ended December 31,	
		2013	2012 Restated
Cash flow from operating activities			
Loss before taxation from continuing operations		(7,452)	(20,162)
(Loss)/profit before tax from discontinued operations*	5	(8,150)	292
		(15,602)	(19,870)
Adjustments for			
Impairment charge in loss from discontinued operations	5	7,010	-
Share based payments	9	862	2,932
Net finance cost		1,460	1,083
Unsuccessful exploration and evaluation expenditures		-	955
Depreciation, depletion and amortization		13,534	18,424
Fair value gain on derivative financial instruments		(830)	(53)
Net unrealised foreign exchange (gain)/loss		(43)	46
Gain on Tajik farm-out		(8,214)	-
Profit from jointly controlled entity		(298)	(191)
Movement in deferred revenue		(1,191)	(126)
Net change in working capital	27	2,807	(1,842)
Cash (used in)/generated from operating activities		(505)	1,358
Corporation tax paid		(276)	-
Net cash (used in)/generated from operating activities		(781)	1,358
Cash flow from investing activities			
Interest received		216	6
Expenditure on exploration and evaluation assets		(4,529)	(7,764)
Expenditures on property, plant and equipment		(19,280)	(9,737)
Movement in restricted cash		(778)	272
Investment in jointly controlled entity		(4)	(3)
Repayment of loan receivable from jointly controlled entity		200	-
Proceeds of Tajik farm-out (net of costs)	13	62,959	-
Movement in advances to construction contractors		(1,081)	778
Other advances	30	(4,000)	-
Movement in value added tax receivable		(3,113)	2,995
Net change in working capital	27	170	(2,279)
Movement in asset retirement obligation		(253)	-
Net cash used in investing activities		30,507	(15,732)
Cash flow from financing activities			
Proceeds from issuance of borrowings, net of issue costs	21	4,714	15,670
Repayment of borrowings	21	(8,389)	(8,563)
Interest paid on borrowings		(2,360)	(1,433)
Proceeds from issuance of equity, net of issue costs		523	-
Movement in other non-current liabilities	20	(283)	(283)
Net cash (used in)/generated from financing activities		(5,795)	5,391
Effects of exchange rate changes on cash and cash equivalents		50	(13)
Net decrease in cash and cash equivalents		23,981	(8,996)
Cash and cash equivalents at beginning of the year		1,750	10,746
Cash and cash equivalents at end of the year		25,731	1,750
Cash and cash equivalents at end of the year comprises:			
Cash reclassified as assets of a disposal group held for sale	19	622	-
Cash and cash equivalents	20	25,109	1,750
		25,731	1,750

*The company has elected to present a statement of cash flows that analyses cash flows for both continuing and discontinued operations; amounts related to discontinued operations are disclosed in note 5. 2012 amounts have been restated for operations discontinued in 2013.

The notes on pages 8 to 57 form part of these consolidated financial statements.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(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") are 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, Republic of Tajikistan and Georgia. Tethys' principal activity is the acquisition of and exploration and development of crude oil and natural gas fields.

The Company has its primary listing on the Toronto Stock Exchange (TSX), a standard listing on the London Stock Exchange (LSE) and secondary listing on the Kazakhstan Stock Exchange ("KASE") in Almaty.

Statement of compliance

These consolidated financial statements have been prepared on a going concern basis under the historical cost convention except as modified by the revaluation of financial assets and financial liabilities at fair value through profit and loss and are in accordance with International Financial Reporting Standards ("IFRSs") and IFRIC interpretations issued by the IFRS Interpretations Committee and effective or issued and early adopted as at the time of preparing these consolidated financial statements.

These consolidated financial statements have also been prepared in accordance with the requirements of the Disclosure and Transparency Rules ('DTR') of the Financial Services Authority ('FSA') in the United Kingdom.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Areas where estimates are significant to the consolidated financial statements are disclosed in note 4.

2 Summary of significant accounting policies

Basis of preparation

The consolidated financial statements are presented in United States Dollars ('USD' or '\$'). Foreign operations are included in accordance with the policies set out in this note.

Discontinued operation

The results of the Uzbekistan segment have been disclosed as a discontinued operation and shown separately from the results of the Company's continuing operations in Kazakhstan, Tajikistan and Georgia. In accordance with the disclosure requirements for discontinued operations, the comparative figures in the Consolidated Statement of Comprehensive Income have been restated to be consistent with the current year presentation. Further details are given in note 5.

Tethys Petroleum Limited

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(tabular amounts in thousands of US dollars)

Disposal group held for sale

The Company has announced the sale of a 50% plus one share interest in the subsidiary company which owns its Kazakhstan businesses. The assets and liabilities of the Company's Kazakhstan businesses have therefore been grouped together in the Consolidated Statement of Financial Position as "assets of a disposal group held for sale" and shown as current assets and "liabilities of a disposal group held for sale" shown as current liabilities. In accordance with the relevant accounting requirements for assets held for sale the prior year comparative items have not been restated. Further details are given in note 19.

Going concern

The Board has considered the Company's current activities, funding position and projected funding requirements for the period of at least twelve months from the date of approval of the consolidated financial statements, in determining the ability of the Company to adopt the going concern basis in preparing the consolidated financial statements for the year ended December 31 2013.

The Company's activities, together with the factors likely to affect its future development, performance and position are set out in the Annual Information Form and the Management Discussion & Analysis document. The financial position of the Company, its cash flows and liquidity position are as set out in these audited consolidated financial statements and discussed further in the Management Discussion & Analysis document.

The Company reports a loss for the twelve months ended December 31, 2013 of USD17.63m (2012: USD20.9m). As at February 28, 2014, the Company held cash of USD16.7m and the maturing rig loan balance of USD 4.965m has been fully repaid. As at March 31 2014, it had been replaced by a new secured loan amounting to USD 7.0m.

Following resolution of mechanical issues with respect to production in Kazakhstan, the Company is confident that production will be able to be maintained at 3,000 barrels per day, which will enable it, in the short term, to complete its current programmes with respect to AKD08 and development of the 2 new shallow gas wells, AKK17 and AKK18.

On November 2 2013, the Company agreed the sale of a 50% interest in its Kazakhstan business to SinoHan Oil and Gas Investment Number 6 B.V., part of the Han Hong Private Equity Management Company Limited, a Beijing, PRC based private equity fund. The sale is subject to Kazakh State approvals, including the waiver on pre-emption (Article 36). Closing will take place once these approvals are received. Timing of these approvals cannot be assured. Upon completion, the Company will receive proceeds of USD75 million. Under the terms of pre-emption, should the Kazakh Government decide not to approve, then it is obliged to complete on the same purchase terms. Although the Company is hopeful that completion will take place in Q2 2014, completion may be delayed. The Company is not reliant on the timing of the proceeds.

The Company has certain responsibilities with respect to the jointly operated Tajik investment. The major capital spend forecast for 2014 is with respect to the seismic work programme, which is currently delayed due to ongoing negotiations with the proposed contractor of the seismic work programme, which may necessitate a re-tender. Until the Company receives anticipated proceeds from either the Kazakh sale or alternative funding options under current consideration, it is, to a certain extent, reliant on its reduced contribution to the funding of the Tajik Bokhtar investment as a result of the delay to the seismic work programme.

Tethys Petroleum Limited

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(tabular amounts in thousands of US dollars)

Management is confident that the Company has sufficient capital resources. However, as there can be no assurance with respect to timing, the Company is adopting a prudent cash management approach by deferring capital expenditure and reducing corporate costs to the extent that ongoing operations will not be affected.

Forecast cash flow incorporates a number of assumptions, one of which is pricing. Price risk and sensitivities are further discussed in the Management Discussion and Analysis document.

Management has examined these issues to form a view on the Company's ability to realise its assets and discharge its liabilities in the normal course of business. After making enquiries and considering the circumstances referred to above, the Board has a reasonable expectation that the Company has adequate resources and potential to continue operations for at least the next twelve months. For these reasons they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

Foreign Operations

Tethys' future operations and earnings will depend upon the results of Tethys' operations in the Republic of Kazakhstan, Tajikistan and Georgia. There can be no assurance that Tethys will be able to successfully conduct such operations, and a failure to do so would have a material adverse effect on Tethys' financial position, results of operations and cash flows. Also, the success of Tethys' operations will be subject to numerous contingencies, some of which are beyond management control. These contingencies include general and regional economic conditions, prices for crude oil and natural gas, competition and changes in regulation. Since Tethys is dependent on international operations, Tethys will be subject to various additional political, economic and other uncertainties. Among other risks, Tethys' operations may be subject to the risks and restrictions on transfer of funds, import and export duties, quotas and embargoes, domestic and international customs and tariffs, and changing taxation policies, foreign exchange restrictions, political conditions and regulations.

New accounting policies

Sales expenses

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

Farm-out arrangements

The Company reflects exploration and evaluation asset farm-out arrangements, when the farmee (the acquirer) correspondingly undertakes to fund carried interests as part of the consideration, on a historical cost basis by recognizing only cash payments received, with no consideration in respect of the value of the work to be performed by the farmee. The Company carries the remaining interest at the previous cost of the full interest reduced by the amount of any cash consideration received from the farmees entering the agreement, through crediting any proceeds pro rata to the accounts, whether capital or expense, in which such costs were initially recorded. As farm-out terms are likely to be unique to any single transaction, this policy will be reviewed on a transaction by transaction basis.

New and amended accounting standards adopted by the Company

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

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Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

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

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2013, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these early.

- IFRS 9 Financial instruments (2010), IFRS 9 Financial Instruments (2009). IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additional changes relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting. IFRS 9 (2010) and (2009) are effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. The Company does not expect the impact of these standards on the Company's assets and liabilities to be material.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. All subsidiaries, as listed in note 26, have been consolidated into the Company's consolidated financial statements.

Inter-Company transactions, balances and unrealised gains or losses between subsidiaries are eliminated. The financial statements of the subsidiaries are prepared using consistent accounting policies and reporting date as the Company.

Loss of control

When the Company loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

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Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

Business combinations

The acquisition method of accounting is used to account for business combinations. The cost of acquisition is measured at the fair value of assets given, equity instruments issued and debt incurred or assumed at the date of acquisition, being the date on which the Company gains control. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. The excess of the cost over the fair value of the Company's share of identifiable net assets acquired is recorded as goodwill. If the cost is less than the fair value of net assets acquired, the difference is recognised directly in the statement of comprehensive loss.

Joint arrangements

The Company classifies its interests in joint arrangements as either joint operations (if the company has rights to the assets, and obligations for the liabilities, relating to an arrangement) or joint ventures (if the Company has rights only to the net assets of an arrangement). When making this assessment, the Company considers the structure of the arrangement, the legal form of any separate vehicles, the contractual terms of the arrangement and other facts and circumstances.

Where the Company has an interest in a joint operation, it recognises its own assets, liabilities and transactions, including its share of those incurred jointly interests in joint operations.

The Company's interests in joint ventures are accounted for using the equity method of accounting. Under the equity method, the Company's investment is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Company's share of net assets of the joint venture, less distributions received and less any impairment in value of the investment. The Company's consolidated statement of comprehensive income reflects the Company's share of the profit or loss after tax and other comprehensive income of the jointly venture, until the date on which significant influence or joint control ceases.

When the Company's share of losses in the joint venture equals or exceeds its interest in the entity, including any other unsecured receivables, the Company does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture. Financial statements of joint ventures are prepared for the same reporting year as the Company.

The Company recognises the portion of gains or losses on the sale of assets by the Company to the joint venture that is attributable to the other parties in the joint venture. The Company does not recognise its share of profits or losses that results from the purchase of assets by the Company from the joint venture until when the asset is resold or, where relevant, as the asset is depreciated by the jointly controlled entity.

In circumstances where the significant risks and rewards of ownership of non-monetary assets transferred have not been transferred to the jointly controlled entity, the associated gain or loss is unrealised and, thus, not recognised in profit or loss but recognised as a deferred gain on the consolidated statement of financial position. The deferred gain is recognised in the consolidated statement of comprehensive income when the asset is resold or, where relevant, as the asset is depreciated by the joint venture.

Accounting policies of the joint venture are consistent with accounting policies adopted by the Company.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-makers have been identified as the Executive Directors that make strategic decisions.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

Foreign currency translation

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'), translated into USD where relevant. These consolidated financial statements are presented in USD, which is the Company's presentation currency.

All monetary assets and liabilities denominated in foreign currencies are translated into USD at the rate of exchange in effect at the reporting date. Non-monetary assets are translated at historical exchange rates.

Revenue and expense items (excluding depreciation and amortization which are translated at the same rates as the related assets) are translated at the average rate of exchange.

Exchange gains and losses arising on translation are taken to the consolidated statement of comprehensive income.

Oil and gas exploration and evaluation expenditure

Oil and natural gas exploration and evaluation expenditures are accounted for using the 'successful efforts' method of accounting. Costs are accumulated on a field-by-field basis. Exploration and evaluation expenditures, including license acquisition costs, are capitalised as exploration and evaluation assets when incurred. Expenditure directly associated with an exploration well is capitalised until the determination of reserves is evaluated. All other associated exploration and evaluation expenditures are carried forward as an intangible asset in the consolidated statement of financial position where the rights of tenure of the property are current and it is considered probable that the costs will be recouped through successful development of the property, or alternatively by its sale. Capitalised exploration and evaluation expenditure is written down to its recoverable amount where the above conditions are no longer satisfied.

If it is determined that a commercial discovery has not been achieved in relation to the property, all other associated costs are written down to their recoverable amount. If commercial reserves are found, exploration and evaluation intangible assets are tested for impairment and transferred to appraisal and development tangible assets i.e. Property, Plant and Equipment ('PPE'). No depreciation and/or amortisation is charged during the exploration and evaluation phase.

Test production and the appraisal and development phase

Test production is production that is generated in the appraisal and development phase before commercial discovery of oil or gas is officially recognised. Revenue generated from test production is credited against the cost of the well until commercial and technical feasibility is established and the project is deemed to have crossed over into the production phase. Revenue and costs generated from a field classified as operating in the production phase is recorded through the income statement.

Oil and gas properties in the production phase

Oil and gas properties within PPE are stated at cost, less accumulated depreciation and accumulated impairment losses.

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalised within oil and gas properties, as long as the facts and circumstances indicate that the field has commercially viable reserves.

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The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the asset retirement obligation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalised value of a finance lease is also included within property, plant and equipment.

Once commercial production in an area of interest has commenced, oil and gas properties are depleted on a unit-of-production basis over the proved and probable reserves of the field concerned, except in the case of assets whose useful life is shorter than the lifetime of the field, in which case the straight-line method is applied. Rights and concessions are depleted on the unit-of-production basis over the total proved and probable reserves of the relevant area. The unit-of-production rate for the depletion of field development costs takes into account expenditures incurred to date, together with future development expenditure to develop the proved and probable reserves. Changes in factors such as estimates of proved and probable reserves that affect unit-of-production calculations do not give rise to prior year financial period adjustments and are dealt with on a prospective basis.

Other property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is charged so as to write off the cost of these assets less residual value over their estimated useful economic lives, for the following classes of assets:

Drilling rigs and related oil and gas equipment	Unit of production	3,650 operating days
Smaller rig related equipment	Straight line	6 – 8 years
Vehicles	Straight line	4 years
Computer equipment	Straight line	3 years
Office equipment	Straight line	5 years

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised within the consolidated statement of comprehensive income.

Other intangible assets

Production enhancement contracts are stated at cost less accumulated amortisation and have a finite useful life. Amortization is calculated using a unit-of-production basis over the estimated incremental production entitlement expected to be received over the life of the contract.

Impairment of non-financial assets

Exploration and evaluation costs are tested for impairment when reclassified to oil and gas properties or whenever facts and circumstances indicate potential impairment. An impairment loss is recognised for the amount by which the exploration and evaluation expenditure's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the exploration and evaluation expenditure's fair value less costs to sell and their value in use.

Values of oil and gas properties and other property, plant and equipment are reviewed for impairment when indicators of such impairment exist. If any indication of impairment exists an estimate of the asset's recoverable amount is calculated. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing

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value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the consolidated statement of comprehensive income so as to reduce the carrying amount to its recoverable amount (i.e. the higher of fair value less costs to sell and value in use).

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of the recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Asset retirement obligation (ARO)

Provision is made for the present value of the future cost of abandonment of oil and gas wells and related facilities. This provision is recognised when a legal or constructive obligation arises.

The estimated costs, based on engineering cost levels prevailing at the reporting date, are computed on the basis of the latest assumptions as to the scope and method of abandonment. Provisions are measured at the fair value of the expenditures expected to be required to settle the obligation using a pre-tax risk free rate, updated at each reporting date that reflects current market assessments of the time value of money and the risks specific to the obligation. The corresponding amount is capitalised as part of exploration and evaluation expenditure or oil and gas properties and is amortised on a unit-of-production basis as part of the depreciation, depletion and amortisation charge. Any adjustment arising from the reassessment of estimated cost of ARO is capitalised, whilst the charge arising from the accretion of the discount applied to the ARO is treated as a component of finance costs.

Financial instruments

Financial assets and financial liabilities are recognised on the Company's consolidated statement of financial position when the Company becomes party to the contractual provisions of the instrument. Financial assets are de-recognised when the contractual rights to the cashflows from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are de-recognised when the obligation specified in the contract is discharged, cancelled or expired. There were no own-use derivative contracts in place during the year.

Restricted cash

Non-current restricted cash comprises a restricted deposit placed as security with respect to amounts owed to a related party (note 26) and in the prior year also included amounts held on deposit with banks in the Republic of Kazakhstan in respect of the Company's asset retirement obligations (ARO) in that country. They are carried at fair value with gains or losses taken to the consolidated statement of comprehensive income.

Current restricted cash comprises monies placed on temporary deposit as a security against corporate credit cards and a deposit with the Ministry of Finance in Dubai as fixed term deposits with banks.

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Trade receivables, loans and other receivables

Trade receivables, loans and other receivables, which are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market, are classified as loans and receivables. They are included in current assets, except for maturities greater than 12 months after the reporting date, which are classified as non-current assets. The Company's loans and receivables comprise trade and other receivables in the consolidated statement of financial position.

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, net of any impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive loss. When a trade receivable is not collectable, it is written off against the allowance account for trade receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. These are carried at fair value with gains or losses recognized through the consolidated statement of comprehensive income.

Financial liabilities - borrowings

Borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are measured at amortised cost using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded as the proceeds received net of direct issue costs.

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Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract was entered into and are subsequently re-measured at their fair value with changes in the fair value immediately recognised in the consolidated statement of comprehensive income.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract. Contracts are assessed for embedded derivatives when the Company becomes a party to them, including at the date of a business combination.

Derivative contracts qualifying for the 'own-use' treatment

An 'own-use' contract is one that was entered into and continues to be held for the purpose of the receipt or delivery of the non-financial item in accordance with the entity's expected purchase, sale or usage requirements. Contracts that are for the Company's own-use are exempt from the requirements of IAS 39.

Inventories

Inventories consist of refined oil products, spare parts and consumable materials and are shown at the lower of cost and net realisable value. Cost is determined on a weighted average cost method for refined oil products and the first-in-first-out method for spare parts and consumable materials inventories.

Non-current assets held for sale and discontinued operations

Non-current assets and groups of assets and liabilities (known as disposal groups) are classified as held-for-sale when their carrying amounts will be recovered principally through sale and are presented separately on the face of the statement of financial position. The comparative statement of financial position is not re-presented when non-current assets or disposal groups are classified as held-for-sale.

Where a sale plan meets the above criteria and involves the loss of control of a subsidiary, all assets and liabilities of the subsidiary are classified as held-for-sale regardless of whether a non-controlling interest is retained in the subsidiary after the sale.

Non-current assets and disposal groups held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Assets classified as held-for-sale are not depreciated.

A discontinued operation is a component of the group's business that either has been disposed of or is classified as held-for-sale and is part of a co-ordinated single plan to dispose of all or substantially all of a separate major line of business or geographical area of operations.

Discontinued operations are presented separately on the face of the statement of comprehensive income, and related cash flow information is disclosed. The comparative statement of comprehensive income and cash flow information is re-presented for discontinued operations.

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Taxation including deferred taxation

The tax expense represents current tax and deferred tax.

Current tax is based on the taxable profits for the year. The Company's current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date in the countries where the Company and its subsidiaries operate and generate taxable income.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither the accounting nor the taxable profit or loss. Deferred income tax assets are recognised to the extent that it is probable that the future taxable profit will be available against which the temporary differences can be utilised and the carry forward of unused tax credits and unused tax losses can be utilised.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability settled.

Share-based payments

The Company operates share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options and warrants) of the Company. The fair value of the employee options and warrants granted in exchange for the employee services is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. When options vest in instalments over the vesting period, each instalment is accounted for as a separate arrangement. At each reporting date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium when the options are exercised.

Warrants

Warrants issued to loan holders are regarded as derivative instruments, with a fair value at inception representing the value attributable to the option to convert the warrants into equity of the Company.

IAS 32.11 'Financial Instruments Presentation' states that a derivative contract that will be settled by the equity receiving or delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset is an equity instrument. It also states that a contract that will be settled by the entity delivering or receiving a fixed number of its own equity instruments in exchange for a variable amount of cash or another financial asset is a financial asset or financial liability.

