

# **Tethys Petroleum Limited**

Interim Consolidated Financial Statements  
(Unaudited)

**March 31, 2009**

(in thousands of US dollars)

# Tethys Petroleum Limited

## Interim Consolidated Statement of Financial Position

(Unaudited)

As at March 31, 2009 and December 31, 2008

(in thousands of US dollars)

	March 31, 2009 \$	December 31, 2008 \$	January 1, 2008 (see note 22) \$
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets (note 10)	17,553	11,688	7,335
Property, plant and equipment (note 11)	74,227	69,839	38,327
Investments (note 12)	595	587	318
Other receivables (note 13)	4,532	6,357	5,814
	<u>96,907</u>	<u>88,471</u>	<u>51,794</u>
<b>Current assets</b>			
Inventories	329	213	-
Trade and other receivables (note 13)	2,999	2,664	1,360
Cash and cash equivalents (note 14)	7,966	22,200	26,692
	<u>11,294</u>	<u>25,077</u>	<u>28,052</u>
<b>Total assets</b>	<u>108,201</u>	<u>113,548</u>	<u>79,846</u>
<b>Equity and Liabilities</b>			
<b>Equity attributable to shareholders</b>			
Share capital (note 18)	6,779	6,639	4,511
Share premium (note 18)	139,299	138,598	94,972
Other reserves	25,851	25,147	20,728
Accumulated deficit	(72,670)	(66,654)	(44,470)
	<u>99,259</u>	<u>103,730</u>	<u>75,741</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Financial liabilities – borrowings (note 15)	4,800	5,096	-
Other non-current payables (note 16)	421	523	776
Provisions for other liabilities and charges (note 17)	374	465	1,050
	<u>5,595</u>	<u>6,084</u>	<u>1,826</u>
<b>Current liabilities</b>			
Financial liabilities – borrowings (note 15)	978	853	-
Financial liabilities – warrants (note 15)	106	146	-
Trade and other payables (note 16)	2,263	2,735	2,279
	<u>3,347</u>	<u>3,734</u>	<u>2,279</u>
Total liabilities	<u>8,942</u>	<u>9,818</u>	<u>4,105</u>
<b>Total shareholders' equity and liabilities</b>	<u>108,201</u>	<u>113,548</u>	<u>79,846</u>
Commitments and contingencies (note 21)			

The notes on pages 1 to 45 form part of the financial statements.

Approved by the Board of Directors

\_\_\_\_\_  
Dr. D. Robson Director

\_\_\_\_\_  
B. Murphy Director

# Tethys Petroleum Limited

## Interim Consolidated Statement of Comprehensive Loss (Unaudited)

For the three months ended March 31

---

(in thousands of US dollars, except for per share amounts)

	<b>2009</b>	<b>2008</b>
	\$	\$
Sales and other operating revenues (note 5)	529	1,431
Production expenditure	(285)	(67)
Depreciation, depletion and amortization	(517)	(1,105)
Exploration and evaluation expenditure written off	(17)	-
Fair value gains on derivative financial instrument	40	29
Administrative expenses (note 6)	(5,473)	(4,025)
<b>Operating loss</b>	<b>(5,723)</b>	<b>(3,737)</b>
Finance income	30	167
Finance costs	(323)	(1,041)
<b>Loss before tax</b>	<b>(6,016)</b>	<b>(4,611)</b>
Taxation (note 8)	-	-
<b>Total comprehensive loss for the period attributable to shareholders</b>	<b>(6,016)</b>	<b>(4,611)</b>
<b>Loss per share</b>		
Basic and diluted (note 9)	(0.09)	(0.10)

No dividends were paid or are declared for the quarter (2008 – \$Nil)  
All operations were continuing throughout both periods

The notes on pages 1 to 45 form part of the financial statements.

# Tethys Petroleum Limited

## Interim Consolidated Statement of Changes in Equity (Unaudited)

(in thousands of US dollars)

	Attributable to shareholders					Total equity \$
	Share capital \$	Share premium \$	Accumulated deficit \$	Option reserves \$	Warrant reserves \$	
<b>At January 1, 2008</b> (note 18)	4,511	94,972	(44,470)	4,173	16,555	75,741
Loss for the year	-	-	(22,184)	-	-	(22,184)
Issue of share capital (note 18)	2,128	47,872	-	-	-	50,000
Cost of share issue	-	(4,246)	-	-	-	(4,246)
Share-based payments – value of employee service	-	-	-	4,419	-	4,419
<b>At December 31, 2008</b>	<b>6,639</b>	<b>138,598</b>	<b>(66,654)</b>	<b>8,592</b>	<b>16,555</b>	<b>103,730</b>
At January 1, 2009 (note 18)	6,639	138,598	(66,654)	8,592	16,555	103,730
Issue of share capital (note 18)	140	701	-	-	-	841
Loss for the period	-	-	(6,016)	-	-	(6,016)
Share-based payments – value of employee service (note 7)	-	-	-	704	-	704
<b>At March 31, 2009</b>	<b>6,779</b>	<b>139,299</b>	<b>(72,670)</b>	<b>9,296</b>	<b>16,555</b>	<b>99,259</b>

The option reserve and warrant reserve are denoted together as “other reserves” on the interim consolidated statement of financial position.

The notes on pages 1 to 45 form part of the financial statements.

**Tethys Petroleum Limited**  
Interim Consolidated Statement of Cash Flows  
(Unaudited)  
For the three months ended March 31

(in thousands of US dollars)

	2009 \$	2008 \$
<b>Cash flow from operating activities</b>		
Loss before income tax for the period	(6,016)	(4,611)
Adjustments for		
Share-based payments to employees (note 7)	704	841
Net finance cost	293	874
Unsuccessful exploration and evaluation expenditures (note 10)	17	-
Depreciation, depletion and amortization (note 11)	517	1,105
Fair value gain on derivative financial instrument	(40)	(29)
Net unrealised foreign exchange loss	1,250	17
Operating cash flows before movements in working capital	(3,275)	(1,803)
Increase in trade and other receivables (note 13)	(570)	(730)
Decrease in trade and other payables	(471)	(265)
Increase in inventories	(116)	-
Cash used in operations	(4,432)	(2,798)
Interest received	30	167
<b>Net cash used in operating activities</b>	(4,402)	(2,631)
<b>Cash flow from investing activities</b>		
Expenditure on exploration and evaluation assets (note 10)	(5,950)	(134)
Expenditures on other property, plant and equipment (note 11)	(4,287)	(3,407)
Investment in restricted cash	(8)	(105)
Advances to construction contractors	920	(1,285)
Value added tax receivable	(75)	59
<b>Net cash used in investing activities</b>	(9,400)	(4,872)
<b>Cash flow from financing activities</b>		
Proceeds from short-term borrowings (note 15)	-	5,300
Repayment of long-term borrowings (note 15)	(212)	-
Interest paid on long-term borrowings and Historical Cost	(162)	-
Other non-current liabilities (note 16)	(22)	(22)
<b>Net cash used in financing activities</b>	( 396)	5,278
Effects of exchange on the balance of cash held in foreign currency	(36)	-
<b>Net decrease in cash and cash equivalents</b>	(14,234)	(2,225)
Cash and cash equivalents at beginning of the period	22,200	26,692
<b>Cash and cash equivalents at end of the period</b>	7,966	24,467

The notes on pages 1 to 45 form part of the financial statements.

# **Tethys Petroleum Limited**

Notes to Interim Consolidated Financial Statements

(Unaudited)

**For the period ended March 31, 2009**

---

(tabular amounts in thousands of US dollars)

## **1 General information**

Tethys Petroleum Limited and its subsidiaries (collectively “Tethys” or “the Company”) are headquartered in Guernsey, British Isles and incorporated in the Cayman Islands. The Company’s domicile was moved from Guernsey, British Isles to the Cayman Islands on July 17, 2008. The address of the Company’s registered office is Queensgate House, South Church Street, Grand Cayman, Cayman Islands. Tethys is an oil and gas company operating within the Republic of Kazakhstan and the Republic of Tajikistan. Tethys’ principal activity is the acquisition of and development of crude oil and natural gas fields.