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For warrants issued to loan holders by the Company, where there is a difference between the currency in which shares of the parent company are denominated and the functional currency of the Company, the option to convert the warrants is recorded as a derivative liability because it is not a contract to exchange a fixed number of shares for a fixed amount of US dollars. The derivative liability component is separately identified and measured at fair value through the consolidated statement of comprehensive income.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of comprehensive income, net of any reimbursement. The increase in the provision due to passage of time is recognised as interest expense.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of natural gas and oil products in the ordinary course of the Company's activities and is recognized when the amount can be reliably measured, it is probable that future economic benefits will flow to the entity, and when specific criteria have been met for each of the Company's activities as described below. Revenue is shown after eliminating sales within the Company.

Revenue from natural gas and oil sales is recognised when it has been lifted and the risk of loss transferred to a third-party purchaser and is shown net of Mineral Extraction Tax (MET) and value-added tax. In Kazakhstan, gas was sold under a two year take or pay contract that expired at the end of 2012 and was re-negotiated in 2013. Under IFRIC 4 the economic substance of the transaction is considered, despite the absence of a specific lease contract. Implicitly the sales contract gives the customer specific use of gas assets as they take all gas produced by the Akkulka and Kyzylol fields, therefore the revenue from Kazakh gas sales is recognised under IAS 17 'Leases', on a production basis over the lease term.

The Company recognises finance income earned on the Company's cash and cash equivalents and short term investments on an accrual basis.

Barter transactions

Where goods or services are exchanged for goods or services of a dissimilar nature, the revenue is measured at the fair value of the goods or services received, adjusted by the amount of cash or cash equivalents received or paid. If the fair value of the goods or services received cannot be reliably measured, the revenue is measured at the fair value of the goods or services given up, again adjusted by the amount of cash or cash equivalents received.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying capital asset or project under construction are capitalised and added to the asset or project cost during construction until such time as the asset or project is substantially ready for its intended use. Where funds are specifically borrowed to finance an asset or project, the amount capitalised represents the actual amount of borrowing cost incurred. Where funds used to finance an asset or project form part of general borrowings, the amount capitalised is calculated by using a weighted average of rates

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applicable to relevant general borrowings of the Company during the period. All other borrowing costs are recognised in the consolidated statement of comprehensive income in the period in which they are incurred.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

Fair value

The fair value of investments, trade and other receivables, trade and other payables approximate their carrying amounts due to the short term maturity of the instruments. Derivative financial instruments are recorded at fair value with movements in fair value recognised through the consolidated statement of comprehensive income.

Amortised Cost

Loan receivables, long term debt and other non-current liabilities have been recorded at amortized cost using the effective interest rate method.

3 Financial Risk Management

The Company's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

The Executive Board of Directors has overall responsibility for the Company's management of risk, including the identification and analysis of risks faced by the Company and the consideration of controls that monitor changes in risk and minimise risk wherever possible.

a) Financial risk factors

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to financial instruments fails to meet its contractual obligations. Credit risk arises from the Company's loans receivable from jointly controlled entities, cash and cash equivalents and accounts receivable balances.

With respect to the Company's financial assets, the maximum exposure to credit risk due to default of the counter party is equal to the carrying value of these instruments.

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The maximum exposure to credit risk as at the reporting date is:

	December 31	December 31
	2013	2012
Trade receivables	84	2,096
Cash and cash equivalents	25,109	1,750
Restricted cash	1,135	2,020
Loans receivable from jointly controlled entities	-	2,403
	26,328	8,269
Assets of disposal group held for sale (note 19):		
Trade receivables	3,985	-
Cash and cash equivalents	622	-
Restricted cash	1,664	-
Loans receivable from jointly controlled entities	2,676	-
	8,947	-
	35,275	8,269

Concentration of credit risk associated with the above trade receivable balances in Kazakhstan is as a result of contracted sales to two customers during the year. The Company does not believe it is dependent upon these customers for sales due to the nature of gas products and the associated market. The Company's sales in Kazakhstan commenced in December 2007 and the Company has not experienced any credit loss to date. At December 31, 2013, the trade receivable amounted to USD 3,984,859 (2012 – USD 2,096,171), none of which was greater than 30 days overdue. The Company has therefore not recorded a provision against this amount as it does not consider the balance to be impaired.

Although a significant amount of the deposits at financial institutions are not covered by bank guarantees, the Company does not believe there to be a significant risk of credit loss as the majority of counterparty banks used are those with high credit ratings (A- or equivalent) assigned by international ratings agencies (Fitch and Standard and Poors). Banks used in Central Asia generally do not have credit ratings assigned by international ratings agencies, however, deposits held with these banks are kept to a minimum as far as possible.

The Company is exposed to credit risk in relation to its loans receivable from jointly controlled entities to the extent that the jointly controlled entities fail to meet their contractual obligations. The Company does not believe that the balance is impaired at the reporting date. The carrying amount of the loans receivable represents the maximum exposure to credit risk at each balance sheet date.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. This risk relates to the Company's ability to generate or obtain sufficient cash or cash equivalents to satisfy these financial obligations as they become due. Since inception, the Company has incurred significant consolidated losses from operations and negative cash flows from operating activities, and has an accumulated deficit at December 31, 2013.

The Company's processes for managing liquidity risk includes preparing and monitoring capital and operating budgets, coordinating and authorizing project expenditures and ensuring appropriate authorization of contractual agreements. The

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budget and expenditure levels are reviewed on a regular basis and updated when circumstances indicate change is appropriate. The Company seeks additional financing based on the results of these processes.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

December 31, 2013	Carrying amount	Contractual cash flows	Less than 1 year	1-3 years	4-5 years	Thereafter
Non-derivative financial liabilities						
Trade and other payables	4,946	4,946	4,946	-	-	-
Financial liabilities - borrowings (note 21)	4,965	5,247	5,247	-	-	-
	9,911	10,193	10,193	-	-	-

December 31, 2013	Carrying amount	Contractual cash flows	Less than 1 year	1-3 years	4-5 years	Thereafter
Liabilities of disposal group held for sale (note 19)						
Trade and other payables	7,007	7,191	6,810	220	110	51
Financial liabilities - borrowings	8,947	10,549	4,832	5,717	-	-
	15,954	17,740	11,642	5,937	110	51

December 31, 2012	Carrying amount	Contractual cash flows	Less than 1 year	1-3 years	4-5 years	Thereafter
Non-derivative financial liabilities						
Trade and other payables	8,852	9,124	8,589	264	110	161
Financial liabilities - borrowings (note 21)	17,313	19,800	15,569	4,231	-	-
	26,165	28,924	24,158	4,495	110	161

It is not expected that the cash flows included in the maturity schedule could occur significantly earlier, or at significantly different amounts.

There can be no assurance that debt or equity financing will be available or sufficient to meet the Company's requirements or if debt or equity financing is available, that it will be on terms acceptable to the Company. However, the Company is not currently reliant on obtaining additional debt or equity funding to continue as a going concern. The inability of the Company

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to access sufficient capital for its operations could have a material adverse impact on the Company's financial condition, results of operations and prospects.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as commodity prices, interest rate and foreign exchange rates.

Commodity price risk

Commodity price risk arises from the effect that fluctuations of future commodity prices may have on the price received for sales of gas and refined oil products. The marketability and price of natural gas and oil that is produced and may be discovered by the Company will be affected by numerous factors that are beyond the control of the Company.

Natural gas prices are subject to wide fluctuations: the Company has therefore entered into a fixed price contract for sales of gas from the Kyzylol field in Kazakhstan. However, any material decline in natural gas prices could result in a reduction of Tethys' future net production revenues and impact on the commercial viability of the Company's existing and future oil and gas discoveries. It may become uneconomic to produce from some wells as a result of lower prices, which could result in a reduction in volumes and the value of Tethys' gas reserves, if the Company elected not to produce from certain wells at lower prices.

Any material decline in oil product prices could result in a reduction of the Company's oil revenues in Kazakhstan.

All of these factors could result in a material decrease in the Company's net production revenue causing a reduction in its acquisition and development activities.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will be affected by changes in market interest rates. Existing long term debt is agreed at fixed interest rates and consequently has limited exposure to changes in market interest rates.

The Company is exposed to interest rate risk on short term deposits to the extent that reductions in market interest rates would result in a decrease in the interest earned by the Company. An increase of 100 basis points in the interest rate would have resulted in an increase of USD 124,416 in the interest earned in the current year (2012 – USD 4,344). A decrease of 100 basis points in the interest rate would have resulted in a decrease of USD 38,566 in the interest earned in the current year (2012 – USD 1,885).

As at the reporting date the Company's interest rate profile was:

	Fixed rate financial instruments	Variable rate financial instruments	Total
At December 31, 2013			
Restricted cash	660	475	1,135
Cash and cash equivalents	-	25,109	25,109
Financial liabilities - borrowings	(4,965)	-	(4,965)
	(4,305)	25,584	21,279

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Assets of disposal group held for sale (note 19)			
Restricted cash	1,664	-	1,664
Cash and cash equivalents	-	622	622
Financial liabilities - borrowings	(8,947)	-	(8,947)
	(7,283)	622	(6,661)

	Fixed rate financial instruments	Variable rate financial instruments	Total
At December 31, 2012			
Restricted cash	1,543	477	2,020
Cash and cash equivalents	-	1,750	1,750
Financial liabilities - borrowings	(17,313)	-	(17,313)
	(15,770)	2,227	(13,543)

Foreign exchange risk

The Company is exposed to risks resulting from fluctuations in foreign currency exchange rates. A material change in the value of any such foreign currency could result in a material adverse effect on the Company's cash flow and future profits. The Company is exposed to exchange rate risk to the extent that balances and transactions are denominated in a currency other than the USD. In addition, a portion of expenditures in Kazakhstan and Tajikistan are denominated in local currency, the Tenge and Somoni, respectively. The Company also attempts to negotiate exchange rate stabilization conditions in new local Tenge denominated service and supply contracts in Kazakhstan.

The Company holds the majority of its cash and cash equivalents in USD. However, the Company does maintain deposits in other currencies, as disclosed in the following table, in order to fund ongoing general and administrative activity and other expenditure incurred in these currencies.

The carrying amounts of the Company's significant foreign currency denominated monetary assets and liabilities at the reporting dates are as follows:

In USD equivalent at December 31, 2013	CAD '000	GBP '000	EUR '000	KZT '000
Cash and cash equivalents	9	950	93	418
Trade and other receivables	-	82	26	11,398
Trade and other payables	(23)	(753)	(132)	(1,745)
Financial liabilities – borrowings	-	(1,456)	-	(8,947)
Net exposure	(14)	(1,177)	(13)	1,124

In USD equivalent at December 31, 2012	CAD '000	GBP '000	EUR '000	KZT '000
Cash and cash equivalents	1	220	21	1,032
Trade and other receivables	-	39	18	11,840
Trade and other payables	(53)	(449)	(6)	(448)
Financial liabilities – borrowings	-	(2,005)	-	(8,559)
Net exposure	(52)	(2,195)	33	3,865

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The following table details the Company's sensitivity to a 10% movement in USD against the respective foreign currencies, which represents management's assessment of a reasonably likely change in foreign exchange rates.

2013 Effect in USD'000	CAD	GBP	EUR	KZT
Profit or (loss) before tax	(2)	(201)	(2)	112
2012 Effect in USD'000				
Profit or (loss) before tax	(5)	(219)	3	386

A 10% strengthening of the USD against the currencies above at December 31, 2013 would have had an equal but opposite effect on the amounts shown above, assuming all other variables remained constant.

b) Capital risk management

The Company's capital structure is comprised of shareholders' equity and net debt.

The Company's objectives when managing capital is to maintain adequate financial flexibility to preserve its ability to meet financial obligations, both current and long term. The capital structure of the Company is managed and adjusted to reflect changes in economic conditions.

The Company funds its expenditures on commitments from existing cash and cash equivalent balances, primarily received from issuances of shareholders equity and some debt financing. None of the outstanding debt is subject to externally imposed capital requirements.

Financing decisions are made by management and the Board of Directors based on forecasts of the expected timing and level of capital and operating expenditure required to meet the Company's commitments and development plans. Factors considered when determining whether to issue new debt or to seek equity financing include the amount of financing required, the availability of financial resources, the terms on which financing is available and consideration of the balance between shareholder value creation and prudent financial risk management.

Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

At December 31	2013	2012
Total financial liabilities - borrowings (note 21)	4,965	17,313
Total financial liabilities – borrowings of disposal group (note 19)	8,947	-
Less: cash and cash equivalents	(25,109)	(1,750)
Less: cash and cash equivalents of disposal group (note 19)	(622)	-
Net debt / (funds)	(11,819)	15,563
Total equity	202,593	220,153
Total capital	190,774	235,716

If the Company is in a net debt position, the Company will assess whether the projected cash flow is sufficient to service this debt and support ongoing operations. Consideration will be given to reducing the total debt or raising funds through an alternative route such as the issuing of equity.

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c) Fair value hierarchy

The tables below analyse financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities. The Company does not have any assets or liabilities that require Level 1 inputs.

Level 2: Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly. For the Company, Level 2 inputs include prices that can be corroborated with other observable inputs for substantially the complete term of the contract.

Level 3: Unobservable inputs. For the Company, Level 3 inputs include production and price assumptions that are not based on observable market data (unobservable inputs) or are reliant on adjustments or interpolations are made by management to an otherwise standard valuation model.

December 31, 2013	Level 1	Level 2	Level 3	Total
Warrants (note 21.2)	-	17	-	17
Total liabilities	-	17	-	17

December 31, 2012	Level 1	Level 2	Level 3	Total
Warrants (note 21.2)	-	523	-	523
Total liabilities	-	523	-	523

4 Critical judgements and accounting estimates

The preparation of financial statements requires management to make certain judgements, accounting estimates and assumptions that affect the amounts reported for assets and liabilities as at the reporting date and the amounts reported for revenues and expenses during the year. The nature of estimation means that actual outcomes could differ from those estimates. Accordingly, the impact of these estimates, assumptions and judgments on the consolidated financial statements in future periods could be material. The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities are discussed below.

Recoverability of asset carrying values

The Company assesses its property, plant and equipment and intangible exploration and evaluation assets, for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable, or at least at every reporting date. Such indicators include changes in the Company's business plans, changes in commodity prices, evidence of physical damage and, for oil and gas properties, significant downward revisions of estimated recoverable volumes or increases in estimated future development expenditure.

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If there are low oil prices or natural gas prices during an extended period, the Company may need to recognise significant impairment charges. The assessment for impairment entails comparing the carrying value of the cash-generating unit with its recoverable amount, that is, value in use. Value in use is usually determined on the basis of discounted estimated future net cash flows. Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters such as future commodity prices, the effects of inflation on operating expenses, discount rates, production profiles and the outlook for regional market supply-and-demand conditions for crude oil, natural gas and refined products.

As a result of the recent changes in the business climate and political environment in Uzbekistan and following the Company's decision to exit from the country, the Company determined that its property, plant and equipment and intangible exploration and evaluation assets were not recoverable and should be written down to nil at December 31, 2013.

At December 31, 2012, the Company considered circumstances relating to its property plant and equipment and intangible and exploration and evaluation assets and concluded that the further decline in production from the North Urtabulak field to be an indicator of impairment. An impairment test was performed and it was concluded that the assets were not impaired at that date.

Oil and gas reserves

Proved and probable oil and gas reserves are used in the units of production calculation for depletion as well as the determination of the timing of well closure costs and impairment analysis. There are numerous uncertainties inherent in estimating oil and gas reserves. Assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may ultimately result in the reserves being restated.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Such estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Asset retirement obligation

Provisions for environmental clean-up and remediation costs associated with the Company's drilling operations are based on current legal or constructive requirements, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, prices, discovery and analysis of site conditions and changes in clean-up technology.

Income taxes

The Company is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognises liabilities for tax assessments based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

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Other significant areas of judgement

The estimates, assumptions and judgments made in relation to the fair value of stock based compensation and warrants and the associated expense recognition are subject to measurement uncertainty. The estimated fair values of financial assets and liabilities, by their very nature, are subject to measurement uncertainty.

5 Discontinued operations

During the second half of 2013 the Company's operations in Uzbekistan were seriously impacted by the closure of the Fergana refinery and a deterioration in the business and political climate in the country. The Board met in November and discussions concluded that a full withdrawal from the country was required. Operations had been significantly interrupted by then to the extent that no revenue from operations has been earned since June 2013.

The Board formally decided in December 2013 to exit from the country and announced on January 2, 2014, being the next working day that it would do so effective immediately as there is no contractual notice period but that it would take up to three months to complete the process of exiting from the Production Enhancement Contract ("PEC") for the North Urtabulak field.

During Q1 2014 the Company's focus has been on preparing the wells for handover and dealing with the exit. The Company does not expect to benefit from any production or earn any revenues in 2014.

In view of the circumstances described above the results of the Uzbekistan segment have been disclosed as a discontinued operation and shown separately from the results of the Company's continuing operations in Kazakhstan, Tajikistan and Georgia. In accordance with the disclosure requirements for discontinued operations, the comparative figures in the Consolidated Statement of Comprehensive Income have been restated to be consistent with the current year presentation.

A provision of \$0.5m has been made in these accounts for the unavoidable costs of fulfilling the Company's contractual obligations in the country and closing the Company's entities there in an orderly manner. Settlement is expected in 2014.

The result from discontinued operation can be summarised as follows:

	Year ended	
	December 31, 2013	December 31, 2012
Revenue	2,263	4,478
Expenses	(3,403)	(4,186)
Impairment charge	(7,010)	-
Loss before tax	(8,150)	292
Tax	1,054	(236)
Loss after tax	(7,096)	56
Cash flows from the discontinued operation were as follows:		
Net cash (used in)/generated from operating activities	(2,095)	1,676
Net cash used in investing activities	(862)	(471)
Net cash from/(used in) financing activities	-	-
Net cash from/(used in) discontinued operations	(2,957)	1,205

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6 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 consolidated 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 two geographical markets: Kazakhstan and Tajikistan. The company has discontinued operations in Uzbekistan and the results for the Uzbekistan segment have been shown separately from the rest of the Company.

In Kazakhstan, the Company is producing oil and gas from the Kyzylai and Akkulka fields and is undertaking exploration and evaluation activity in the Kul-bas field. In Tajikistan, the Company is currently undertaking exploration and evaluation activity. A small amount of production took place up until June 2013 when the Company handed back its producing wells to the State as part of the Tajik farm-out.

In Uzbekistan, the Company operated under the North Urtabulak Production Enhancement Contract, which gave 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 and Tajikistan according to operational requirements. Costs associated with the Company's newly established operation in Georgia have been included in the corporate segment.

The segment results for the year ended December 31, 2013 are as follows:

	Kazakhstan	Tajikistan	Other and Corporate	Continuing operations	Uzbekistan(1)
Gas sales	10,930	-	-	10,930	-
Oil sales	24,980	550	-	25,530	-
Refined product sales	-	-	-	-	2,263
Other income	208	258	19	485	-
Other operating income	-	-	2,970	2,970	-
Segment revenue and other income	36,118	808	2,989	39,915	2,263
Inter-segment revenue	-	-	(2,970)	(2,970)	-
Segment revenue and other income from external customers	36,118	808	19	36,945	2,263
Profit from jointly controlled entity	298	-	-	298	-
Profit / (loss) before taxation	4,639	6,996	(19,087)	(7,452)	(8,150)
Taxation	(2,471)	(138)	(474)	(3,083)	1,054
Net profit / (loss) for the year	2,168	6,858	(19,561)	(10,535)	(7,096)

(1) Discontinued operation in 2013 (note 5).

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In Kazakhstan sales were made to two customers representing greater than 10% of total segment revenue of USD 24,979,841 and USD 10,930,153.

Sales in the Uzbekistan segment were to one customer.

Sales in the Tajikistan segment were to two customers. Sales to those customers representing greater than 10% of total segment revenue were USD 385,000 and USD 165,070.

Borrowing costs of USD 1,614,116 and USD 115,973 incurred in the Corporate segment were capitalised in the Kazak and Tajik segments respectively during the year.

Amortisation of USD 345,441 of assets held in the Corporate segment was capitalised during the year.

The segment results for the year ended December 31, 2012 were as follows:

	Kazakhstan	Tajikistan	Other and Corporate	Continuing operations Restated	Uzbekistan(1)
Gas sales	5,875	-	-	5,875	-
Oil sales	25,632	1,875	-	27,507	-
Refined product sales	-	-	-	-	4,478
Other income	247	-	-	247	-
Other operating income	-	-	3,928	3,928	-
Segment revenue and other income	31,754	1,875	3,928	37,557	4,478
Inter-segment revenue	-	-	(3,928)	(3,928)	-
Segment revenue and other income from external customers	31,754	1,875	-	33,629	4,478
Profit from jointly controlled entity	191	-	-	191	-
Profit / (loss) before taxation	2,826	(2,816)	(20,172)	(20,162)	292
Taxation	(1,215)	-	417	(798)	(236)
Net profit / (loss) for the year	1,611	(2,816)	(19,755)	(20,960)	56

(1) Discontinued operation in 2013 (note 5).

Sales in the Kazakhstan segment were made to three customers. Sales to those customers representing greater than 10% of total segment revenue were USD 25,631,680 and USD 5,874,776.

Sales in the Tajikistan segment were to four customers. Sales to those customers representing greater than 10% of total segment revenue were USD 536,905, USD 818,572 and USD 228,049.

Sales in the Uzbekistan segment were to one customer.

Borrowing costs of USD 697,896 and USD 678,398 incurred in the Corporate segment were capitalised in the Tajik and Kazakh segments respectively during the year.