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

## **2 Basis of preparation and going concern**

The interim consolidated financial statements for the three months ended March 31, 2009 have been prepared in accordance with IAS 34 - Interim Financial Reporting and are in accordance with IFRS 1 - First-time Adoption of IFRS, as they are part of the period covered by the Company’s first IFRS financial statements for the year ending December 31, 2009. The interim consolidated financial statements are presented in United States Dollars and all amounts are rounded to the nearest thousand (US\$’000) except where otherwise indicated. Foreign operations are included in accordance with the policies set out in note 3.

Since inception, the Company has incurred significant losses from operations and negative cash flows from operating activities, and has an accumulated deficit at March 31, 2009. The Company has significant short-term and longer term contractual commitments that will necessitate cash outflows. The ability of the Company to successfully carry out its business plan is primarily dependent upon its ability not only to maintain the current level of gas production but also to achieve further production of commercial oil and gas and to control the costs of operating and capital expenditures. While these factors create doubt about the Company’s ability to continue as a going concern, management is confident of achieving the Company’s short term plans.

The Company completed an Initial Public Offering (IPO) of equity securities on the Toronto Stock Exchange (TSX) on June 27, 2007. The Company subsequently issued additional capital for gross proceeds of \$50,000,000 on June 27, 2008 that generated sufficient funds to secure its future at least in the short term. In the event the Company is unable to generate significant revenues and cash flows from operations it may need to seek further funding from its shareholders or alternative sources. There can be no assurances that management will be successful with these initiatives.

The financial statements have been prepared on the basis that the Company will continue to operate as a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. These financial statements do not reflect adjustments in the carrying values of assets and liabilities reported, revenue or expenses and the statement of financial position classification used, that would be necessary if the going concern assumption was not appropriate. Such adjustments could be material.

# **Tethys Petroleum Limited**

## Notes to Interim Consolidated Financial Statements (Unaudited) For the period ended March 31, 2009

---

(tabular amounts in thousands of US dollars)

### **Statement of compliance**

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

The March 31, 2009 interim consolidated financial statements are the Company's first financial statements prepared under IFRS, with a transition date to IFRS of January 1, 2008. Consequently the comparative figures for 2008 and the Company's statement of financial position as at January 1, 2008 have been restated from accounting principles generally accepted in the United States of America ('US GAAP') to comply with IFRS. The reconciliations to IFRS from the previously published US GAAP financial statements are summarised in note 22. In addition, IFRS 1 on first time adoption allows certain exemptions from retrospective application of IFRS in the opening statement of financial position. Where these have been used they are explained in note 22.

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 interim consolidated financial statements are disclosed in note 4.

### **Basis of consolidation**

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Company. 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 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 income statement. All subsidiaries, as listed in note 20, 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 of the Company. Effective January 1, 2008 the Company has applied IFRS 3 Business Combination to any subsequent acquisitions.

# **Tethys Petroleum Limited**

## Notes to Interim Consolidated Financial Statements (Unaudited) For the period ended March 31, 2009

---

(tabular amounts in thousands of US dollars)

### **New and amended accounting standards**

The following new and amended accounting standards are mandatory for the first time for the financial year beginning January 1, 2009:

- IAS 1 (revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement. The Company has elected to present a single statement of comprehensive loss. The interim financial statements have been prepared under the revised disclosure requirements.
- IFRS 8, 'Operating segments'. IFRS 8 replaces IAS 14, 'Segment reporting'. It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes.
- IAS 23 (amendment), 'Borrowing costs' requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. This has no impact on the Company as its policy has always been to capitalise borrowing cost on qualifying assets.
- IFRS 2 (amendment), 'Share-based payment'. The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amended standard does not have a material impact on the Company's financial statements.

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning January 1, 2009, but are not currently relevant for the Company:

- IAS 32 (amendment), 'Financial instruments: Presentation'.
- IFRIC 13, 'Customer loyalty programmes'.
- IFRIC 15, 'Agreements for the construction of real estate'.
- IFRIC 16, 'Hedges of a net investment in a foreign operation'.
- IAS 39 (amendment), 'Financial instruments: Recognition and measurement'.



# **Tethys Petroleum Limited**

## Notes to Interim Consolidated Financial Statements (Unaudited) For the period ended March 31, 2009

---

(tabular amounts in thousands of US dollars)

### **Accounting Standards and Interpretations issued but not yet effective**

Certain Accounting Standards and Interpretations are in issue which are not required to be adopted until after 2009 and have not been early adopted by the Company. As at the date of these financial statements the following Standards and Interpretations, which have not been applied in these financial statements but may have an impact on the Company's accounting policies, were in issue but not yet effective. Management is assessing the impact of these new standards on the Company's accounting policies and the financial statements:

- IFRS 3 (revised), 'Business combinations' and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates' and IAS 31, 'Interests in joint ventures', effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009. The Company does not have any investment in associates or joint ventures.

The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive loss. There is a choice on an acquisition-by-acquisition basis to measure the minority interest in the acquiree either at fair value or at the minority interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Company will apply IFRS 3 (revised) to all business combinations from January 1, 2010.

- IFRIC 17, 'Distributions of non-cash assets to owners', effective for annual periods beginning on or after July 1, 2009.
- IFRIC 18, 'Transfers of assets from customers', effective for transfers of assets received on or after July 1, 2009.

### **3 Summary of significant accounting policies**

#### **Oil and gas exploration and evaluation expenditure**

Oil and natural gas exploration and evaluation expenditures are accounted for using a modified '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. If reserves are not identified, these costs are charged to expense. All other associated exploration and evaluation expenditure are carried forward as an asset in the 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 off where the above conditions are no longer satisfied.

# Tethys Petroleum Limited

## Notes to Interim Consolidated Financial Statements

(Unaudited)

**For the period ended March 31, 2009**

---

(tabular amounts in thousands of US dollars)

If it is determined that commercial discovery has not been achieved in relation the property, all other associated costs are charged to expense. If commercial reserves are found, exploration and evaluation assets are tested for impairment and transferred to development tangible and intangible assets. No depreciation and/or amortisation is charged during the exploration and evaluation phase.

### **Oil and gas properties**

Oil and gas properties 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.

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.

Where commercial production in an area of interest has commenced, oil and gas properties are depreciated 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 amortisation 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
Vehicles	Straight line	4 years
Computer equipment	Straight line	3 years
Office equipment	Straight line	5 years

# **Tethys Petroleum Limited**

## Notes to Interim Consolidated Financial Statements (Unaudited) For the period ended March 31, 2009

---

(tabular amounts in thousands of US dollars)

### **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 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 income statement so as to reduce the carrying amount to its recoverable amount (i.e. the higher of fair value less cost 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.

# Tethys Petroleum Limited

Notes to Interim Consolidated Financial Statements

(Unaudited)

For the period ended March 31, 2009

---

(tabular amounts in thousands of US dollars)

## **Provisions for other liabilities and charges**

### *General*

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, for example under an insurance contract, 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 income statement net of any reimbursement. The increase in the provision due to passage of time is recognized as interest expense.

### *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 present value of the expenditures expected to be required to settle the obligation using a pre-tax 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.

The Company recognises neither the deferred tax asset regarding the temporary difference on the ARO liability nor the corresponding deferred tax liability regarding the temporary difference on capitalized ARO cost.

# **Tethys Petroleum Limited**

Notes to Interim Consolidated Financial Statements

(Unaudited)

**For the period ended March 31, 2009**

---

(tabular amounts in thousands of US dollars)

## **Foreign currencies**

The interim consolidated financial statements are presented in US Dollars, which is the Company's functional and reporting currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to profit or loss. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

## **Inventories**

Inventories consist of spare parts and consumable materials and are shown at the lower of cost or net realisable value. Cost is determined on a first-in-first-out method.

## **Investments**

Investments comprise restricted current balances that are held on deposit with banks in the Republic of Kazakhstan in respect of the Company's ARO in this country and are classified as non current. These are carried at fair value with gains or losses recognized through statement of comprehensive loss.

## **Financial instruments**

Financial assets and financial liabilities are recognised on the Company's statement of financial position when the Company becomes party to the contractual provisions of the instrument.