Amortisation of USD 193,454 of assets held in the Corporate segment was capitalised during the year.

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The segment assets and liabilities as at December 31, 2013 and capital expenditures for the year are as follows:

	Kazakhstan(1)	Tajikistan	Uzbekistan	Other and Corporate	Consolidated
Total assets	156,325	32,998	73	45,222	234,618
Total liabilities	21,433	2,346	1,517	6,729	32,025
Cash expenditure on exploration & evaluation assets, property, plant and equipment	21,042	1,481	862	424	23,809

(1) Assets of a disposal group held for sale, refer to note 19 for further details.

	Kazakhstan	Tajikistan	Other and Corporate	Continuing operations	Uzbekistan(2)
Depreciation, depletion & amortization	10,876	291	1,452	12,619	915

(2) Discontinued operation in 2013 (note 5).

Included in Kazakh and Tajik liabilities are payables in relation to exploration and evaluation assets of USD 96,263 and USD 700,800 respectively.

Total assets and liabilities for Tajikistan include the underlying assets of Seven Stars Energy Corporation ("SSEC"), in which the Company has an 85% ownership interest, and its subsidiaries.

The segment assets and liabilities at December 31, 2012 and capital expenditures for the year then ended were as follows:

	Kazakhstan	Tajikistan	Uzbekistan	Other and Corporate	Group
Total assets	138,510	87,075	6,815	19,553	251,953
Total liabilities	13,945	2,989	4,367	10,499	31,800
Cash expenditure on exploration & evaluation assets, property, plant and equipment	8,929	8,043	471	58	17,501
	Kazakhstan	Tajikistan	Other and Corporate	Continuing operations	Uzbekistan(1)
Depreciation, depletion & amortization	14,250	1,373	1,690	17,313	1,111

(1) Discontinued operation in 2013 (note 5).

Included in Kazakh and Tajik liabilities are payables in relation to exploration and evaluation assets of USD 3,320 and USD 2,377,198 respectively. Total assets and liabilities for Tajikistan include the underlying assets of SSEC and its subsidiaries.

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7 Sales and other operating revenues

	Year ended	
	December 31, 2013	December 31, 2012
Gas sales	10,930	5,875
Oil sales	25,530	27,507
Other revenue	485	247
Revenue from continuing operations	36,945	33,629

8 Administrative expenses

Administrative expenses by nature	Year ended	
	December 31, 2013	December 31, 2012
Staff expenses	8,686	8,964
Travel expenses	3,145	3,055
Professional fees	2,768	2,459
Office costs	1,974	2,384
Other administrative expenses	2,130	2,080
	18,703	18,942

Key management personnel have been identified as fifteen Vice Presidents, including the four Executive Directors. Details of key management remuneration are shown in note 26.

9 Share-based payments

The Company has adopted a stock incentive plan referred to as the "2007 Long Term Stock Incentive Plan" pursuant to which the Company may grant stock options to any director, employee or consultant of the Company, or any subsidiary or Vazon Energy Limited (collectively, "Service Providers").

The maximum number of Ordinary Shares reserved for issuance under the plan equals 12% (2012: 12%) of the outstanding Ordinary Shares. The plan is administered by the Compensation and Nomination Committee of the Board of Directors. Options may be granted pursuant to recommendations of the Compensation and Nomination Committee. The Compensation and Nomination Committee may determine the vesting schedule and term, provided that options may not have a term exceeding ten years. Subject to any resolution passed by the Compensation and Nomination Committee, options will terminate three months after an option holder ceases to be a Service Provider.

The exercise price of options granted under the plan may not be less than the closing price of Ordinary Shares on the principal stock exchange where the Ordinary Shares are listed as of the date of the option grant. The plan contains amendment provisions which allow amendments to the plan by the Board of Directors, without shareholder approval, for amendments of a "housekeeping" nature, changes to vesting or termination provisions, and discontinuance of the plan. The plan also provides that outstanding options will vest immediately on the occurrence of a "change of control" (as defined

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in the plan). Options granted under the plan are only assignable to certain related entities of an option holder or otherwise with the consent of the Company.

Under the plan, the options vest in three tranches with one third vesting immediately, one third after one year and one third after two years. These options are equity settled share based payment transactions.

The following table summarizes the activity under the 2007 Long Term Stock Incentive Plan.

	Number of options	Weighted average exercise price \$
Outstanding at January 1, 2012	28,923,000	1.45
Granted	5,505,000	0.87
Forfeited	(122,000)	1.00
Exercised	(15,000)	0.60
Expired	(427,000)	1.63
Outstanding at December 31, 2012	33,864,000	1.35
Exercisable at December 31, 2012	28,056,000	1.46
Outstanding at January 1, 2013	33,864,000	1.35
Granted	420,000	0.73
Forfeited	(85,000)	0.83
Exercised	-	-
Expired	(491,600)	1.45
Outstanding at December 31, 2013	33,707,400	1.35
Exercisable at December 31, 2013	31,688,400	1.38

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The following table lists the options outstanding at December 31, 2013 by exercise price:

Exercise price \$	Options outstanding	Weighted average remaining term (in years)	Options exercisable	Weighted average remaining term (in years)
0.60	4,510,000	0.60	4,510,000	0.60
CAD 0.66	6,180,000	0.64	6,140,000	0.64
CAD 0.71	60,000	1.09	40,000	1.09
CAD 0.74	330,000	4.73	110,000	4.73
0.80	3,239,000	1.00	3,239,000	1.00
CAD 0.80	90,000	4.92	30,000	4.92
CAD 0.88	5,037,000	3.32	3,358,000	3.32
0.88	120,000	0.84	120,000	0.84
CAD 1.60	3,879,000	1.80	3,879,000	1.80
CAD 1.72	240,000	2.22	240,000	2.22
2.00	360,000	2.12	360,000	2.12
2.10	3,305,400	1.27	3,305,400	1.27
2.50	2,259,000	1.57	2,259,000	1.57
2.75	4,098,000	0.52	4,098,000	0.52
Total	33,707,400	1.39	31,688,400	1.26

The fair value of the share-based payment grants is estimated using the Black-Scholes pricing model using the following average assumptions:

	December 31, 2013	December 31, 2012
Weighted average fair value	\$0.2537	\$0.4164
Risk free rate	1.41%	1.08%
Expected term	3.00 years	2.96 years
Volatility	64%	79%
Dividend	Nil	Nil
Weighted average share price of options exercised in year	n/a	\$0.96

In estimating expected volatility, the Company considers the historical volatility of its own share price over the most recent period that is commensurate with the expected option term.

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Warrants

The following table summarizes the warrant activity for the years ended December 31, 2013 and December 31, 2012.

	Number of warrants	Weighted average exercise price \$
Outstanding at January 1, 2012	5,248,168	5.14
Granted	164,538	1.01
Expired	(3,158,168)	6.88
Outstanding at December 31, 2012	2,254,538	2.39
Exercisable at December 31, 2012	2,254,538	2.39
Outstanding at January 1, 2013	2,254,538	2.39
Granted	77,205	0.82
Expired	(64,705)	0.98
Outstanding at December 31, 2013	2,267,038	2.38
Exercisable at December 31, 2013	2,267,038	2.38

Of the warrants outstanding and exercisable at the end of the year, 590,000 relate to warrants granted to the Company's officers.

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

In estimating expected volatility, the Company considers the historical volatility of its own share price over the most recent period that is commensurate with the expected warrant term.

The following table lists the warrants outstanding at December 31, 2013 by exercise price.

Exercise price \$	Warrants outstanding	Weighted average remaining term (in years)	Warrants exercisable	Weighted average remaining term (in years)
CAD 0.71	31,850	0.15	31,850	0.15
0.84	32,650	0.15	32,650	0.15
CAD 0.92	45,355	0.25	45,355	0.25
1.12	67,183	0.25	67,183	0.25
2.50	2,090,000	3.44	2,090,000	3.44
	2,267,038	3.18	2,267,038	3.18

As at December 31, 2013, there was no unrecognized expense related to unvested warrants.

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10 Taxation

Tethys is domiciled in the Cayman Islands which has no Company income tax. The Company also operates in other tax jurisdictions, the most significant of which is Kazakhstan where the tax rate is 20%.

The Company had the following balances of non-capital losses in respect of which no deferred tax asset has been recognized:

	Kazakhstan	Netherlands	December 31, 2013
Within one year	-	-	-
One to five years	200	-	200
After five years	-	4,895	4,895
No expiry date	-	-	-
	200	4,895	5,095

The temporary differences comprising the net deferred income tax liability are as follows:

	December 31, 2013	December 31, 2012
Capital assets	-	1,861
Tax losses	(322)	(582)
Other	-	1,633
Net deferred tax (asset)/ liability	(322)	2,912
Liabilities of disposal group (note 19)		
Capital assets	5,322	-
Tax losses	(887)	-
Other	249	-
Net deferred tax (asset)/ liability	4,684	-

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

	Year ended	
	December 31, 2013	December 31, 2012
Loss before income taxes from continuing operations	(7,452)	(20,162)
Income tax rate	20%	20%
Expected income tax (recovery)	(1,490)	(4,032)
<i>Increase/ (decrease) resulting from:</i>		
Non-deductible expenses	(195)	(97)
Impact of effective tax rates in other foreign jurisdictions	2,649	3,787
Losses and tax assets not utilised/recognised	625	881
Prior year adjustments	1,409	278
Other	85	(19)
	3,083	798
Current tax expense	577	-
Deferred tax (benefit) / expense	2,506	798
	3,083	798

11 Loss per share

	Loss for the year	Weighted average number of shares (thousands)	Per share amount \$
Year ended December 31, 2013			
Loss from continuing operations attributable to ordinary shareholders – Basic and diluted	(10,052)	287,253	(0.03)
Loss from discontinued operations attributable to ordinary shareholders – Basic and diluted	(7,096)	287,253	(0.02)
Year ended December 31, 2012			
Loss from continuing operations attributable to ordinary shareholders – Basic and diluted	(20,479)	286,709	(0.07)
Profit from discontinued operations attributable to ordinary shareholders – Basic and diluted	56	286,709	-

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 year. 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.

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12 Intangible assets

	Other intangible assets	Exploration and evaluation assets	Total
Year ended December 31, 2012			
Opening net book amount	1,601	98,358	99,959
Additions	-	8,712	8,712
Transfers to property, plant and equipment	-	(142)	(142)
Unsuccessful exploration and evaluation expenditure	-	(955)	(955)
Amortisation	(200)	-	(200)
Closing net book amount	1,401	105,973	107,374
At December 31, 2012			
Cost	5,553	105,973	111,526
Accumulated amortisation and impairment	(4,152)	-	(4,152)
Net book amount	1,401	105,973	107,374
Year ended December 31, 2013			
Opening net book amount	1,401	105,973	107,374
Additions	-	5,087	5,087
Tajik farm-out – costs recovered (note 13)	-	(53,519)	(53,519)
Transfer to “assets of a disposal group held for sale” (note 19)	-	(26,467)	(26,467)
Amortisation	(129)	-	(129)
Discontinued operation impairment (note 5)	(1,272)	-	(1,272)
Closing net book amount	-	31,074	31,074
At December 31, 2013			
Cost	-	31,074	31,074
Accumulated amortisation and impairment	-	-	-
Net book amount	-	31,074	31,074

Other intangible assets consist of the fair value of the licence 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. The Company has announced its intention to cease operations in Uzbekistan and as a result the net book value of these intangible assets has been written down to nil (note 5).

Borrowing costs of USD 419,911 (2012 – USD 723,649) have been capitalised within exploration and evaluation assets during the year. The effective weighted average interest rate of the relevant borrowings was 18% (2012 – 18%). The effective interest rate is higher than the nominal rate due to the cost of associated warrants (note 21.2) and royalties (note 21.3).

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For the year ended December 31, 2013, USD 463,681 (2012 – USD 664,203) was capitalised from staff costs and share-based payment expense.

13 Property, plant and equipment

	Oil and gas properties	Oil and gas equipment	Vehicles	Office and computer equipment	Total
Year ended December 31, 2012					
Opening net book amount	106,879	19,524	1,253	1,262	128,918
Additions	10,778	-	421	94	11,293
Transfers from intangible assets	143	-	-	-	143
Disposals	-	-	-	(1)	(1)
Depreciation	(16,633)	(1,139)	(1,070)	(415)	(19,257)
Accumulated depreciation on disposal	-	-	-	1	1
Closing net book amount	101,167	18,385	604	941	121,097
At December 31, 2012					
Cost	144,243	25,337	2,681	2,071	174,332
Accumulated depreciation and impairment	(43,076)	(6,952)	(2,077)	(1,130)	(53,235)
Net book amount	101,167	18,385	604	941	121,097
Year ended December 31, 2013					
Opening net book amount	101,167	18,385	604	941	121,097
Additions	20,739	6	335	318	21,398
Tajik farm-out – costs recovered	(2,682)	-	(61)	(130)	(2,873)
Transfer to “assets of a disposal group held for sale” (note 19)	(104,770)	(2,503)	53	(490)	(107,710)
Disposals	-	-	(119)	-	(119)
Discontinued operation impairment (note 5)	(4,124)	-	(53)	(19)	(4,196)
Depreciation	(11,839)	(1,279)	(578)	(373)	(14,069)
Tajik farm-out accumulated depreciation on disposal of interest	1,509	-	57	80	1,646
Accumulated depreciation on disposal	-	-	117	-	117
Closing net book amount	-	14,609	355	327	15,291
At December 31, 2013					
Cost	-	22,184	714	813	23,711
Accumulated depreciation and impairment	-	(7,575)	(359)	(486)	(8,420)
Net book amount	-	14,609	355	327	15,291
Asset under construction at net book amount included in above	-	-	-	-	-
At December 31, 2013	-	-	-	-	-
At December 31, 2012	27,202	-	-	-	27,202

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Assets under construction as at December 31, 2012, include the cost of developing the Akkulka oil concession and are not being depreciated until commencement of production.

Borrowing costs of USD 1,310,178 have been capitalised to oil and gas properties in the current year (2012 – USD 650,645). The effective weighted average interest rate of the relevant borrowing was 18%, (2012 - 18%). The effective interest rate is higher than the nominal rate due to the cost of associated warrants (note 21.2).

For the year ended December 31, 2013, USD 636,498 (2012 – USD 577,414) was capitalised from staff costs and share-based payment expense.

“Oil and gas properties” assets with a net book value amounting to USD 19,334,689 has been pledged by Tethys Aral Gas LLP (“TAG”) as security for the bank loan facility (note 20.1). These assets are now included with “assets of a disposal group held for sale” (note 19). The value of this guarantee has been assessed as nil.

On June 18, 2013, a subsidiary of the Company, Kulob Petroleum Limited (“Kulob”), completed a farm-out agreement with subsidiaries of Total Exploration and Production (“Total”) and China National Petroleum Corporation (“CNPC”) whereby each acquired a one third interest in Kulob’s Bokhtar Production Sharing Contract. Cash consideration received amounted to USD 63,404,444. As part of the agreement, a review was undertaken of the underlying exploration assets. As a result of this review, net book values of USD 1,226,548 relating to Property, plant and equipment and USD 53,519,223 relating to Intangible assets were applied against the proceeds, with surplus proceeds booked to profit (USD 8,213,691).

14 Restricted Cash

Non Current

	December 31, 2013	December 31, 2012
Restricted cash	660	1,543

The above amounts consist of a deposit of GBP 400,000 placed as security with respect to amounts owed to Vazon Limited (note 26). The prior year amount also included interest bearing bank deposits held in Kazakhstan which have been placed to satisfy local Kazakhstan requirements in respect of asset retirement obligations. These Kazakhstan deposits are now shown in note 19.

Current

	December 31, 2013	December 31, 2012
Restricted cash	475	477

The above amounts consist of monies placed on temporary deposit as a security against corporate credit cards and a deposit with the Ministry of Finance in Dubai as fixed term deposits with banks.

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15 Trade and other receivables

	December 31, 2013	December 31, 2012
Other receivables - non-current		
Advances to construction contractors	-	362
Value added tax receivable	-	6,082
	-	6,444
Current		
Trade receivables	84	2,096
Prepayments	481	1,074
Other receivables	695	764
Value added tax receivable	98	3,769
	1,358	7,703

Non-current advances to construction contractors relate to suppliers who were paid in advance for materials and services relating to both the Akkulka and the Kul-Bas contracts. Current year amounts are now shown in note 19.

Current trade and other receivables are unsecured and non-interest bearing. Normal payment terms for the Company are 30 days. Prepayments primarily relate to prepaid insurance and other corporate operating expense items. There are no trade receivables overdue past thirty days (December 31, 2012 – nil). The other classes within trade and other receivables do not contain impaired assets.

16 Loan receivable from jointly controlled entity

Joint Venture – Aral Oil Terminal (Kazakhstan)

On February 16 2011, the Company signed a Joint Venture agreement with Olisol Investments Limited to construct and operate a rail oil loading terminal in Kazakhstan through a separate jointly controlled legal entity, Aral Oil Terminal LLP "AOT". The terminal is used to deliver and sell oil for the Akkulka block. In conjunction with the Company's installation of oil production facilities at the Akkulka field to enable the processing of oil to refinery specification, the project at the Terminal will enhance operations by significantly reducing current trucking operations and enable production to be increased through the development of increased storage capacity and unloading/loading facilities.

The following amounts represent the movements in the loan receivable:

	Year ended	
	December 31, 2013	December 31, 2012
Balance, beginning of year	2,403	2,013
Share of profit	298	191
Finance income on loan receivable	175	199
Part repayment of loan receivable	(200)	-
Transfer to "assets of a disposal group held for sale" (note 19)	(2,676)	-
Balance, end of year	-	2,403

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17 Investment in joint arrangements

Aral Oil Terminal (Kazakhstan)

As discussed in note 16, in 2011, the Company entered into a Joint Venture Agreement with Olisol Investments Limited under which it has a 50% interest in the jointly controlled entity, AOT. At December 31, 2013, investment in the joint venture was USD 1,115,728 (2012 – USD 1,115,728). The investment for the current year is included within assets of a disposal group held for sale (note 19). The Company has classified the arrangement as a joint venture (in which the company has rights to the assets, and obligations for the liabilities, relating to the arrangement) and its interest is equity accounted. The key risk faced by AOT is its reliance on a single customer as currently only the oil produced by the Company is processed at the facility.

Summary financial information for Aral Oil Terminal is as follows:

	December 31, 2013	December 31, 2012
Assets		
Non-current assets	10,794	10,033
Cash and cash equivalents	29	323
Current assets (excluding cash)	2,473	782
Total assets	13,296	11,138
Liabilities		
Non-current liabilities	567	-
Trade and other payables	329	541
Current liabilities (excluding trade and other payables)	11,427	10,206
Total liabilities	12,323	10,747
Net assets	973	391
50% share of net assets	487	196
Comprising:		
Share of shareholders' equity including foreign exchange translation	(7)	5
Share of profit after tax in prior years	196	-
Share of profit after tax in current year	298	191
	487	196

	Year ended	
	December 31, 2013	December 31, 2012
Revenue	5,534	3,243
Depreciation and amortisation	(590)	(303)
Other expenses	(2,303)	(1,582)
Interest expense	(1,234)	(745)
Profit before tax	1,407	613
Tax	(810)	(231)
Profit after tax from continuing operations and total comprehensive income	597	382
50% share of joint venture profit after tax	298	191

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A net book value of assets included under "Non current assets" amounting to USD 4,282,419 has been pledged by the Joint Venture as security for the bank loan facility (note 21.1).

Bokhtar Operating Company (Tajikistan)

On June 18, 2013, a subsidiary of the Company, Kulob Petroleum Limited ("Kulob"), completed a farm-out agreement with subsidiaries of Total Exploration and Production ("Total") and China National Petroleum Corporation ("CNPC") whereby each acquired a one third interest in Kulob's Bokhtar Production Sharing Contract. An operating company, Bokhtar Operating Company BV, has been established and is jointly owned by the three partners. The Company has classified the arrangement as a joint operation (where the company has rights to the assets, and obligations for the liabilities, relating to the arrangement) and recognises its own assets, liabilities and transactions, including its share of those incurred jointly, in accordance with the relevant IFRSs.

18 Inventories

	December 31, 2013	December 31, 2012
Raw materials	-	908
Refined product - Uzbekistan	-	1,138
	-	2,046

Following the Company's decision to cease operations in Uzbekistan the value of remaining inventory of \$1.6 million in Uzbekistan has been written down to nil (note 5).

19 Assets and liabilities of disposal group held for sale

On November 1, 2013 Tethys announced the sale of a 50% interest in its Kazakhstan businesses to SinoHan Oil and Gas Investment Number 6 B.V. part of the HanHong Private Equity Management Company Limited, a Beijing, PRC based private equity fund. The sale is subject to Kazakh State approvals, including the waiver on pre-emption (Article 36). Closing will take place once these approvals are received.

The Company has considered the structure of the arrangement with SinoHan, the legal form of the vehicles through which the arrangement will be conducted, the contractual terms of the arrangement and other facts and circumstances and determined that the arrangement should be classified as a joint venture, where the Company has rights to the net assets of an arrangement.

Once the sale transaction completes the Company will no longer control and consolidate the Kazakhstan businesses but will instead exercise joint control with SinoHan and account for its interest in the joint venture using the equity method of accounting. The Company's investment in the joint venture will be shown in the consolidated statement of financial position initially at fair value and adjusted thereafter for changes in the Company's share of net assets of the joint venture, less distributions received and less any impairment in value of the investment. The Company's consolidated statement of comprehensive income will reflect the Company's share of the results after tax of the jointly venture.

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The following table provides additional information with respect to the assets and liabilities of the disposal group held for sale.

	December 31, 2013
Non-current assets	
Intangible assets	26,467
Property, plant and equipment	107,710
Restricted cash	1,664
Prepayments and other receivables	10,639
Investment in jointly controlled entities	1,116
	147,596
Current assets	
Inventories	1,446
Trade and other receivables	3,985
Loan receivable from jointly controlled entity	2,676
Cash and cash equivalents	622
	8,729
Total assets	156,325
Non-current liabilities	
Financial liabilities - borrowings	5,171
Deferred taxation	4,684
Trade and other payables	263
Asset retirement obligations	795
	10,913
Current liabilities	
Financial liabilities - borrowings	3,776
Trade and other payables	6,744
	10,520
Total liabilities	21,433
Net assets	134,892

20 Cash and cash equivalents

	December 31, 2013	December 31, 2012
Cash at bank and in hand	5,572	1,750
Short-term deposits	19,537	-
	25,109	1,750

Cash at bank balances earn interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of between one day and three months, depending on the cash requirements of the Company, and earn interest at the respective short term deposit rates.

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21 Financial liabilities

21.1 Borrowings

	Effective interest rate	Maturity date	December 31, 2013	December 31, 2012
Current				
Rig loans –				
Option A	19.95% p.a.	2014	3,538	5,637
Rig loans –				
Option B	19.54% p.a.	2014	1,427	1,711
Kazakh loan	14.01% to 15.93% p.a.	2014	-	6,277
			4,965	13,625
Non-current				
Rig loans –				
Option B	19.54% p.a.	2013/2014	-	1,311
Kazakh loan	14.01% to 15.93% p.a.	2013/2016	-	2,377
			-	3,688
			4,965	17,313

Rig loans

In December 2011, the Company closed the first tranche of a maximum USD 10 million loan facility amounting to USD 3,965,240, which is secured by the ZJ70 and ZJ30 rigs and other equipment. This facility gave lenders the choice of two methods of repayment designated Option A and Option B. The remaining two tranches of the USD 10 million facility were closed in February and March 2012.

Under Option A, which had a term of one year, lenders had the option to receive monthly repayments on an interest only basis followed by a single balloon repayment of the principal amount to be paid at the maturity date.

Option B, which had a term of two years, gave lenders the right to receive equal monthly instalments, incorporating interest and capital, together with a single balloon repayment of half of the principal amount to be paid at the maturity date.

These borrowings were held at amortized cost. The interest payable on the borrowed funds was 12% per annum under both options.

In addition, lenders were granted warrants to acquire ordinary shares of the borrower equal to half of each \$100,000 principal amount of the loan advanced to the Company. As at December 31, 2013, a total of 7,594,051 warrants had been granted to lenders.

Such warrants were exercisable at a 25% premium to the price of the volume weighted average CAD price of the shares on the TSX for the 5-day period prior to the day the borrower receives the funds in its bank account.

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

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

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Tranche 3 Option A loan holders with loans maturing in February and March 2013 also rolled over their loans for a further period of one year.

The original loans were de-recognised and the new loans recognised at fair value. Associated warrants were re-issued at exercise prices of CAD 0.64, CAD 0.71 and CAD 0.92. Furthermore, extensions of warrant expiry dates were granted to all loan holders, except two officers of the Company who were re-issued with warrants upon expiry of the original warrants.

Kazakh loan

On June 29, 2012, the Company announced that it had secured a loan facility from a Kazakh bank to fund capital expenditures in Kazakhstan (the "bank loan facility"). At December 31, 2013, the loan balance was included within the liabilities of a disposal group held for sale, see note 19 for further details.

The bank loan facility was arranged by Eurasia Gas Group LLP, with the Company's consent, and is a bank loan to Eurasia Gas Group LLP, the Company's joint venture partner in Aral Oil Terminal LLP, whereby Eurasia Gas Group LLP draws down on the bank loan facility with the approval of the Company and funds are transferred to the Company's subsidiary, Tethys Aral Gas ("TAG"). The bank loan facility has a term of up to four years depending on the Company's requirements and bears an interest rate of between 12% and 15% per annum on sums drawn down.

A formal loan agreement was signed with Eurasia Gas Group LLP for 2.35 billion KZT with a drawdown period of one year from the date of first drawdown (May 31, 2012). Repayment and interest terms are agreed for each drawdown, upon drawdown.

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

As at December 31, 2013, 1.935 billion KZT (\$12.9 million) of funds had been advanced to the Company in relation to the loan agreement, with a remaining repayment period over 3 years and monthly repayments of both principal and interest (at a weighted average effective interest rate of 14.99%).

In case oil production is suspended for more than 30 days, the outstanding amount is to be repaid to Eurasia Gas Group LLP within 30 days from the receipt of its notice of return.

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

21.2 Derivative financial instrument - warrants

	December 31, 2013	December 31, 2012
Balance, beginning of year	523	264
Issued during the year	461	778
Exercised	(137)	-
Fair value loss on extension of warrants	-	233
Fair value gain	(830)	(752)
Balance, end of year	17	523

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The warrant liability represents the financial liability relating to share warrants where the shares are denominated in a currency that is not the Company's functional currency. These warrants were issued in connection with the two rig loans described in note 21.1.

As the warrants are denominated in foreign currency, there is a written option for the holder to exchange the foreign currency denominated warrant for a fixed number of functional currency denominated shares. This option is a derivative financial instrument and was initially recognised at fair value and subsequently measured at fair value through profit and loss.

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

	December 31, 2013	December 31, 2012
Weighted average fair value	\$0.04	\$0.09
Risk free rate	0.93%	1.06%
Expected term	0.4 year	1 year
Volatility	51.9%	76.5%
Dividend	Nil	Nil

The following table summarizes the warrant activity for the years ended December 31, 2013 and December 31, 2012.

	Number of warrants	Weighted average exercise price \$
Outstanding at January 1, 2012	2,620,918	0.79
Granted	4,100,000	0.90
Expired	(945,918)	1.05
Outstanding at December 31, 2012	5,775,000	0.81
Exercisable at December 31, 2012	5,775,000	0.81
Outstanding at January 1, 2013	5,775,000	0.81
Granted	1,819,051	0.78
Exercised	(850,000)	0.63
Expired	(2,619,051)	0.86
Outstanding at December 31, 2013	4,125,000	0.81
Exercisable at December 31, 2013	4,125,000	0.81

Of the warrants outstanding and exercisable at the end of the year, 392,620 relate to warrants granted to the Company's officers.

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

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In estimating expected volatility, the Company considers the historical volatility of its own share price over the most recent period that is commensurate with the expected warrant term.

The following table lists the warrants outstanding at December 31, 2013 by exercise price.

Exercise price CAD\$	Warrants outstanding	Weighted average remaining term (in years)	Warrants exercisable	Weighted average remaining term (in years)
0.58	100,000	0.47	100,000	0.47
0.59	500,000	0.47	500,000	0.47
0.62	150,000	0.43	150,000	0.43
0.64	357,620	0.43	357,620	0.43
0.71	1,183,500	0.15	1,183,500	0.15
0.84	276,500	0.64	276,500	0.64
0.85	50,000	0.64	50,000	0.64
0.92	635,551	0.21	635,551	0.21
1.08	100,000	0.66	100,000	0.66
1.09	218,579	0.75	218,579	0.75
1.11	100,000	0.72	100,000	0.72
1.14	453,250	0.71	453,250	0.71
	4,125,000	0.40	4,125,000	0.40

21.3 Finance costs / (income)

The net finance cost / (income) comprises:

	Year ended December 31, 2013	Year ended December 31, 2012
Finance costs	1,676	1,289
Finance income	(216)	(206)
	1,460	1,083

22 Trade and other payables

	December 31, 2013	December 31, 2012
Current		
Trade payables	1,637	4,487
Accruals	1,569	2,586
Other creditors	240	1,158
Dividend payable to non-controlling interest	1,500	-
	4,946	8,231
Non-current		
Other non-current payables	-	351

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Trade payables are non-interest bearing and are normally settled on 30 day terms. Accruals represent mainly fees outstanding to the drilling contractor in Uzbekistan and professional fees.

23 Asset retirement obligations

	December 31, 2013	December 31, 2012
At January 1	524	386
Additional obligations incurred	112	10
Change in estimated cash flow	616	131
Liabilities settled	(503)	(25)
Unwinding of discount due to passage of time	46	22
Transfer to "liabilities of a disposal group held for sale"	(795)	-
	-	524

The Company makes provision for the future cost of decommissioning oil and gas production facilities and pipelines on a discounted basis. These costs are expected to be incurred between 2014 and 2023. The provision has been estimated using existing technology at current prices, escalated at 5.4% (2012 – 5.4%) and discounted at 7.4% (2012 – 7.4%). The economic life and the timing of the asset retirement obligation are dependent on Government legislation, commodity prices and the future production profiles of the project. In addition, the estimated cash outflows are subject to inflationary and/or deflationary pressures in the cost of third party service provision. The undiscounted amount of liability at December 31, 2013 is USD 1,334,057 (2012 – USD 764,351).

24 Capital and reserves

Share capital and share premium

	December 31, 2013 Number	December 31, 2012 Number
Authorized		
Ordinary shares with a par value of \$0.10 each	700,000,000	700,000,000
Preference shares with a par value of \$0.10 each	50,000,000	50,000,000

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Ordinary equity share capital Allotted and fully paid	Number	Share capital	Share Premium
At January 1, 2012	286,692,744	28,669	306,725
Issued during the year in connection with the exercise of share options	15,000	2	11
Cost of share issue	-	-	(11)
At December 31, 2012	286,707,744	28,671	306,725
At January 1, 2013	286,707,744	28,671	306,725
Issued during the year in connection with the exercise of share options	850,000	85	570
Cost of share issue	-	-	-
At December 31, 2013	287,557,744	28,756	307,295

In addition to the shares shown above, the Company issued 12,000,000 shares on July 9, 2013 in connection with the proposed acquisition of certain Georgian assets (see note 30). These shares were held in escrow pending Georgian governmental consent for the acquisition which was received on January 2, 2014. Whilst these shares were issued as at December 31, 2013, they did not qualify for recognition as equity of the company at that date as the conditions required to release the shares to the seller had not yet been met and so have not been included in the table above.

As at December 31, 2013, a total of 34,388,129 (December 31, 2012 – 34,388,129) ordinary shares are reserved under the Company's Long Term Stock Incentive Plan and Warrants granted by the Company. Details of the options and warrants are given in note 9.

The preference shares have the rights as set out in the Memorandum and Articles of Association approved at the AGM on April 24, 2008. Significant terms related to preference shares are summarised below:

- May be issued in one or more series;
- Are entitled to any dividends in priority to the ordinary shares;
- Confer upon the holders thereof rights in a winding-up priority to the ordinary shares;
- And may have such other rights, privileges and conditions (including voting rights) as the Board may determine prior to the first allotment of any series of preference shares, provided that if a series of preference shares has no or limited voting rights it shall be designated as such by the Board.

There are currently no preference shares outstanding (2012 – None).

Other reserves

Other reserves comprise of option reserves and warrant reserves as set out in the Statement of Changes in Equity. The Option and Warrant Reserves relate to stock options and warrants issued to employees under the Long Term Incentive Plan, details of which are discussed in note 10.

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25 Non-controlling interest

The table below summarise the information relating to subsidiaries in which there is as a material non-controlling interest, before any group eliminations. In each case the non-controlling interest is 15%.

December 31, 2013	Seven Stars Energy Corporation	Tethys Services Tajikistan Limited	Kulob Petroleum Limited
Non-current assets	-	-	19,826
Current assets	36,920	594	13,178
Non-current liabilities	(957)	-	-
Current liabilities	(1,513)	(868)	(36,006)
Net assets	34,450	(274)	(3,002)
Revenue	-	258	550
Profit/(loss)	(7,473)	(414)	4,538
Cash balance at beginning of year	-	106	21
Cash balance at end of year	1,503	459	262

During 2013, Tethys Services Tajikistan Limited and Kulob Petroleum Limited had cash outflows in respect of operating costs, capitalised exploration and evaluation expenditure and purchases of property plant and equipment and cash inflows in the form of funding from Tethys companies and in the case of Kulob Petroleum Limited from oil sales.

Kulob Petroleum Limited also received USD 63,404,444 in cash from the farm-out of its exploration interests (note 13) which was then transferred to its ultimate parent company, Tethys Petroleum Limited.

Following the farm-out, Seven Stars Energy Corporation received USD 10,000,000 in cash from Tethys companies to pay a dividend of which USD 8,500,000 was paid during the year and USD 1,500,000 was paid in Q1 2014.

Tethys Services Tajikistan Limited also had cash inflows from plugging and abandonment works undertaken on behalf of the joint venture partners to the Tajik farm-out.

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December 31, 2012	Seven Stars Energy Corporation	Tethys Services Tajikistan Limited	Kulob Petroleum Limited
Non-current assets	1,458	64,723	9,849
Current assets	79,073	106	2,550
Non-current liabilities	(28,606)	-	(355)
Current liabilities	-	(72,994)	(10,978)
Net assets	51,925	(8,165)	1,066
Revenue	-	-	1,875
Profit/(loss)	(8)	(4,213)	1,314
Cash balance at beginning of year	-	133	26
Cash balance at end of year	-	106	21

During 2012, Seven Stars Energy Corporation had no cash transactions; Tethys Services Tajikistan Limited and Kulob Petroleum Limited had cash outflows in respect of operating costs, capitalised exploration and evaluation expenditure and purchases of property plant and equipment and cash inflows in the form of funding from Tethys companies. Kulob Petroleum Limited also had cash inflows from oil sales.

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26 Related party transactions

A list of the investments in subsidiary undertakings (all of whose operations comprise Exploration, Development, Production, Service or Holding Companies in one class of business – Oil and Gas), including the name, proportion of ownership interest, country of operation and country of registration, is given below.

Subsidiaries	Percentage	Country of registration	Country of operation
Tethys Kazakhstan SA	100%	Belgium	Belgium
Transcontinental Oil Transportation SPRL	100%	Belgium	Belgium
Amu Darya Petroleum Limited	100%	BVI	BVI
Seven Stars Energy Corporation	85%	BVI	Tajikistan
Seven Stars Petroleum Products Limited	85%	BVI	Dormant
Tethys Uzbekistan Limited	100%	Cayman Islands	Uzbekistan
Karakalpak Oil & Gas Limited	100%	Cayman Islands	Dormant
Chegara Production Limited	100%	Cayman Islands	Uzbekistan
TransOxiana Petroleum Limited	100%	Cayman Islands	Dormant
Tethys Afghanistan Holdings Limited	100%	Cayman Islands	Dormant
Tethys Production Uzbekistan Limited	100%	Cayman Islands	Uzbekistan
Tethys Tajikistan Limited	100%	Cayman Islands	Tajikistan
Imperial Oilfield Services Limited	100%	Cayman Islands	Cayman Islands
Sogdiana Petroleum Limited	100%	Cayman Islands	Dormant
Cyrus Petroleum Limited	100%	Cayman Islands	Dormant
South Caucasus Petroleum Corporation	100%	Cayman Islands	Georgia
Trialeti Petroleum limited	100%	Cayman Islands	Dormant
Lisi Petroleum Limited	100%	Cayman Islands	Dormant
Saguramo Petroleum Limited	100%	Cayman Islands	Dormant
Tbilisi Petroleum Limited	100%	Cayman Islands	Dormant
Kartli Petroleum Limited	100%	Cayman Islands	Dormant
Kulob Petroleum Limited	85%	Cayman Islands	Tajikistan
Resilient Petroleum Limited	45%	Cayman Islands	Dormant
Elemental Petroleum Corporation	45%	Cayman Islands	Dormant
Nectar Petroleum Limited	45%	Cayman Islands	Dormant
Nectar Angola Limited	90%	Cayman Islands	Dormant
Baker Hughes (Cyprus) Limited (trading as Tethys Production Uzbekistan Limited)	100%	Cyprus	Uzbekistan
Tethyda Limited	100%	Cyprus	Cyprus
Tethys Services Georgia limited	100%	Georgia	Georgia
Tethys Services Guernsey Limited	100%	Guernsey	Guernsey
Tethys Aral Gas LLP	100%	Kazakhstan	Kazakhstan
Kul-Bas LLP	100%	Kazakhstan	Kazakhstan
Tethys Services Kazakhstan LLP	100%	Kazakhstan	Kazakhstan
Tethys Corporate Services BV	100%	Netherlands	Netherlands
Asia Oilfield Equipment BV	100%	Netherlands	Kazakhstan
AOE Telesto BV	100%	Netherlands	Dormant
Tethys Uzbekistan BV	100%	Netherlands	Uzbekistan
Tethys Services Tajikistan Limited	85%	Tajikistan	Tajikistan
Tethys Services Limited	100%	United Kingdom	United Kingdom
Tethys Petroleum Incorporated	100%	USA	USA
Tethys Afghanistan Incorporated	100%	USA	Dormant
Jointly controlled entities			
Aral Oil Terminal	50%	Kazakhstan	Kazakhstan
Bokhtar Operating Company BV	33%	Netherlands	Tajikistan

Tethys Petroleum Limited

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Vazon Energy Limited

Vazon Energy Limited ("Vazon") is a corporation organized under the laws of the Bailiwick of Guernsey, of which Dr. David Robson, Executive Chairman and President, is the sole owner and managing director.

Tethys has a management services contract with Vazon that came into effect from June 27, 2007 whereby the services of Dr. Robson and other Vazon employees are provided to the Company. The total cost charged to Tethys for services from Vazon in the year ended December 31, 2013 was USD 1,341,648 (2012 – USD 2,432,239). As at the date of these consolidated financial statements, the services of Dr. Robson and two other Vazon employees are provided to the Company. The remainder of the employees previously employed by Vazon were transferred to Tethys Services Guernsey Limited during the last quarter of 2012.

On June 13, 2012, the Company and Vazon amended the Deed of Guarantee and Indemnity dated December 10, 2009, between the two companies, whereby the Company guarantees to indemnify Vazon for certain payments related to the management services provided by Vazon under the management services contract.

The guarantee comprises a charge over the assets of one of the Company's subsidiaries, Tethys Tajikistan Limited ("TTL"), equalling amounts owing under the management services contract from time to time. This guarantee was discharged on June 17, 2013 and replaced with a GBP 400,000 deposit made by Tethys Petroleum Limited. The deposit is non-current and is restricted (note 14).

Oilfield Production Consultants

Oilfield Production Consultants (OPC) Limited and Oilfield Production Consultants (OPC) USA LLC have one common director with the Company. Total fees for the year ended December 31, 2013 were USD 111,284 (2012 – USD 66,150). OPC participated in the 2011 loan financing described in note 21, advancing USD 200,000 under Option B of the facility. As a result, OPC received 100,000 warrants valued at a fair value of USD 15,030. The loan was advanced under the same conditions and terms afforded to non-related parties. As a result of agreeing to the rollover, discussed in note 21, the term of the warrants was extended which did not result in any change in fair value.

Related party transactions with key management personnel

Two officers of the Company participated in the 2011 loan financing described in note 21 for which they received 75,000 and 232,620 warrants at a fair value of USD 6,143 and USD 21,983 respectively. Loans advanced were USD 150,000 and GBP 300,000 respectively and were rolled over upon maturity of their one year term for a further term of one year under the same conditions and terms afforded to non-related parties, except that the warrants originally issued were not extended. Upon rollover, there was a re-issue of 75,000 and 232,620 warrants were issued at a fair value of USD 2,940 and USD 25,891 respectively.

On July 6, 2012, Ambassador Khalilzad was appointed a director of the Company. His company, Khalilzad Associates, provides consultancy services with respect to business development. Total fees for these services amounted to \$96,440 for the year ended December 31 2013 (2012 – \$154,078).

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

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

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

Three further non-interest bearing loans of USD 50,382, USD 76,257 and USD 53,918 were advanced to three officers during the year (2012 – USD 50,960, USD 76,251 and nil). Balances outstanding at December 31, 2013 were USD 16,794, USD 44,459 and USD 26,960 respectively (2012 – USD 21,368, USD 50,682 and nil).

Remuneration of key management personnel

The remuneration of the key management personnel of the Company is set out below in aggregate.

	Year ended	
	December 31, 2013	December 31, 2012
Salaries and short-term employee benefits	5,583	4,914
Share-based payments	582	2,329
	6,165	7,243

Transactions with affiliates or other related parties including management of affiliates are recorded at their exchange amount.

27 Changes in working capital

	Year ended	
	December 31, 2013	December 31, 2012
Trade and other receivables	6,345	(2,225)
Inventories	2,045	(21)
Trade and other payables	(3,285)	(1,948)
Change in working capital	5,105	(4,194)
Non-cash transactions	(2,128)	73
Net changes in working capital	2,977	(4,121)

Net changes in working capital are categorized in the Consolidated Statement of Cash Flows as follows:

	Year ended	
	December 31, 2013	December 31, 2012
Operating activities	2,807	(1,842)
Investing activities	170	(2,279)
Balance	2,977	(4,121)

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

28 Commitments and contingencies

Kazakhstan

On November 1, 2013, Tethys announced the sale of a 50% interest in its Kazakhstan businesses. The assets and liabilities of the Kazakhstan businesses have been shown in these accounts as a disposal group held for sale (note 19). The commitments and contingencies of the Kazakhstan businesses are as follows:

Akkulka Production Contract

On December 23, 2009, TAG and the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan ("MEMR") signed the Akkulka Production Contract giving TAG exclusive rights to produce gas from the Akkulka Block for a period of nine years. Contingent upon commencement of commercial production on the Akkulka contractual territory, an amount of USD 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.

Work programmes for the period October 1, 2012 to October 1, 2015 have been agreed totalling USD 4,421,300, against which payments of USD 2,888,845 have been made to date.

Kyzyloi Production Contract

A work programme for 2013 was agreed at USD 2,519,900, against which payments to date of USD 5,848,222 have been made to date. A work programme for 2014 has not yet been agreed.

Akkulka Exploration Contract

Work programmes for 2013 to end of March 2015 have been agreed totalling USD 27,277,000, against which payments of USD 23,194,110 have been made to date.

Kul-Bas Exploration and Production Contract

The Kazakhstan Government is to be compensated for the historical costs related to the contractual territory in the amount of USD 3,275,780. To date, the Company has paid two amounts of USD 49,137 each in relation to this balance. If and when commercial production commences, USD 88,666 is due in quarterly instalments until the remaining historical costs of USD 3,177,506 have been paid in full.

Work programmes for the period November 11, 2013 to November 11, 2015 have been agreed totalling USD 14,894,300, against which payments of USD 2,068,363 have been made to date.

Tajikistan

Bokhtar Production Sharing Contract

Bokhtar Operating Company B.V., in which the Company has a 33.33% interest, had software and consultancy commitments of USD 1,423,945 at December 31, 2013 of which USD 751,978 had been accrued.

Under the terms of the farm-out agreement entered into on June 18, 2013 with its joint venture partners the Company is only required to contribute 11.11% or USD 9 million of the first USD 80 million of the initial work programme.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

Uzbekistan

The Company took the decision to exit from Uzbekistan at the end of December 2013 and this was announced on January 2, 2014. Further details are provided in note 5.

29 Operating leases

Leases as a lessee:

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

December 31, 2013	Total	Less than 1 year	1 – 3 years	Greater than 3 years
Operating leases	1,206	734	343	129

2013 expenditure on lease commitments included in the consolidated statement of comprehensive income amounted to USD 1,340,971.

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

2012 expenditure on lease commitments included in the consolidated statement of comprehensive income amounted to USD 1,331,186.

30 Subsequent events

Georgia

On January 2, 2014, the Company announced that it had received the appropriate Georgian governmental consent for the acquisition of a 56% interest in Blocks XI^A, XI^M and XI^N (Project "Iberia") in eastern Georgia for a payment of USD 9.6 million, comprising 12,000,000 ordinary shares in Tethys (based on a price of CDN 0.84 per share) and funding a USD 4.4 million carry on the next USD 10 million work programme of which USD 4 million was advanced prior to December 31, 2013 (note 15). The shares will be restricted from trading for 4 months.

The Company also announced that it will not complete at this time the previously announced acquisition of Blocks VIII and XI^G (Project "Tamar") as the Company does not believe that all of the conditions relating to this acquisition will be fulfilled, it has decided instead to focus investment and resources at this time on the Iberia blocks where both conventional and unconventional resources are better defined at present. The 8,320,000 ordinary shares previously issued and placed in escrow with respect to this project were cancelled on December 31, 2013.

TETHYS PETROLEUM LIMITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
for the year ended December 31, 2013

The Tethys Petroleum Limited Annual Report and Accounts for 2013 consists of three documents as detailed below:

- 1) Management's Discussion & Analysis: this includes the documents required to be disclosed pursuant to National Instrument 51-102 of Canadian Securities Administrators "Continuous Disclosure Obligations" ("Canadian NI 51-102") in respect of an annual Management's Discussion & Analysis and the documents required to be disclosed pursuant to DTR 4.1 "Annual Financial Report"; and
- 2) Annual financial information: this includes the Consolidated Financial Statements, the documents required to be disclosed pursuant to Canadian NI 51-102 with respect to an annual financial report and the documents required to be disclosed pursuant to DTR 4.1, Directors' Responsibility Statement and the Independent Auditor's Report to Tethys Petroleum Limited, and;
- 3) The Annual Information Form ("AIF"): this includes the documents required to be disclosed pursuant to Canadian NI 51 – 102 and DTR 4.1 and the statement which is required to be presented in accordance with DTR 7.2 "Corporate Governance Statements".

The following Management's Discussion and Analysis ("MD&A") is dated March 31, 2014 and should be read in conjunction with the Company's Audited Consolidated Financial Statements and related notes for the year ended December 31, 2013. The accompanying Consolidated Financial Statements of the Company have been prepared by management and approved by the Company's Audit Committee and Board of Directors. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and in accordance with the requirements of the Disclosure and Transparency Rules ("DTR") with respect to DTR 4.1 "Annual Financial Report" of the Financial Conduct Authority ("FCA") in the United Kingdom as applicable to annual financial reporting. Additional information relating to the Company can be found on the SEDAR website at www.sedar.com.

Readers should also read the "Forward-Looking Statements" legal advisory wording contained at the end of this MD&A.

Nature of Business

Tethys Petroleum Limited and its subsidiaries (collectively "Tethys" or "the Company") has its principal executive office in Guernsey, British Isles. The domicile of Tethys is the Cayman Islands where it is incorporated. Tethys is an oil and gas company operating within the Republic of Kazakhstan, Republic of Tajikistan and Georgia. Tethys' principal activity is the acquisition of and exploration and development of crude oil and natural gas fields.

Financial highlights

(All references to USD are United States dollars unless otherwise noted and tabular amounts are in thousands, unless otherwise stated)

	Quarter ended 31 December			Year ended 31 December		
	2013	2012	Change	2013	2012	2011
Oil and gas revenue – continuing ops ¹	8,527	11,324	(25)%	36,945	33,629	15,472
(Loss) / profit for the period / year – continuing ops ¹	(4,207)	(3,648)	15%	(10,535)	(20,960)	(19,989)
– discontinued ops ¹	(6,407)	(421)	1422%	(7,096)	56	(7,000)
	(10,614)	(4,069)	161%	(17,631)	(20,904)	(26,989)
Basic and diluted loss (\$) per share – continuing ops ¹	(0.01)	(0.01)		(0.03)	(0.07)	(0.07)
Basic and diluted loss (\$) per share – discontinued ops ¹	(0.02)	-		(0.02)	-	(0.02)
EBITDA - adjusted for share based payments ²	(2,162)	2,797	(177)%	(1,129)	2,469	(6,211)
Capital expenditure	(16,510)	(8,170)	102%	(23,809)	(17,501)	(41,902)
				As at 31 December		
Total assets				2013	2012	2011
				234,618	251,953	263,391
Cash & cash equivalents				25,109	1,750	10,746
Cash & cash equivalents – held in a disposal group ³				622	-	-
Short & long term borrowings				(4,965)	(17,313)	(10,028)
Short & long term borrowings – held in a disposal group ³				(8,947)	-	-
Total non-current liabilities ³				-	(7,475)	(4,676)
Net (funds) / debt ⁴				(11,819)	15,563	(718)
Number of common shares outstanding ⁵				299,557,744	286,707,744	286,692,744

Note 1 During the second half of 2013 the Company's operations in Uzbekistan were seriously impacted by the closure of the Fergana refinery and a deterioration in the business and political climate in the country. The Board met in November and discussions concluded that a full withdrawal from the country was required. Operations had been significantly interrupted by then to the extent that no revenue from operations has been earned since June 2013. The Board formally decided in December 2013 to exit from the country and announced on January 2, 2014, being the next working day that it would do so effective immediately as there is no contractual notice period but that it would take up to three months to complete the process of exiting from the Production Enhancement Contract ("PEC") for the North Urtabulak field. During Q1 2014 the Company's focus has been on preparing the wells for handover and dealing with the exit. The Company does not expect to benefit from any production or earn any revenues in 2014. In view of the circumstances described, the results of the Uzbekistan segment have been disclosed as a discontinued operation and shown separately from the results of the Company's continuing operations in Kazakhstan, Tajikistan and Georgia. In accordance with the disclosure requirements for discontinued operations the comparative figures in the Consolidated Statement of Comprehensive Income have been restated to be consistent with the current year presentation. A provision of \$0.5m has been made for the unavoidable costs of fulfilling the Company's contractual obligations in the country and closing the Company's entities there in an orderly manner

Note 2 EBITDA – adjusted for share based payments is a non GAAP measure and is defined as "Earnings before Interest, Tax, Depreciation, Amortization and Share Based Payments" and is calculated on the results of continuing operations

Note 3 Due to the conditional sale of 50% (plus one share) of the Kazakh operation, all assets and liabilities of this segment have been re-designated as "Assets and Liabilities of a disposal group held for sale". For further information – refer to note 19 of the audited consolidated financial statements

Note 4 Net debt is calculated as total borrowings (which includes 'current and non-current borrowings') less cash and cash equivalents. Total capital is calculated as 'equity' plus net debt. All figures are as stated in the audited consolidated statement of financial position and related notes

Note 5 Includes 12,000,000 shares issued on July 9, 2013 in connection with the proposed acquisition of Georgian assets. These shares were held in escrow pending Georgian governmental consent for the acquisition which was received on January 2, 2014

- Gas revenue increased in 2013 primarily due to the effective doubling of gas prices which compensated for the lower production volume. Oil revenue marginally reduced overall due to Tajik oil sales ceasing in Q2 2013 as a result of the handback of the Beshtentak field as part of the Tajik farm-out agreement. Kazakh oil production although marginally up on prior year, realized a lower average annual selling price as a result of market conditions affected by Russian imports during Q1 2013;
- Loss for the year of USD10.5m from continuing operations is lower than 2012 (USD20.9m) primarily as a result of the USD8.2m gain arising from the Tajik farm-out and also lower depletion charges following the handback of the Beshtentak field and the transfer of Kazakh property to assets held for sale as of November 2, 2013 at which point depletion ceased;
- Capital expenditure is higher as a result of the application of proceeds from the Tajik farm-out, received in Q2 2013;
- Cash and cash equivalents and net funds are higher at the end of 2013 compared with 2012 due to proceeds of the Tajik farm-out.

Operational highlights

	Quarter ended 31 December			Year ended 31 December		
	2013	2012	Change	2013	2012	Change
Kazakhstan						
Oil (bopd)	2,599	3,717	(30%)	2,613	2,607	-
Gas (boe/d)	1,838	2,630	(30%)	2,044	2,287	(10%)
Combined (boe/d)	4,437	6,347	(30%)	4,657	4,894	(5%)
Uzbekistan						
Oil (bopd)	92	144	(36%)	100	167	(40%)
Tajikistan						
Oil (bopd)	-	-	-	65	95	(32%)
Total boe/d	4,529	6,491	(30%)	4,822	5,156	(6%)
Kazakhstan						
Oil – gross sales price per barrel	\$30.00	\$33.00		\$30.70	\$32.10	
Oil – cost per barrel	\$10.39	\$6.45		\$8.81	\$7.34	
Gas – sales price net of marketing commission (Mcm)	\$62.67 ¹	\$32.97		\$62.67 ¹	\$32.97	
Gas – cost per Mcm	\$38.55	\$19.58		\$28.41	\$16.25	

Note 1 Using a 2013 annual average exchange rate of USD 1 = Tenge 154.01

- Production during Q2 had to be scaled back due to the shortage of rail cars caused by an influx of Russian import to the Kazakh market which overloaded the refineries. Installation of artificial lifting equipment and the optimization of the fluid handling programme temporarily disrupted oil production during Q3 and part of Q4 which reduced overall volumes on an annual basis;
- Gas production continues to follow a natural decline. However production was affected in January 2013 by the sales contract negotiation during which time production ceased. Q3 production was affected by an issue with a compressor which was later resolved and in Q4 2013, production was affected by maintenance to the State pipeline;
- Kazakh oil prices saw a decline in 2013 as a result of market conditions caused by Russian import earlier in the year;
- Kazakh gas prices were effectively doubled as a result of new contract negotiation at the beginning of the year.

Further details on the above highlights are provided throughout this MD&A document.

Outlook

The information provided under this heading is considered as forward looking information; as such please refer to *Forward Looking Statements* on page 26 of this MD&A.

The Company's objective is to build a diversified oil and gas exploration and production company with a mixture of oil and gas field development projects and long-term high potential exploration projects focused on the Central Asian and Caspian Region. The Company produces both oil and natural gas in order to balance its product portfolio, and operates in three separate jurisdictions in Central Asia and the Caspian Region in order to mitigate the political, fiscal and taxation risk that would be inherent with operations solely conducted in one jurisdiction.

The Company's long-term ambition is to occupy a significant role in the production and delivery of hydrocarbons from the Central Asian region to local and global markets. In common with many oil and gas companies, in implementing its strategies, the Company regularly considers farm-out/farm-in and joint venture opportunities and new projects which provide synergy with the Company's activities to enhance shareholder value in the medium to long term. Meanwhile, the specific focus of management in the short term is to:

- complete the conditional sale of 50% (plus one share) of the Kazakh assets;
- fully appraise the Doris and Dione oil field discoveries in the Akkulka Block, Kazakhstan;
- carry out the shallow gas exploration and development programme in order to significantly increase natural gas production;
- continue exploration drilling and evaluation of the Akkulka and Kul-Bas licence blocks in Kazakhstan;
- explore and develop new licences in Georgia;
- develop the Tajik Bokhtar PSC together with the Company's new partners.

Significant events and transactions for the quarter and year ended 31 December 2013

- An effective doubling of gas price in Kazakhstan following the finalisation of two new annual gas supply contracts with Intergas Central Asia JSC. The contracts are for volumes up to 150 million cubic metres at a price of KZT13,365 (approximately USD 86.78 per Mcm (USD 2.47 per Mcf) of gas (USD 97.19 per Mcm or USD 2.76 per Mcf including VAT). Sales costs are KZT3712.50 (approximately USD 24.11) per Mcm. The contracts ran through to December 31, 2013 and were renewed on similar terms post year end;
- Extension of exploration period for the Kul-Bas Exploration and Production Contract by a further two years until November 11, 2015. The Kul-Bas contract area surrounds the Akkulka contract area which contains the Company's producing oil and gas fields. This extension gives further time to explore this attractive area, which has several prospects and leads;
- Completion of the farm-out agreement announced in December 2012 with subsidiaries of Total Exploration and Production SA ("Total") and China National Petroleum Corporation ("CNPC") whereby each acquired a one third interest in the Bokhtar Production Sharing Contract (the "Bokhtar PSC") in Tajikistan. Tethys' subsidiary, Kulob Petroleum Limited ("KPL") which held the Company's interest in the Bokhtar PSC received USD63.4 million relating to its past costs. KPL is owned by Seven Stars Energy Corporation ("SSEC") in which the Company holds an 85% share. KPL also has a part carry on an USD80.0 million initial work programme whereby KPL contributes only USD8.8 million towards this programme;
- The acquisition (completed early January 2014) of a 56% interest in Blocks XI^A, XI^M and XI^N, in eastern Georgia through three Production Sharing Contracts ("PSC") in Georgia for a payment of USD 9.6 million, being the issue of 12,000,000 ordinary shares in Tethys (based on a price of CDN 0.84 per share) and funding of a USD 4.4 million carry on the next USD 10 million work programme. Tethys is now Operator of these PSC's;
- Drilling of the AKD08 ("Doto") Exploration well in Kazakhstan to a total depth of 3,566 metres using Tethys' own ZJ70 "Telesto" rig. This well encountered both the Jurassic carbonate and Lower Cretaceous sandstone reservoirs present in the Doris field and drilling and wireline data indicated the possible presence of hydrocarbons although the Cretaceous sandstone was of poorer quality than in the Doris field. The Jurassic section has been partially tested to date but the Company plans to use radial or horizontal drilling in an attempt to establish commercial flow by intersecting fractures;
- Drilling of the AKD09 ("Dexa") well in Kazakhstan to a total depth of 2,452 metres. Although a thick "Doris" sand was found, this did not contain moveable hydrocarbons thereby limiting the possible stratigraphic trapping to the north west of the Doris field. This well may be used as a future horizontal producer sidetracked into the main body of the field;
- Conditional sale of 50% (plus one share) of the Company's Kazakh oil & gas assets to SinoHan Oil and Gas Investment B.V. ("SinoHan"), part of HanHong, a Beijing, PRC based private equity fund. On closing, Tethys will receive consideration of USD75 million plus the potential for future bonuses and will remain as the operator of the Kazakh assets with both partners having equal board representation in Tethys Kazakhstan SA ("TK SA"). The sale is subject to Kazakh State approvals, including the waiver on pre-emption (Article 36). Closing will take place once these approvals are received;
- The Company won the prestigious World Finance Oil & Gas Award for the Best Exploration and Production Company, Asia 2013;
- Announcement of the Company's decision to exit Uzbekistan effective immediately due to recent changes in the business climate and political environment. It is expected to take up to three months to complete the process of exiting from the existing Production Enhancement Contract ("PEC") for the North Urtabulak field. This strategic decision will allow the group to refocus capital to other countries of operation, progressing both exploration and production activities.

Significant events and transactions subsequent to the year end

- Completion of the above-mentioned acquisition of a 56% interest in Blocks XI^A, XI^M and XI^N in eastern Georgia. Tethys is now Operator of these PSCs.

Reserves

- Following the completion of the annual audit of the Kazakh reserves by an independent auditor, Gustavson & Associates Consultants Limited ("Gustavson"), independent oil and gas reservoir engineers of Calgary, Alberta, the Company announced Total Net Oil and Gas Reserves consisting of "Proved" 1P reserves of 13.03 million BOE - (2012: 13.76 million BOE) and "Proved and Probable" 2P reserves of 23.29 million BOE (2012: 24.038 million BOE). With the addition of 2013 production these figures represent an increase on the 2012 year end volumes in both categories.

- The NPV10 value after tax of the Company's Kazakh reserves as at December 31, 2013 was USD257.2 million (2012: USD310.4 million), which represents a reduction less than the corresponding 2013 production.

Resource Reports

Kazakhstan

Effective April 30 2012, prospective resources have been independently assessed by Gustavson with respect to Kazakh acreage at a mean unrisks total recoverable resource of 1.230 billion bbls and 634.4 Bcf. In January 2014, Gustavson have also independently assessed a newly identified prospect, named "Klymene", in the Kulbas Block, with unrisks mean recoverable prospective oil resources of 422 million barrels. This was based on new seismic data acquired in 2013.

Tajikistan

Effective June 30, 2012, prospective resources have been independently assessed by Gustavson with respect to Tajik acreage that covers an area of approximately 35,000 sq. Km. Estimated gross unrisks mean recoverable resources were reported to be 27.5 billion barrels of oil equivalent (boe). The upgrade from the figures reported previously was the result of data acquisition and interpretation from both the seismic and aeromagnetic and gravity surveys together with well data.

Georgia

An independent resource assessment, utilizing both seismic and well data, has been carried out by Gustavson with respect to 3 blocks: XI^A, XI^M and XI^N, which were acquired in early January 2014. Total unrisks mean recoverable prospective resources were assessed in excess of 3.2 billion barrels oil equivalent, with the majority being unconventional oil resources.

There is no certainty that it will be commercially viable to produce any portion of the above resources. Reference is made to the AIF for further information and prescribed disclosure relating to these resources.

Results of Operations and Operational Review - Kazakhstan

Oil production – Akkulka Contract

	2013					2012				
	Gross fluid m3	Net barrels	Net barrels	Net production days	Net production bopd	Gross fluid m3	Net barrels	Net barrels	Net production days	Net production bopd
Q1	53,168	334,419	288,042	90	3,200	17,149	105,082	94,463	91	1,038
Q2	37,139	233,599	202,700	91	2,227	46,099	289,957	266,391	91	2,927
Q3	44,333	279,127	224,033	92	2,435	42,148	265,102	251,321	92	2,732
Q4	56,759	357,000	239,117	92	2,599	59,241	372,620	341,974	92	3,717
Total	191,399	1,204,145	953,892	365	2,613	164,637	1,032,761	954,149	366	2,607

- Test production from the Doris discovery well AKD01 originally commenced in September 2010 at a level of up to 750 barrels per day. Oil was initially transported by truck to an oil loading terminal north of the town of Emba, located 450 km to the northeast of the well site, where it was treated before being transported to local refineries. In January 2011, approval was granted for a Pilot Production licence for this Doris oil discovery in the Akkulka block, whereupon the Company received the right to produce oil under the exploration contract. Furthermore, it allowed the Company to install and operate production facilities for a planned (Phase 2) production target. Once the Pilot Production Project is fully completed, relevant final reserve calculations will be submitted to the Kazakh Ministry of Oil and Gas ("MOG") to receive a production contract which will allow for full field development and foreign or domestic sales. The Company is expected to apply for a production contract. A full production contract is planned to be in place by the end of Q1 2015;
- During 2013, the Company produced oil from three wells under the Pilot Production licence: AKD01, AKD05 and AKD06. AKD01 and AKD05 are consistently performing to expectation. AKD06, originally tested in November and December 2011, was closed until mid-April 2012 when it was re-opened for continued testing, whereupon it too has continued to perform to expectation including a higher water cut as predicted. A high capacity pump has been installed as planned on AKD06 and AKD05 is also operating with a progressive cavity pump;
- Q1 2013 saw higher production than the same quarter prior year due to benefits delivered by the construction of the Aral Oil Terminal ("AOT") mid 2012, which had effectively halved the initial trucking distance. Furthermore, weather conditions were not as severe as in the same period of 2012;

- Production was, however, adversely affected in March 2013 due to a combination of a shortage of railcars and the extreme weather. The shortage of rail cars developed due to a surplus of products at refineries resulting from Russia's increased exports of oil and refined product into Kazakhstan as a direct consequence of the newly implemented customs treaty between the two countries. Refineries were full and thus loaded rail trucks were not being accepted. This issue continued into Q2 2013 until the end of May, resulting in the necessity to restrict production from time to time;
- The installation of artificial lift equipment and a fluid handling optimization programme temporarily reduced production levels to around 2,250 barrels of oil per day during Q3 2013. Mechanical issues relating to the installation and operation of the downhole progressive cavity pumps further delayed completion of this programme into Q4 2013;
- These issues were finally resolved towards the end of October 2013 and as a result, production increased to approximately 3,200 barrels of oil per day.

Oil operations update

General

Oil production is currently at approximately 3,000 barrels per day with mechanical issues having now been resolved and improvements in adverse weather conditions. Further work is planned this year to increase oil production.

AKD08 ("Doto")

The AKD08 ("Doto") exploration well was drilled to a total depth of 3,556 metres and electric logs have been run to TD in the 8 1/2" hole section. As has been previously announced, hydrocarbon indications have been observed in both the Cretaceous and Jurassic sections whilst drilling and from the wireline logs. Testing of the Jurassic interval took place in January 2014 following receipt of Kazakh governmental permissions. No commercial oil flow was obtained despite oil indications from logging and it is interpreted that the reservoir has low matrix permeability and that no fractures were encountered. Radial or horizontal drilling is now planned for this well in an attempt to intersect fractures which may allow commercial production to be established. Detailed seismic interpretation is underway to plan such drilling.

AKD09 ("Dexa")

The AKD09 ("Dexa") exploration well was drilled to a total depth of 2,452 metres. The primary exploration target of the well, the Cretaceous "Doris" channel sandstone, although present, does not appear to be hydrocarbon bearing at this location. The well was targeted at this level to evaluate the potential upside of the Doris field in the north-east aimed at testing a model of stratigraphic closure. The well-bore is now being considered for use as a possible semi-horizontal Doris development well in the Jurassic Limestone sequence close to the Doris field discovery AKD01 well which tested 1,373 barrels of 46° API oil per day from this sequence. The AKD01 well has not to date been commercially produced from the Jurassic as it is currently producing from the Cretaceous sand and therefore this area of the reservoir will be unswept.

KBD01 ("Kalypso")

A successful cementing procedure has been carried out on the KBD01 "Kalypso" well and a comprehensive stimulation and subsequent testing programme, commenced mid-December initially on the Permo-Carboniferous interval, after delays primarily caused by the sourcing of equipment and weather. The testing programme involves hydraulic fracture stimulation of the carbonate interval, followed by possible acidisation. The hydraulic fracturing has now been carried out, with data indicating that this was successful. Acidisation and related equipment are currently being sourced and following this procedure flow testing will be attempted to ascertain whether or not this zone can achieve commercial flow of what is thought to be gas condensate. This interval is approximately 4,100 metres below the surface and electric logs run over this section and drilling data indicate more than 100 metres of gross potential hydrocarbon bearing zones.

Joint Venture – Aral Oil Terminal "AOT"

In 2013, the construction of Phase 2 of the AOT facility was completed, which provides for an increase in throughput capacity from 4,200 bopd to 6,300 bopd with the installation of two 1000 m³ storage tanks (12,500 bbls) and associated pumping equipment. Under Phase 2b an electrical dehydrator for the commercial treatment of crude oil is being installed which will significantly improve the quality of oil, which should in turn help to realize a higher oil price.

Gas production – Kyzylloi and Akkulka Contracts

	2013				2012			
	Mcm ¹	Mcf ²	Mcm/d ³	Boe/d ⁴	Mcm ¹	Mcf ²	Mcm/d ³	Boe/d ⁴
Kyzylloi								
Q1	19,242	679,429	214	1,258	35,242	1,244,402	387	2,279
Q2	26,238	926,464	288	1,697	31,967	1,128,762	351	2,068
Q3	25,630	905,007	279	1,640	31,160	1,100,253	339	1,993
Q4	22,029	777,833	239	1,409	29,244	1,032,599	318	1,871
Total	93,139	3,288,733	255	1,502	127,613	4,506,016	349	2,052
Akkulka								
Q1	7,413	261,737	82	485	16,273	574,605	179	1,053
Q2	10,118	357,267	111	654	14,373	507,504	158	930
Q3	9,370	330,856	102	599	12,808	452,265	139	819
Q4	6,712	236,995	73	429	11,862	418,830	129	759
Total	33,613	1,186,855	92	542	55,316	1,953,204	151	890
TOTAL	126,752	4,475,588	347	2,044	182,929	6,459,219	500	2,942

Note 1 Mcm is thousands of cubic metres

Note 2 Mcf is thousands of cubic feet

Note 3 Mcm/d is thousands of cubic metres per day

Note 4 boe/d is barrel of oil equivalent per day. A boe conversion ratio of 6,000 cubic feet (169.9 cubic metres) of natural gas = 1 barrel of oil has been used and is based on the standard energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead

- Production commenced from the Kyzylloi field in 2007, following the construction of a 56 km, 325 mm diameter export pipeline from the Kyzylloi field gathering station to the main Bukhara–Urals gas trunkline, where a compressor station was constructed at km910 on that trunkline. The gas flows into the main trunkline which is owned by Intergas Central Asia, a division of the Kazakh state natural gas company KazTransGas. The gradual reduction in production levels in 2013 is as a result of natural well decline and due to minimal capital investment pending the opening of the Bozoi-Shymkent-China gas pipeline which was completed in Q3 2013;
- Production commenced from the Akkulka field on October 6, 2010 and the gradual reduction in production levels in 2013 is primarily the result of natural decline in the wells. However during Q3 2013 one Akkulka well was closed which has resulted in a reduction in production levels.
- Q4 2013 production was affected by maintenance to the Bukhara-Urals gas trunkline.

Gas operations update

Shallow Gas Drilling programme

Currently the tied in gas wells on Kyzylloi and Akkulka can produce approximately 360 thousand cubic metres per day (Mcm/d) (13 million cubic feet per day (MMcf/d)). At the current gas price of net USD 62.97 per Mcm this production generates approximately USD 8.3 million per annum in revenue.

The forward gas programme has two aspects: those wells that have been previously drilled and tested that will be tied in and new shallow gas wells with up to 10 new wells planned for 2014. The initial well locations have been chosen and two wells drilled with further targets to be identified close to the gas pipeline after the interpretation of 3D seismic data. These wells are targeting gas at 600-800 metres at the deeper, higher pressured Tasaran sand level that tested strongly on the AKK14 and AKK15 wells, as currently the production is exclusively from the shallower Kyzylloi stratigraphic level. On the previous drilling campaign, 11 out of 13 shallow gas wells were successful and the subsequent seismic acquired (including 3D) is of better quality.

This programme would be expected to significantly increase gas production, although it is dependent on financing being in place through receipt of sale proceeds upon Government approval of the Kazakh sale, or from the proceeds of any pre-emption by the Kazakh State or alternative financing.

Previously drilled and tested wells will be brought on stream over the next 12 months, at different stages dependent on their particular location and contract status.

The AKK14 well was drilled in 2008 and tested at 195 Mcm/d (6.9 MMcf/d) in the Tasaran horizon. This gas well has been approved and incorporated under the Akkulka Production Contract. It will be worked over and brought on production in Q2 2014 and is already tied into the pipeline system.

The AKK05 well was drilled in 2005 and tested at 223Mcm/d (7.9 MMcf/d). This will be worked over in Q3 2014 whereupon it can be produced for 90 days test production. It is expected that it will be approved and incorporated under the Kyzylol Production Contract by Q3 2014 whereupon it can be placed on permanent production, having already been tied into the infrastructure.

The AKK15 and AKK16 wells were drilled in 2008 and tested at 195 Mcm/d (6.9 MMcf/d) and 289 Mcm/d (10.2 MMcf/d) respectively. To date in 2014 two additional exploration wells have been drilled: AKK17 and AKK18, both of which have encountered gas-bearing sections similar to the AKK15 well. It is planned to tie-in these wells later in 2014.

The recently completed Bozoi-Shymkent-China gas pipeline means that for the first time Tethys has two gas pipelines into which it can sell its gas; the pipeline taking gas to China, and the existing Bukhara Urals trunkline that transports gas from Central Asia into Russia and on to Europe. Currently the Chinese pipeline is only taking domestic gas within Kazakhstan to Shymkent, however, in 2015, gas sales to China will commence.

The Company's strategy is to carry out the comprehensive programme outlined in 2014, in order to complete all work and have all government permissions to commence selling into the Kazakhstan-China pipeline by year-end 2014 when it expects to achieve a significantly higher net price than the current net price of USD 65/Mcm. Tethys believes that Chinese buyers are currently buying gas from Central Asia at much higher prices than this and Tethys expects the price it receives to rise again at that time.

Exploration - update

Results of the additional seismic acquired in the summer of 2013 have been promising and the first interpretation indicates a prospect in the Kul-Bas Exploration and Production Contract area to the west of the Akkulka Exploration Contract area, named "Klymene". Subsequent to the year end, the Company announced the results of an independent prospective resources assessment by Gustavson: a total unrisked mean recoverable oil resources of 422 million barrels. It is expected to spud this new well in 2014. There is no certainty that it will be commercially viable to produce any portion of the above resources. Reference is made to the AIF for further information and prescribed disclosure relating to these resources.

Results of Operations and Operational Review - Uzbekistan

Oil Production - North Urtabulak Production Enhancement Contract ("PEC")

	2013			2012		
	Total production			Total production		
Pre State Take	Tonnes	Barrels ¹	bopd	Tonnes	Barrels ¹	bopd
Q1	6,475	46,488	517	9,004	64,379	707
Q2	5,322	38,212	420	8,795	62,885	691
Q3	5,091	36,553	397	8,350	59,703	649
Q4	5,226	37,523	406	8,075	57,735	628
Total	22,114	158,776	434	34,224	244,702	669
After State Take	Company share			Company share		
Q1	1,498	10,754	119	2,443	17,469	192
Q2	1,260	9,047	99	2,250	16,088	177
Q3	1,182	8,485	92	1,988	14,214	155
Q4	1,188	8,530	92	1,855	13,264	144
Total	5,128	36,816	100	8,536	61,035	167

Note 1 1 tonne = 7.18 barrels

- During the second half of 2013 the Company's operations in Uzbekistan were seriously impacted by the closure of the Fergana refinery and a deterioration in the business and political climate in the country. The Board met in November and discussions concluded that a full withdrawal from the country was required. Operations had been significantly interrupted by then to the extent that no revenue from operations has been earned since June 2013. The Board formally decided in December 2013 to exit from the country and announced on 2 January 2014, being the next working day that it would do so effective immediately as there is no contractual notice period but that it would take up to three months to complete the

process of exiting from the Production Enhancement Contract ("PEC") for the North Urtabulak field. During Q1 2014 the Company's focus has been on preparing the wells for handover and dealing with the exit. The Company does not expect to benefit from any production or earn any revenues in 2014. In view of the circumstances described, the results of the Uzbekistan segment have been disclosed as a discontinued operation and shown separately from the results of the Company's continuing operations in Kazakhstan, Tajikistan and Georgia. In accordance with the disclosure requirements for discontinued operations, the comparative figures in the Consolidated Statement of Comprehensive Income have been restated to be consistent with the current year presentation. A provision of \$0.5m has been made for the unavoidable costs of fulfilling the Company's contractual obligations in the country and closing the Company's entities there in an orderly manner. Settlement is expected in 2014;

- Under the North Urtabulak PEC, the Company received 50% of all incremental production during the first 3 years of production and 20% thereafter. By December 31, 2013, the Company was receiving 20% of production from 11 of the 13 wells produced.

Results of Operations and Operational Review - Tajikistan

Oil Production – Beshtentak

	2013				2012			
	Tonnes	Barrels	Production days	bopd	Tonnes	Barrels	Production days	bopd
Total	1,420	10,338	160	65	4,648	34,597	365	95

- On June 18, the Company completed a farm-out agreement with subsidiaries of Total CNPC. As part of the agreement, Beshtentak wells were relinquished to the government and as a result, production ceased.

Operations update

Since completion of the farm-out, the new joint venture has been focused on the completion of a full regional 2D seismic acquisition programme across the PSC area, particularly targeted at deeper exploration potential. In Q4 2013, the joint operating company went out to tender for the acquisition of seismic data. Phase I will comprise of 826kms of 2D seismic and 588 kms of magneto telluric data, commencing in 2014.

Accounting from date of farm-out

Following the farm-out to subsidiaries of Total and CNPC in June 2013, whereby each acquired a one third interest in Kulob's Bokhtar Production Sharing Contract, an operating company, Bokhtar Operating Company BV, has been established which is jointly owned by the three partners. The Company has classified the arrangement as joint operation (where the company has rights to the assets, and obligations for the liabilities, relating to the arrangement). The Company recognizes its share of assets, liabilities and transactions, including its share of those incurred jointly, in accordance with the relevant International Financial Reporting Standards.

Financial Review

Summary of Quarterly Results

	Dec 31 2013	Sep 30 2013	Jun 30 2013	Mar 31 2013	Dec 31 2012	Sep 30 2012	Jun 30 2012	Mar 31 2012
Oil and gas revenue ¹	8,527	9,082	8,862	10,474	11,324	8,935	9,191	4,179
Loss for the period								
– continuing ops ¹	(4,208)	(4886)	3,242	(4,683)	(3,648)	(5,105)	(4,653)	(7,496)
– discontinued ops ¹	(6,406)	(501)	(544)	356	(422)	(12)	(163)	648
Basic & diluted loss (\$) per share – continuing ops	(0.01)	(0.02)	0.01	(0.01)	(0.01)	(0.02)	(0.02)	(0.02)
Basic & diluted loss (\$) per share – discontinued ops	(0.02)	-	-	-	-	-	-	-
EBITDA – adjusted for share based payments ²	(2,162)	(361)	(634)	1,610	2,797	1,541	934	(2,803)
Capital expenditure	16,510	4,985	1,050	1,264	8,170	6,021	2,101	1,209
Total assets	234,618	246,536	253,924	246,896	251,953	252,083	253,153	253,945
Cash & cash equivalents	25,109	51,207	64,535	1,358	1,750	1,146	3,972	4,180
Cash & cash equivalents – held in a disposal group ³	622	-	-	-	-	-	-	-
Short & long term borrowings	(4,965)	(17,852)	(18,889)	(15,885)	(17,313)	(13,285)	(12,253)	(8,844)
Short & long term borrowings – held in a disposal group	(8,947)	-	-	-	-	-	-	-
Total non-current liabilities ³	-	(11,914)	(12,541)	(9,883)	(7,475)	(9,437)	(5,752)	(5,656)
Net funds / (debt)	11,819	33,355	45,646	(14,527)	(15,563)	(12,139)	(8,281)	(4,041)
Number of common shares outstanding ⁵	299,557,744	299,557,744	299,557,744	286,782,744	286,707,744	286,707,744	286,707,744	286,707,744

Note 1 2012 amounts have been re-stated for operations discontinued during 2013

Note 2 EBITDA – adjusted for share based payments is a non GAAP measure and is defined as “Earnings before Interest, Tax, Depreciation, Amortization and Share Based Payments” and is calculated on the results of continuing operations

Note 3 Due to the conditional sale of 50% (plus one share) of the Kazakh operation, all assets and liabilities of this segment have been re-designated as “Assets and Liabilities of a disposal group held for sale”. For further information – refer to note 19 of the audited consolidated financial statements

Note 4 Net debt is calculated as total borrowings (which includes ‘current and non-current borrowings’) less cash and cash equivalents. Total capital is calculated as ‘equity’ plus net debt. All figures are as stated in the audited consolidated statement of financial position and related notes

Note 5 Includes 12,000,000 shares issued on July 9, 2013 in connection with the proposed acquisition of Georgian assets. These shares were held in escrow pending Georgian governmental consent for the acquisition which was received on January 2, 2014

Loss for the period

The Company recorded a net loss after taxation of USD17.6m for 2013 (2012: USD20.9m). The principal variances between the two periods are summarized below together with a discussion of variances greater than 10%:

	Quarter ended 31 December			Year ended 31 December		
	2013	2012 ¹	Change	2013	2012 ¹	Change
Sales & other revenues	8,527	11,324	(25%)	36,945	33,629	10%
Sales expenses	(679)	-	(100%)	(3,036)	-	(100%)
Production expenses	(4,260)	(3,433)	(24%)	(13,640)	(11,363)	(20%)
Depreciation, depletion & amortization	(1,269)	(5,748)	78%	(12,619)	(17,313)	27%
Unsuccessful exploration & evaluation expenditures	-	(956)	100%	-	(1,093)	100%
Business development expenses	(1,090)	(390)	(180%)	(2,695)	(858)	(214%)
Administrative expenses	(4,656)	(4,703)	1%	(18,703)	(18,942)	1%
Transaction costs for assets held for sales	(611)	-	(100%)	(611)	-	(100%)
Share based payments	(112)	(472)	76%	(862)	(2,932)	71%
Gain on Tajik farm-out	(240)	-	(100%)	8,214	-	100%
Foreign exchange loss - net	(46)	(119)	62%	(113)	(451)	75%
Fair value gain on derivative financial instrument - net	282	269	5%	830	53	1,466%
Profit from jointly controlled entity	(291)	485	(160%)	298	191	56%
Finance costs - net	789	65	1,114%	(1,460)	(1,083)	(35%)
Loss before taxation	(3,656)	(3,678)	1%	(7,452)	(20,162)	63%
Taxation	(551)	30	(1,937%)	(3,083)	(798)	(286%)
Loss for the year from continuing operations	(4,207)	(3,648)	(15)%	(10,535)	(20,960)	50%
Loss for the year from discontinued operations	(6,407)	(421)	(1,422%)	(7,096)	56	(12,771%)
Loss for the period / year	(10,614)	(4,069)	(161%)	(17,631)	(20,904)	16%

Note 1 2012 amounts have been re-stated for operations discontinued during 2013

Sales & other revenue

	Quarter ended 31 December			Year ended 31 December		
	2013	2012 ¹	Change	2013	2012 ¹	Change
Summary						
Oil	6,076	9,952	(39%)	25,530	27,507	(7%)
Gas	2,444	1,329	84%	10,930	5,875	86%
Other	7	43	(84%)	485	247	96%
Total	8,527	11,324	(25%)	36,945	33,629	10%
By region:						
Kazakhstan						
Oil	6,076	9,382	(35%)	24,980	25,632	(3%)
Gas	2,444	1,329	84%	10,930	5,875	86%
Other	3	43	(93%)	208	247	(16%)
Total	8,523	10,754	(21%)	36,118	31,754	14%
Tajikistan						
Oil	-	570	(100%)	550	1,875	(71%)
Other	-	-	-	258	-	100%
Total	-	570	(100%)	808	1,875	(57%)
Other						
Other	4	-	100%	19	-	100%
Total	8,527	11,324	(25%)	36,945	33,629	10%

2013	Gross sales		Realized price at wellhead	Compensation	VAT	Net sales
	bbls	Revenue	\$/bbl			
Q1	272,695	8,737	32.0	165	918	7,654
Q2	205,427	6,248	30.4	134	655	5,459
Q3	220,206	6,621	30.0	135	695	5,791
Q4	231,399	6,945	30.0	140	729	6,076
Total	929,727	28,551	30.7	574	2,997	24,980
2012						
Q1	89,024	2,670	30.0	79	278	2,313
Q2	245,231	7,876	32.1	118	831	6,927
Q3	252,994	8,037	31.8	186	841	7,010
Q4	324,929	10,739	33.0	231	1,126	9,382
Total	912,178	29,322	32.1	614	3,076	25,632

- Under the Pilot Production licence, oil can only be sold in the local market;
- Net figures exclude the compensation for water content plus compensation for natural wastage and transportation costs of water from the well head to the terminal at Shalkar. The associated water from production is separated at the well site and was transported approximately 40km to a disposal facility. The compensation for water content is due to the small amount of water in the crude that remains after the field separation;
- Sale price is determined based on oil sold at the wellhead. The Company incurs no transportation or marketing costs. Some other entities report their oil price differently, with transportation and marketing costs being reported separately. Tethys' oil is trucked 230 kilometres and then railed hundreds of kilometres. According to figures provided by local oil buyers if oil was sold at the refinery, the price would be significantly higher;
- In Q1, 3 wells produced in 2013 as opposed to just 1 well in the same quarter prior year;
- In Q2, 2 wells produced in both years, however, 2013 was affected by the issues caused by Russian imports and consequent lack of rail cars;
- Q3 and Q4 sales volume was affected in 2013 by the installation of artificial lift equipment and optimization of improvements in fluid handling, which reduced volume in the quarters;

- Oil pricing throughout Q4 2013 has remained stable at USD 30 per barrel at the wellhead compared with USD 33 during the comparative period. This equates to an approximate sales price at the refinery of USD 50 to USD 55 per barrel. The average price achieved for 2013 was USD 30.7 (2012: USD 32.1). The downward pressure on pricing is as a result of a 30% increase in railway tariffs in January 2013, which was absorbed by the domestic market. The Company is not responsible for any distribution or transportation costs as product is sold at the wellhead.
- The Company expects to obtain a full production licence in the first half of 2015, at which point it will be able to export production and realize a higher price.

- Despite lower production during 2013, primarily as a result of natural decline, revenue increased over each quarter of the prior year as a result of higher pricing.

- Initial production from the Akkulka field was sold under a second gas sales contract with Asia Gas NG LLP at a price of USD33.93 per Mcm excluding VAT or USD38 per Mcm including VAT. Gas sold under this contract was for domestic sales and, as such, was subject to a Mineral Extraction Tax of approximately 0.5% to the Kazakh State. The contract was for a period of 2 years which expired at the end of 2012;

- Initial production from the Kyzylai field was sold under a long-term take-or-pay contract signed between TethysAralGas LLP and gas trading company GazImpex in January 2006 which was ultimately re-assigned to Asia Gas NG LLP in May 2009. The contract price was USD32 per Mcm excluding VAT or USD35.84 per Mcm including VAT at 12%. This contract expired at the end of 2012;
- In late January 2013, the Company signed two contracts with Intergas Central Asia JSC, a wholly owned subsidiary of the Kazakh State company, KazTransGas JSC. Both Kyzylai and Akkulka sales contracts are for annual volumes up to 150 million cubic metres at a fixed Tenge net price of KZT 9,652.50 per 1,000 cubic metres (approximately USD 62.67 or USD 1.77 per 1,000 cubic feet – at an average 2013 annual exchange rate of 154.01 Tenge) or fixed Tenge gross price including 12% VAT of KZT 10,810.80 per 1,000 cubic metres (USD 70.19 or USD 1.99 per 1,000 cubic feet) net of marketing and distribution costs. This new pricing effectively doubles previous prices. Both contracts ran through to December 31, 2013 and have been renewed on similar terms, post year end. Both contracts are subject to exchange rate risk – refer to page 24 – *Sensitivities*.

Tajikistan Oil sales

Oil sales ceased during Q2 2013 as a result of relinquishment of the Beshtentak field as part of the farm-out agreement with Total and CNPC.

Sales expenses

Sales expenses represent marketing agent's commissions of KZT 3,712.50 per Mcm (approximately USD24.11), net of 12% VAT, paid in relation to the negotiation of the new Kazakh gas sale contracts that came into effect in January 2013. These marketing agent's commissions were not payable in prior years.

Production expenses

	Quarter ended 31 December (adjusted for discontinued operations)			Year ended 31 December (adjusted for discontinued operations)		
	2013	2012	Change	2013	2012	Change
Kazakhstan						
Oil production	2,484	2,205	13%	8,410	7,003	20%
Gas production	1,108	805	38%	3,601	2,972	21%
Tajikistan						
Oil production	63	364	(83%)	859	1,243	(31%)
Other	605	59	876%	770	145	431%
Total	4,260	3,433	24%	13,640	11,363	20%
Kazakhstan						
Oil production - net bbls	239,117	341,974	(30%)	953,892	954,149	0%
Oil production - cost per bbl	10.39	6.45	61%	8.81	7.34	20%
Gas production - boe	169,000	242,000	(30%)	746,000	1,077,000	(31%)
Gas production - cost per boe	6.55	3.33	97%	4.83	2.76	75%
Total – cost per boe	8.47	4.89	73%	6.82	5.05	35%

Kazakhstan – oil production

- A significant proportion of costs associated with oil production are fixed, therefore even though there was lower gas production in Q4 compared with the comparative periods (as discussed in the section on Kazakh oil production), costs will not reduce proportionately. Costs per barrel have generally been affected by disruption to production as a result of the installation of lifting equipment and optimization programme;
- There were increases in oil production costs from Q3 2013 as a result of the Kazakh salary review, project documentation and water disposal costs due to higher water volume.

Kazakhstan – gas production

- A significant proportion of costs associated with gas production are fixed, therefore even though there was lower gas production in both Q4 and throughout 2013 compared with comparative periods (as discussed in the section on Kazakh gas production), costs will not reduce proportionately. For example, costs were incurred throughout January 2013, even though there was no production, as the new sales contract was under negotiation;
- There were increases in gas production costs from Q3 2013 as a result of the Kazakh salary review;
- The Company's shallow gas programme (discussed in the section on Kazakh operations update) should result in a cost reduction per cubic metre as economies of scale are achieved.

Tajikistan

- Production expenses ceased during Q2 2013 as a result of relinquishment of the Beshtentak field as part of the farm-out agreement.

Depreciation, depletion and amortization (DD&A)

DD&A for the 3 months ending December 31, 2013 was USD1.269m representing a decrease of 78% over the same quarter in the prior year (2012: 5.748m), the variance was primarily as depletion of the Kazakh assets ceased at the point at which assets were transferred to "held for sale" (November 2, 2013) in accordance with the Company's accounting policy. In addition, there was no Tajik depletion of the Beshtentak field, which ended at the point of farm-out. Annual DD&A for 2013 was USD12.619m, a decrease of 27% over the prior year (2012: USD17.313m) reflecting the variances identified during the last quarter of the year.

Unsuccessful exploration and evaluation expenditure

In 2012 a cost of USD956,000 was incurred relating to costs incurred on Tajik wells KOM007, KOM180, KOM183 and HOJA022. There was no equivalent cost incurred in 2013.

Business development expenses

Business development expenses are associated with the pursuit of new business opportunities either within existing operating territories or elsewhere. Expenditure for the 3 months ended December 31, 2013 was USD1.090m representing an increase of 180% over the same quarter prior year (2012: USD0.390m). Annual expenditure for 2013 was USD2.695m, an increase of 214% over the prior year (2012: USD0.858m). The level of expenditure reflects increased activity as new licences and contracts are sought.

Administrative expenses

	Quarter ended 31 December (continuing operations)			Year ended 31 December (continuing operations)		
	2013	2012	% Change	2013	2012	Change
Staff	2,145	2,286	(6%)	8,686	8,964	(3%)
Travel	803	852	(6%)	2,300	2,459	(6%)
Office	531	362	47%	1,974	2,384	(17%)
Professional & regulatory fees	760	762	-	2,768	2,703	2%
Marketing costs	148	191	(23%)	1,135	832	36%
Other costs	269	250	8%	1,840	1,600	15%
Total	4,656	4,703	(1%)	18,703	18,942	(1%)

Administrative expenses remained in line with prior year for both final quarter and year to date, specifically:

- Kazakh salaries were increased during the 3rd quarter of 2013 as a result of a salary review. This review, the first since 2010, was key to ensuring the retention of staff. Increases have, however, been offset by higher capitalisation of technical staff costs as a result of increased activity on various licence areas;
- Office costs are overall lower for the year compared with prior year as a result of certain offices being dedicated to providing a business development or capital role. Costs for the quarter were higher than the same quarter prior year due to timing differences in Kazakh spend;
- Marketing costs are higher for the year as a result of increased activity with respect to investor relations and sponsorship, particularly in Kazakhstan;

- Other costs are higher for the year as a result of local administrative taxes in Tajikistan.

Transaction costs of assets held for sale

Costs of USD0.611m have been incurred during 2013 (2012: USD nil) as a result of negotiating the sale of 50% (plus one share) interest in the Kazakh business segment. The sale is subject to Kazakh State approval, at which point closing will take place.

Share based payments

Share based payments for the quarter ending December 31 2013 amounted to USD 0.112m representing a 76% decrease over the comparative period (2012: USD0.472m) reflecting an overall decrease in 2013 awards compared with the previous year. In 2013, 420,000 options were granted compared with 5,505,000 in 2012.

Gain on Tajik farm-out

Following completion of the Tajik farm-out, the Company undertook a review of its Tajik assets. Net book values of USD1.227m (property, plant & equipment) and USD53.519m (intangible exploration assets) were applied against the proceeds of USD63.404m together with transactional and other related costs, resulting in a gain of USD8.214m.

Foreign exchange loss - net

Foreign exchange losses for the quarter were USD0.046m compared with USD0.119m in the comparative period, representing a decrease of 62%. Foreign exchange losses for the year were USD0.113m compared with USD0.451m for 2012 - a decrease of 75%. The foreign exchange loss arises from the revaluation of monetary assets and liabilities denominated in currencies other than the reporting currency and the receipt or settlement of foreign currency denominated amounts at a different amount than the originally recorded transaction amount. The reduction in the loss in 2013 compared with 2012 is principally a result of a strengthening of the Pound Sterling against the US Dollar during 2012 in the Corporate segment and a weakening of the Kazakh Tenge against the US dollar in the Kazakhstan segment.

Fair value (loss) / gain on derivative financial instrument - net

The fair value gain for the quarter was USD0.282m representing an increase of 5% over the comparative period and a gain of USD0.83m for the year compared with a gain of USD0.053m in the prior year. The gain is reflective of decreasing volatility assumptions used in the valuation as a result of shorter remaining terms.

Profit from jointly controlled entity

The profit generated from the Aral Oil Terminal was USD0.298m for the year, (2012: USD0.191m) an increase of 56%. However during the last quarter of 2013, the terminal generated a loss of USD0.291m compared with a profit of USD0.485m in the prior comparative period as a result of temporary lower volume throughput.

Finance costs - net

Finance costs consist of loan interest expense net of interest income. Finance costs for the year were USD1.460m representing a 35% increase over 2012 (USD1.083m) as a result of further loan draw downs at the end of 2012 and early 2013. Greater interest capitalisation occurred in Q4 2013 (USD0.789m) compared with USD0.065m in the comparative period as a result of increased capital expenditure incurred during the quarter.

Taxation

The current tax charge for the quarter was USD0.551m (2012: tax recovery of USD0.030m) which was primarily as a result of withholding tax incurred on repayment of inter-company rig rentals. This accounted for the majority of the 2013 charge of USD0.577m (2012: USD nil). With respect to deferred tax, there was negligible movement in the quarter, however, the annual expense was USD3.08m, an increase of 286% over 2012 (USD0.798m) which was attributable to Kazakh capital expenditure.

Loss / (profit) for the year from discontinued operations

As a result of the Company's decision at year end to exit from Uzbekistan, the Company's accounting policy requires all revenues and costs associated with this segment to be excluded from the Company's results and separately disclosed. The comparative has similarly been re-stated. The loss for 2013 was USD7.096m, which included a write-down of all segment assets (2012: profit of USD0.056m). Refer to notes 5 and 6 of the 2013 audited consolidated financial statements.

Liquidity and Capital Resources

The Company's capital structure is comprised of shareholders' equity and debt.

The Company's objectives when managing capital is to maintain adequate financial flexibility to preserve its ability to meet financial obligations, both current and long term. The capital structure of the Company is managed and adjusted to reflect changes in economic conditions.

The Company funds its capital expenditures from existing cash and cash equivalent balances, primarily received from issuances of shareholders equity and some debt financing. None of the outstanding debt is subject to externally imposed capital requirements.

Financing decisions are made by management and the Board of Directors based on forecasts of the expected timing and level of capital and operating expenditure required to meet the Company's commitments and development plans. Factors considered when determining whether to issue new debt or to seek equity financing include the amount of financing required, the availability of financial resources, the terms on which financing is available and consideration of the balance between shareholder value creation and prudent financial risk management.

Net debt is calculated as total borrowings (which includes 'current and non-current borrowings') less cash and cash equivalents. Total capital is calculated as 'equity' plus net debt. All figures are as stated in the audited consolidated statement of financial position and related notes.

	Year ended 31 December		
	2013	2012	Change
Total financial liabilities - borrowings	4,965	17,313	(71%)
Total financial liabilities – borrowings of a disposal group	8,947	-	(100%)
Less: cash and cash equivalents	(25,109)	(1,750)	1335%
Less: cash and cash equivalents – of a disposal group	(622)	(-)	(100)%
Net (funds) / debt	(11,819)	15,563	
Total equity	202,593	220,153	(8%)
Total capital	190,774	235,716	(19%)

Should the Company be in a net debt position, it will assess whether the projected cash flow is sufficient to service this debt and support ongoing operations. Consideration will be given to reducing the total debt or raising funds through alternative methods such as the issue of equity.

Financing

The Board has considered the Company's current activities, funding position and projected funding requirements for the period of at least twelve months from the date of approval of the consolidated financial statements, in determining the ability of the Company to adopt the going concern basis in preparing the consolidated financial statements for the year ended December 31, 2013.

The Company's activities, together with the factors likely to affect its future development, performance and position are set out in the Annual Information Form and this Management Discussion & Analysis document. The financial position of the Company, its cash flows and liquidity position are as set out in the audited consolidated financial statements and discussed further in this Management Discussion & Analysis document.

The Company reports a loss for the twelve months ended December 31, 2013 of USD17.63m (2012: USD20.90m). As at February 28, 2014, the Company held cash of USD16.7m and the maturing rig loan balance of USD 4.965m has been fully repaid. As at March 31, 2014, it had been replaced by a new secured loan amounting to USD7.0m.

Following resolution of mechanical issues with respect to production in Kazakhstan, the Company is confident that production will be able to be maintained at 3,000 barrels per day, which will enable it, in the short term, to complete its current programmes with respect to AKD08 and development of the 2 new shallow gas wells, AKK17 and AKK18.

On November 2 2013, the Company agreed the sale of a 50% (plus one share) interest in its Kazakhstan business to SinoHan Oil and Gas Investment Number 6 B.V., part of the Han Hong Private Equity Management Company Limited, a Beijing, PRC based private equity fund. The sale is subject to Kazakh State approvals, including the waiver on pre-emption (Article 36). Closing will take place once these approvals are received. Timing of these approvals cannot be assured. Upon completion, the Company will receive proceeds of USD75 million. Under the terms of pre-emption, should the Kazakh Government decide not to approve, then it is obliged to complete on the same purchase terms. Although the Company is hopeful that completion will take place in Q2 2014, completion may be delayed. The Company is not reliant on the timing of the proceeds.

The Company has certain responsibilities with respect to the jointly operated Tajik investment. The major capital spend forecast for 2014 is with respect to the seismic work programme, which is currently delayed due to ongoing negotiations with the proposed

contractor of the seismic work programme, which may necessitate a re-tender. Until the Company receives anticipated proceeds from either the Kazakh sale or alternative funding options under current consideration, it is, to a certain extent, reliant on its reduced contribution to the funding of the Tajik Bokhtar investment as a result of the delay to the seismic work programme.

Management is confident that the Company has sufficient capital resources. However, as there can be no assurance with respect to timing, the Company is adopting a prudent cash management approach by deferring capital expenditure and reducing corporate costs to the extent that ongoing operations will not be affected.

Forecast cash flow incorporates a number of assumptions, one of which is pricing. Price risk and sensitivities are further discussed in this Management Discussion & Analysis document.

Management has examined these issues to form a view on the Company's ability to realise its assets and discharge its liabilities in the normal course of business. After making enquiries and considering the circumstances referred to above, the Board has a reasonable expectation that the Company has adequate resources and potential to continue operations for at least the next twelve months. For these reasons they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

Cash Flow

	Quarter ended 31 December		Year ended 31 December	
	2013	2012	2013	2012
Cash & cash equivalents at beginning of period/year	51,207	1,146	1,750	10,746
Cash inflow				
Operating activities – before tax (including discontinued operations)	2,322	2,707	-	1,358
Proceeds from farm-out (net)	-	-	62,959	-
Proceeds from financing	-	5,336	4,714	15,670
Proceeds from issuance of equity	-	-	523	-
Interest received	64	1	216	6
Repayment of loan receivable from jointly controlled entity	-	-	200	-
Other (includes change in non cash working capital)	-	2,999	-	1,494
Total	2,386	11,043	68,612	18,528
Cash outflow				
Operating activities – before tax (including discontinued operations)	-	-	(505)	-
Proceeds from farm-out (net)	(240)	-	-	-
Capital expenditure	(16,510)	(8,170)	(23,809)	(17,501)
Advances	(4,000)	-	(4,000)	-
Repayment of borrowings	(4,732)	(2,080)	(10,749)	(9,996)
Remediation of wells	-	-	(253)	-
Repayment of historic costs	(71)	(70)	(283)	(283)
Corporation tax paid	-	-	(276)	-
Movement in restricted cash	(143)	(140)	(778)	272
Payment of loan to jointly controlled entity	(200)	-	-	-
Investment in jointly controlled entity	-	-	(4)	(3)
Other (includes change in non cash working capital)	(2,050)	-	(4,024)	-
Total	(27,946)	(10,460)	(44,681)	(27,511)
Effect of exchange rates on cash & cash equivalents	63	21	50	(13)
Cash & cash equivalents at end of period/year	25,731	1,750	25,731	1,750

Operating activities

Operating activities were affected by decreased revenue in the Uzbek and Tajik segments.

Proceeds from farm-out (net)

This is the net amount generated from the Tajik farm-out. Movement for the quarter was due to re-classification of costs associated with the transaction.

Proceeds from financing

In 2012, funding was raised through a corporate rig loan and through a Kazakh loan facility – refer to note 21 of the 2013 audited consolidated financial statements for full details concerning terms of the loan. In 2013, the Company drew down a final tranche of the Kazakh loan facility.

Proceeds from issuance of equity

Proceeds were as a result of the exercise of warrants previously issued in connection with the rig loan.

Capital Expenditure

As a result of proceeds received from the Tajik farm-out, capital expenditure was increased from Q3 2013 and significant spend is as follows:

Continuing operations	Quarter ended 31 December			Year ended 31 December		
	2013	2012	Change	2013	2012	Change
Kazakhstan						
AKD05	-	-		-	720	
Akkulka appraisal well tie ins	-	-		-	630	
Production facilities	-	-		-	330	
AKD07	-	2,730		-	4,510	
AKD08	7,941	-		11,332	-	
AKD09	-	-		625	-	
Pumps	401	-		401	-	
2D Seismic	111	-		111	-	
3D Seismic	1,062	-		1,062	-	
New shallow gas wells	950	-		950	-	
Rig mobilisation	902	-		902	-	
KBD01 - testing	2,210	-		2,424	-	
Other	1,495	1,209		3,235	2,739	
Total	15,072	3,939	283%	21,042	8,929	136%
Tajikistan						
Aeromagnetic & seismic surveys	-	3,310		-	5,550	
Beshentak	-	360		-	590	
Persea	-	20		-	640	
Other	823	441		1,481	1,263	
Total	823	4,131	(80%)	1,481	8,043	(82%)
Corporate & other	396	2		424	58	
Discontinued operations						
Uzbekistan	219	98	124%	862	471	83%
Total	16,510	8,170	102%	23,809	17,501	36%

Advances

The Company has advanced a USD4.0m carry with respect to the USD10m work programme agreed as part of the acquisition cost of a 56% share in the new Georgian licences. Up until the date of completion (January 2014), the advance was in the form of a refundable payment.

Remediation of wells

The Company's share of cost of remediation of Tajik wells as part of the farm-out agreement.

Other

“Other” incorporates movements of changes in working capital associated with capital (long term VAT and advances to contractors).

Accounting policies, changes to accounting standards and critical estimates

The Company's significant accounting policies and discussion of changes to accounting standards are disclosed in note 2 of the Notes to the audited consolidated financial statements. Refer to note 4 of the Notes to the audited consolidated financial statements for further information on the Company's significant judgments and assumptions and critical estimates.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Stockholder Equity

As at December 31, 2013 the Company had authorized share capital of 700,000,000 ordinary shares of which 299,557,744 (2012: 286,692,744) had been issued, which included 12,000,000 shares held in escrow pending Georgian governmental consent for the acquisition which was received on January 2, 2014 and 50,000,000 preference shares of which none had yet been issued. The preference shares have the rights as set out in the Memorandum and Articles of Association approved at the AGM on April 24, 2008.

As at December 31, 2013, a total of 34,388,129 (2012: 34,388,129) ordinary shares were reserved under the Company's Long Term Stock Incentive Plan and Warrants granted by the Company. The number of options outstanding as at December 31, 2013 is 33,707,400 and the number of warrants outstanding is 2,267,038.

As at March 31, 2014 the Company had authorized share capital of 700,000,000 ordinary shares of which 299,557,744 (2012: 286,692,744) had been issued and 50,000,000 preference shares of which none had yet been issued. The preference shares have the rights as set out in the Memorandum and Articles of Association approved at the AGM on April 24, 2008.

As at March 31, 2014, a total of 34,388,129 (2012: 34,388,129) ordinary shares were reserved under the Company's Long Term Stock Incentive Plan and Warrants granted by the Company. The number of options outstanding as at March 31, 2014 is 33,827,400 and the number of warrants outstanding is 2,202,538.

Dividends

One of the Company's subsidiaries, Seven Stars Energy Company (“SSEC”), paid a USD10 million dividend in 2013, 85% of which was paid to the Company and 15% of which was paid to the subsidiary's 15% shareholder.

Transactions with Related Parties

Vazon Energy Limited

Vazon Energy Limited (“Vazon”) is a corporation organized under the laws of the Bailiwick of Guernsey, of which Dr. David Robson, Executive Chairman and President, is the sole owner and managing director.

Tethys has a Management Services Contract with Vazon that came into effect from June 27, 2007 whereby the services of Dr. Robson and other Vazon employees are provided to the Company. The total cost charged to Tethys for services from Vazon in the year ended December 31, 2013 was GBP857,456 (2012: GBP1,534,198) or in United States Dollars was USD1,341,648 (2012 – USD2,432,239). As at the date of these consolidated financial statements, the services of Dr. Robson and two other Vazon employees are provided to the Company. The remainder of the employees previously employed by Vazon were transferred to Tethys Services Guernsey Limited during the last quarter of 2012.

On June 13, 2012, the Company and Vazon amended the Deed of Guarantee and Indemnity dated December 10, 2009, between the two companies, whereby the Company guarantees to indemnify Vazon for certain payments related to the management services provided by Vazon under the management services contract. This guarantee was discharged on June 17, 2013 and replaced with a GBP 400,000 guarantee deposit made by Tethys Petroleum Limited. The deposit is non-current and is restricted (see note 13 of the 2013 audited consolidated financial statements).

Oilfield Production Consultants

Oilfield Production Consultants (OPC) Limited and Oilfield Production Consultants (OPC) USA LLC have one common director with the Company. Total fees for the year ended December 31, 2013 were USD111,284 (2012 – USD66,150). OPC participated in the 2011 loan financing described in note 20 of the 2013 audited consolidated financial statements, advancing USD200,000 under Option B of the facility. As a result, OPC received 100,000 warrants valued at a fair value of USD15,030. The loan was advanced under the same conditions and terms afforded to non-related parties. As a result of agreeing to the rollover, the term of the warrants was extended which did not result in any change in fair value.

Related party transactions with key management personnel

Two officers of the Company participated in the 2011 loan financing (described in note 11 of the 2013 audited consolidated financial statements) for which they received 75,000 and 232,620 warrants at a fair value of USD6,143 and USD21,983 respectively. Loans advanced were USD150,000 and GBP300,000 respectively and were rolled over upon maturity of their one year term for a further term of one year under the same conditions and terms afforded to non-related parties, except that the warrants originally issued were not extended. Upon rollover, there was a re-issue of 75,000 and 232,620 warrants were issued at a fair value of USD2,940 and USD25,891 respectively.

On July 6, 2012, Ambassador Khalilzad was appointed a director of the Company. His company, Khalilzad Associates provides consultancy services with respect to business development. Total fees for these services amounted to USD96,440 for the year ended December 31 2013 (2012 – USD154,078).

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

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

Three further non-interest bearing loans, provided for upfront annual accommodation costs, of USD50,382, USD76,257 and USD53,918 were advanced to three officers during the year (2012 - USD50,960, USD76,251 and nil). Balances outstanding at December 31, 2013 were USD16,794, USD44,459 and USD26,960 respectively (2012 – USD21,368, USD50,681 and nil).

Risks, Uncertainties and Other Information

Readers are encouraged to read and consider the risk factors and additional information regarding the Company, included in its 2013 Annual Information Form filed with the Canadian securities regulators, a copy of which is posted on the SEDAR website at www.sedar.com

Risk management is carried out by senior management, in particular, the Executive Board of Directors.

The Company has identified its principal risks for 2013 to include:

- Exploration and development expenditures and success rates, though considerable technical work is undertaken to reduce related areas of risk and maximise opportunities;
- Oil and gas volumes and sales prices;
- Political, fiscal and related risks – these are reviewed and mitigation strategies agreed by the Strategic Risk Committee;
- Retention and extension of existing licences; and
- Liquidity.

Financial Risk Management

The Company's activities expose it to a variety of financial risks including: market risk, credit risk, liquidity risk, interest rate and foreign exchange risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to financial instruments fails to meet its contractual obligations. Credit risk arises from the Company's loans receivable from jointly controlled entities, cash and cash equivalents and accounts receivable balances.

With respect to the Company's financial assets the maximum exposure to credit risk due to default of the counter party is equal to the carrying value of these instruments. The maximum exposure to credit risk as at the reporting date is:

	December 31	December 31
	2013	2012
Trade receivables	84	2,096
Cash and cash equivalents	25,109	1,750
Restricted cash	1,135	2,020
Loans receivable from jointly controlled entities	-	2,403
Total	26,328	8,269
Assets of a disposal group held for sale (Kazakhstan):		
Trade receivables	3,985	-
Cash and cash equivalents	622	-
Restricted cash	1,664	-
Loans receivable from jointly controlled entities	2,676	-
Total	8,947	-
Total	35,275	8,269

Concentration of credit risk associated with the above trade receivable balances in Kazakhstan is as a result of contracted sales to two customers during the year. The Company does not believe it is dependent upon these customers for sales due to the nature of gas products and the associated market. The Company's sales in Kazakhstan commenced in December 2007 and the Company has not experienced any credit loss to date. At December 31, 2013, the trade receivable amounted to USD3,984,859 (2012 – USD2,096,171), none of which was greater than 30 days overdue. The Company has therefore not recorded a provision against this amount as it does not consider the balance to be impaired.

Although a significant amount of the deposits at financial institutions are not covered by bank guarantees, the Company does not believe there to be a significant risk of credit loss as the majority of counterparty banks used are those with high credit ratings (A- or equivalent) assigned by international ratings agencies (Fitch and Standard and Poors). Banks used in Central Asia generally do not have credit ratings assigned by international ratings agencies, however, deposits held with these banks are kept to a minimum as far as possible.

The Company is exposed to credit risk in relation to its loans receivable from jointly controlled entities to the extent that the jointly controlled entities fail to meet their contractual obligations. The Company does not believe that the balance is impaired at the reporting date. The carrying amount of the loans receivable represents the maximum exposure to credit risk at each balance sheet date.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. This risk relates to the Company's ability to generate or obtain sufficient cash or cash equivalents to satisfy these financial obligations as they become due. Since inception, the Company has incurred significant consolidated losses from operations and negative cash flows from operating activities, and has an accumulated deficit at December 31, 2013. Refer also to the section on Financing on pages 16 and 17.

The Company's processes for managing liquidity risk includes preparing and monitoring capital and operating budgets, co-ordinating and authorizing project expenditures and ensuring appropriate authorization of contractual agreements. The budget and expenditure levels are reviewed on a regular basis and updated when circumstances indicate change is appropriate. The Company seeks additional financing based on the results of these processes.

The following are the contractual maturities of financial liabilities, including estimated interest payments at December 31, 2013:

	Contractual cash flows	Less than one year	1 – 3 years	4 – 5 years	Thereafter
Trade and other payables	4,946	4,946	-	-	-
Financial borrowings	5,247	5,247	-	-	-
Operating leases	1,206	734	343	129	-
Commitments ¹	18,666	11,929	6,736	-	-
Total	30,065	22,856	7,079	129	-
Liabilities of a disposal group held for sale (Kazakhstan):					
Trade and other payables	7,191	6,810	220	110	51
Financial borrowings	10,549	4,832	5,717	-	-
Total	17,740	11,642	5,937	110	51
Total contractual obligations	47,805	34,498	13,016	239	51

¹The primary constituents of the commitments are the Kazakhstan work programmes which encompass capital expenditure, production expenditure and administrative costs. See note 28 of the 2013 audited consolidated financial statements.

There can be no assurance that debt or equity financing will be available or, sufficient to meet the Company's requirements or if debt or equity financing were available, that it would be on terms acceptable to the Company, however, the company is not currently reliant on obtaining additional debt or equity funding to continue as a going concern. Inability of the Company to access sufficient capital for its operations could have a material impact on the Company's financial condition, timing of activities and results of operations and prospects.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will be affected by changes in market interest rates. Existing long term debt is agreed at fixed interest rates and consequently has limited exposure to changes in market interest rates.

The Company is exposed to interest rate risk on short term deposits to the extent that reductions in market interest rates would result in a decrease in the interest earned by the Company. An increase of 100 basis points in the interest rate would have resulted in an increase of USD124,416 in the interest earned in the current year (2012 - USD4,344). A decrease of 100 basis points in the interest rate would have resulted in a decrease of USD38,566 in the interest earned in the current year (2012 - USD1,885).

As at the December 31, 2013, the Company's interest rate profile was:

	Fixed rate financial instruments	Variable rate financial instruments	Total
Restricted cash	660	475	1,135
Cash and cash equivalents	-	25,109	25,109
Financial liabilities - borrowings	(4,965)	-	(4,965)
Total	(4,305)	25,584	21,279
Assets and liabilities of a disposal group held for sale (Kazakhstan):			
Restricted cash	1,664	-	1,664
Cash and cash equivalents	-	622	622
Financial liabilities - borrowings	(8,947)	-	(8,947)
Total	(7,283)	622	(6,661)
Total	(11,588)	26,206	14,618

Foreign exchange risk

The Company is exposed to risks resulting from fluctuations in foreign currency exchange rates. A material change in the value of any such foreign currency could result in a material adverse effect on the Company's cash flow and future profits. The Company is exposed to exchange rate risk to the extent that balances and transactions are denominated in a currency other than the US dollar. In addition, a portion of expenditures in Kazakhstan and Tajikistan are denominated in local currency, Tenge and Somoni, respectively. The Company also attempts to negotiate exchange rate stabilization conditions in local Tenge denominated service and supply contracts in Kazakhstan.

The Company holds the majority of its cash and cash equivalents in US dollars. However, the Company does maintain deposits in other currencies, as disclosed in the following table, in order to fund ongoing general and administrative activity and other expenditure incurred in these currencies.

The carrying amounts of the Company's significant foreign currency denominated monetary assets and liabilities at December 31, 2013 are as follows:

In USD equivalent	CAD '000	GBP '000	EUR '000	KZT '000
Cash and cash equivalents	9	950	93	418
Trade and other receivables	-	82	26	11,398
Trade and other payables	(23)	(753)	(132)	(1,745)
Financial liabilities - borrowings	-	(1,456)	-	(8,947)
Net exposure	(14)	(1,177)	(13)	1,124

The following table details the Company's sensitivity to a 10% movement in US dollars against the respective foreign currencies, which represents management's assessment of a reasonably likely change in foreign exchange rates.

Effect in USD'000	CAD '000	GBP '000	EUR '000	KZT '000
Profit or (loss) before tax	(2)	(201)	(2)	112

Currently, there are no significant restrictions on the repatriation of capital and distribution of earnings from Kazakhstan or Tajikistan to foreign entities. While there are in fact restrictions on repatriation of capital and distribution of earnings from Uzbekistan to foreign entities, the Company has not been affected by this as it is paid for its refined product sales in US Dollars outside of Uzbekistan. There can be no assurance, those restrictions on repatriation of capital or distributions of earnings from Kazakhstan or Tajikistan will not be imposed in the future. Moreover, there can be no assurance that the Tenge or Somoni will continue to be exchangeable into US Dollars or that the Company will be able to exchange sufficient amounts of Tenge or Somoni into US Dollars or Pounds Sterling to meet its foreign currency obligations.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as marketability of production and commodity prices.

- *Marketability of Production*

The marketability and ultimate commerciality of oil and gas acquired or discovered is affected by numerous factors beyond the control of the Company. These factors include reservoir characteristics, market fluctuations, the proximity and capacity of oil and gas pipelines and processing equipment and government regulation. Tethys produces gas into the transcontinental gas trunkline system which ultimately supplies gas to Russia and Europe. Political issues, system capacity constraints, export issues and possible competition with Russian gas supplies may in the future cause problems with marketing production, particularly for export. Oil and gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government, which may be amended from time to time. Restrictions on the ability to market the Company's production could have a material adverse effect on the Company's revenues and financial position.

- *Commodity price risk*

Oil and gas prices are unstable and are subject to fluctuation. Any material decline in oil and/or natural gas prices could result in a reduction of the Company's net production revenue and overall value and could result in ceiling test write downs. In Kazakhstan, the Company has fixed (Tenge) price gas contracts up to the end of 2013. Subsequent to the year end, these gas supply contracts were renewed at the same fixed (Tenge) price and run through to December 31, 2014.

The Company's oil contract in Kazakhstan is subject to commodity price fluctuation and it may become uneconomic to produce from some wells as a result of lower prices, which could result in a reduction in the volumes and value of the Company's reserves. The Company might also elect not to produce from certain wells because of lower prices. These factors could result in a material decrease in the Company's net production revenue causing a reduction in its acquisition and development activities.

Beyond 2013, fluctuations in oil and gas prices could materially and adversely affect the Company's business, financial condition, results of operation and prospects. There is no government control over the oil and gas price in the countries where the Company operates.

Although the Company believes that the medium to long term outlook for oil and gas prices in the region is good, the recent events in various parts of the world demonstrate the volatility and uncertainties of the oil and gas industry. Also, consideration needs to be given to production and other factors such as OPEC, refinery shut-ins and inventory. Any discussion of price or demand is subjective and, as such, there are many differing opinions on the cause of recent price changes.

As previously stated gas production from both the Kyzylai and Akkulka contracts in Kazakhstan is sold at fixed prices, at least until the end of 2014, and so the fluctuation in world commodity prices should have no effect on the Company's revenue from the Kazakh gas operations up to the end of 2014, however, it would be affected by exchange rate risk.

Sensitivities

The price of gas sales from gas produced from both the Kyzylai and Akkulka gas fields under Gas Supply Contracts is fixed in Tenge until December 31, 2014 and hence will be sensitive to a fluctuation in exchange rate. A 20% devaluation of the Tenge, from 154 to 185 for example, would result in a net price reduction of USD10.49 per Mcm (i.e. USD52.18 from USD62.67). On production of 126,751 Mcm per annum, this would result in a reduction of USD1,329,618 in gas revenue.

The price of oil sales from the Doris discovery is sensitive to movements in the market price. On a production level of 3,000 bopd, a movement of USD1 per barrel on the price received by the Company would result in a plus or minus movement in oil sales revenue of USD1,095,000 per annum.

Environmental

The Company's operations are subject to environmental, safety and health and sanitary regulations in the jurisdictions in which it operates. Whilst the Company believes that it carries out its activities and operations in material compliance with these environmental, safety and health and sanitary regulations, there can be no guarantee that this is the case. In Kazakhstan, quarterly reports are required to be submitted by the Company to the Shalkar (Bozoi) Tax Committee. The Company is also required to prepare reports on any pollution of air, toxic waste and current expenses on environmental protection which have been made by the Company and which are submitted to the appropriate Kazakh authorities. Reports are submitted on a semi-annual basis for information purposes and no payments are applicable. In Tajikistan, the Company is subject to environmental regulation and its activities are subject to inspection by the appropriate authority in that country.

At present, the Company believes that it meets satisfactory environmental standards in all material respects in all of the areas in which it operates, and has included appropriate amounts in its capital expenditure budget to continue to meet its current environmental obligations. However, the discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to foreign governments and third parties and may require the Company to incur significant costs to remedy such discharge. No assurance can be given that changes in environmental laws or their application to the Company's operations will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company's financial condition, results of operations or prospects.

Political & regulatory

The Company decided in December 2013 and announced on January 2, 2014 that it had made a decision to exit Uzbekistan and surrender its rights under the PEC due to changes in the business climate and political environment. The Company's decision was principally as a result of problems encountered by Tethys Production Uzbekistan (the trading name of the Company's subsidiary, Baker Hughes (Cyprus) Limited, ("BHCL") in receiving allocation and payment for the delivery of crude oil to the Fergana refinery. Uzbek authorities have requested access to certain records of BHCL. Although the Company does not expect that claims or charges against the Company or its subsidiaries will be initiated by the authorities, the Company will incur expenses, which may be significant, relating to its exit from Uzbekistan and possible assessments of costs as a result of inspections or reviews of its records by Uzbek authorities. Moreover, as a result of problems encountered by the Company with the Fergana refinery, the Company may be unable to recover payment for oil previously delivered to the Fergana refinery (estimated at USD1.6 million) which has been written down in the audited consolidated financial statements. Political, regulatory and similar risks are reviewed by Management and further reviewed by the Strategic Risk Committee of the Board at which mitigating strategies and policies are discussed and agreed. The members (and advisors) of the Strategic Risk Committee include experienced diplomats, politicians and personnel familiar with the Company's operating areas.

Critical Accounting Policies and Estimates

The annual and condensed consolidated interim financial statements of the Company are prepared in accordance with International Financial Reporting Standards (“IFRSs”) and IFRIC Interpretations issued by the IFRS Interpretations Committee. Please refer to the annual consolidated financial statements for the year ended December 31, 2013 - Note 2 *Summary of Significant Accounting Policies* and Note 4 – *Critical Judgements and Accounting Estimates* – for further detailed discussion.

Derivative Financial Instruments

The Company has a warrant liability representing a financial liability relating to share warrants where the shares are denominated in a currency that is not the Company’s functional currency. Full details are disclosed in note 21.2 of the annual consolidated financial statements.

Internal Controls Over Financial Reporting

The Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”) of Tethys are responsible for establishing and maintaining internal control over financial reporting (ICFR) as that term is defined in National Instrument 52-109 – Certification of Disclosure in Annual and Interim Filings. The CEO and CFO of Tethys are responsible for designing a system of internal controls over financial reporting, or causing them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with IFRS.

Management of Tethys has designed and implemented, under the supervision of its CEO and CFO, a system of internal controls over financial reporting as of December 31, 2013, which it believes is effective for a company of its size. Management of Tethys has not identified any material weaknesses relating to the design of the internal controls over financial reporting as at December 31, 2013. The Company’s control system and procedures are reviewed periodically and adjusted or updated as necessary. In addition, where any new or additional risks have been identified then the management of Tethys has put in place appropriate procedures to mitigate these risks.

Under the supervision of the CEO and the CFO, an evaluation of the effectiveness of internal control over financial reporting based on “Internal Control – Integrated Framework” issued by the Committee of Sponsoring Organisations of the Treadway Commission was carried out in Q4 of 2013. Based on this evaluation management concluded that the Company’s internal control over financial reporting was effective as at December 31, 2013. No material weakness relating to the design of the Company’s system of ICFR or relating to the Company’s operations as at December 31, 2013 was identified.

Significant equity investees

Details of significant equity investees are discussed in note 17 of the 2013 audited annual consolidated financial statements.

Disclosure Controls and Procedures

The CEO and the CFO are responsible for establishing and maintaining disclosure controls and procedures (DC+P) as that term is defined in NI 52-109. Disclosure controls and procedures have been designed by the Tethys Management, under the supervision of the CEO and CFO, to ensure that information required to be disclosed by the Company is accumulated, recorded, processed and reported to the Company’s management as appropriate to allow timely decisions regarding disclosure.

The CEO and CFO conducted an evaluation of the effectiveness of the Company’s DC+P as at December 31, 2013 and concluded, based on that evaluation, that the Company’s DC+P were designed effectively to provide reasonable assurance that, as at December 31, 2013, information required to be disclosed by the Company in its annual filings is accumulated, recorded, processed, summarized and reported within the time periods specified in securities legislation and communicated to the Company’s management, including the CEO and CFO, as appropriate to allow timely decisions regarding disclosure.

Forward-looking statements

In the interest of providing Tethys' shareholders and potential investors with information regarding the Company and its subsidiaries, including management's assessment of Tethys' and its subsidiaries' future plans and operations, certain statements contained in this MD&A constitute forward-looking statements or information (collectively referred to herein as "forward-looking statements") within the meaning of the "safe harbour" provisions of applicable securities legislation. Forward-looking statements are typically identified by words such as "anticipate", "believe", "expect", "plan", "intend", "forecast", "target", "project" or similar words suggesting future outcomes or statements regarding an outlook. Forward looking statements in this MD&A include, but are not limited to, statements with respect to: the projected 2014 capital investments projections, and the potential source of funding therefore. Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur.

By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur, which may cause the Company's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. These risks, uncertainties and assumptions include, among other things: volatility of and assumptions regarding oil and gas prices; fluctuations in currency and interest rates; ability to successfully complete proposed equity financings; product supply and demand; market competition; ability to realise current market gas prices; risks inherent in the Company's and its subsidiaries' marketing operations, including credit risks; imprecision of reserve estimates and estimates of recoverable quantities of oil and natural gas and other sources not currently classified as proved; the Company's and its subsidiaries' ability to replace and expand oil and gas reserves; unexpected cost increases or technical difficulties in constructing pipeline or other facilities; unexpected delays in its drilling operations; delays in the delivery of its drilling rigs; unexpected difficulties in, transporting oil or natural gas; risks associated with technology; the Company's ability to generate sufficient cash flow from operations to meet its current and future obligations; the Company's ability to access external sources of debt and equity capital; the timing and the costs of well and pipeline construction; the Company's and its subsidiaries' ability to secure adequate product transportation; changes in royalty, tax, environmental and other laws or regulations or the interpretations of such laws or regulations; political and economic conditions in the countries in which the Company and its subsidiaries operate; the risk of international war, hostilities, civil insurrection and instability affecting countries in which the Company and its subsidiaries operate and terrorist threats; risks associated with existing and potential future lawsuits and regulatory actions made against the Company and its subsidiaries; and other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by Tethys.

With regard to forward looking information contained in this MD&A, the Company has made assumptions regarding, amongst other things, the continued existence and operation of existing pipelines; future prices for natural gas; future currency and exchange rates; the Company's ability to generate sufficient cash flow from operations and access to capital markets to meet its future obligations; the regulatory framework representing mineral extraction taxes, royalties, taxes and environmental matters in the countries in which the Company conducts its business: gas production levels; and the Company's ability to obtain qualified staff and equipment in a timely and cost effective manner to meet the Company's demands. Statements relating to "reserves" or "resources" or "resource potential" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described exist in the quantities predicted or estimated, and can be profitably produced in the future. Although Tethys believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A and, except as required by law, Tethys does not undertake any obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.