### ***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 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.

# **Tethys Petroleum Limited**

## Notes to Interim Consolidated Financial Statements (Unaudited) For the period ended March 31, 2009

---

(tabular amounts in thousands of US dollars)

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 (more than 30 days overdue) 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 income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

### ***Cash and cash equivalents***

Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions which are readily convertible to cash. These are carried at fair value with gains or losses recognized through statement of comprehensive loss. Cash equivalents are short term deposits with a maturity of less than three months.

### ***Interest bearing loans and borrowings***

All loans and 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 income statement when the liabilities are derecognised as well as through the amortisation process.

### ***Trade payables***

Trade payables due are recognised on an accruals basis and are stated initially at fair value and subsequently measured at amortized cost using the effective interest method.

### ***Equity instruments***

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

### ***Derivative financial instruments***

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Changes in the fair value of derivative financial instruments are recognised immediately in the statement of comprehensive loss.

### ***Fair value***

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques.

# **Tethys Petroleum Limited**

Notes to Interim Consolidated Financial Statements

(Unaudited)

**For the period ended March 31, 2009**

---

(tabular amounts in thousands of US dollars)

## **Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of royalties, value-added tax, returns, rebates and discounts and after eliminating sales within the Company.

Revenue is recognised 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.

Revenues from crude oil and natural gas sales are recognised when the oil and gas has been lifted and the risk of loss transferred to a third-party purchaser. The Company uses the entitlement method to account for its revenue from sales of oil and gas production, whereby the Company recognises revenue based on its direct ownership interest in its underlying oil and gas properties.

Interest income is recognized on a time-proportion basis using the effective interest method.

## **Borrowing cost**

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

## **Taxation including deferred taxation**

The tax expense represents the sum of current tax payable and deferred tax. Current tax payable is based on the taxable profits for the year. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the bases of assets and liabilities and their carrying amounts in the financial statements. However, the 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 taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially 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. 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.

# **Tethys Petroleum Limited**

## Notes to Interim Consolidated Financial Statements (Unaudited) For the period ended March 31, 2009

---

(tabular amounts in thousands of US dollars)

### **Share-based payments**

The Company operates an equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. 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 income statement, with a corresponding adjustment to equity.

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

### **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-maker has been identified as the Executive directors that make strategic decisions.

## **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 period. The nature of estimation means that actual outcomes could differ from those estimates. Accordingly, the impact of these estimates, assumptions and judgments on the interim 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.

### **Going Concern**

The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgement. The Directors monitor future cash requirements to assess the Company's ability to meet these future funding requirements. Further information regarding going concern is outlined in note 2.



# Tethys Petroleum Limited

## Notes to Interim Consolidated Financial Statements (Unaudited) For the period ended March 31, 2009

---

(tabular amounts in thousands of US dollars)

### Recoverability of asset carrying values

The Company assesses its property plant and equipment, including 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 group'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.

If there are low oil prices or natural gas prices during an extended period the Company may need to recognize significant impairment charges. The assessment for impairment entails comparing the carrying value of the cash-generating unit with its recoverable amount, that is, the higher of fair value less costs to sell and 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.

At the reporting date, an impairment test was carried out on both the Akkulka and Kyzylloi gas fields in accordance with the accounting policy stated in note 3. The recoverable amounts of the fields have been determined based on value-in-use calculations. These calculations require the use of estimates. The present value of future cash flows was computed on a pre-tax basis by applying forecast prices of oil and gas reserves to estimated future production of proved and probable oil and gas reserves, less estimated future expenditures to be incurred in developing and producing the proved and probable reserves. The present value of estimated future net revenues is computed using a discount factor of 5%.

The value in use calculation assumes natural gas sales prices in US\$/Mcf as follows:

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Natural gas US\$/Mcf														
Kyzylloi	0.90	0.90	0.90	0.90	3.49	3.63	3.77	3.90	4.02	4.15	4.28	4.41	4.54	4.67
Akkulka	0.90	2.67	2.87	3.00	3.49	3.63	3.77	3.90	4.02	4.15	4.28	4.41	-	-

The above price estimates are lower than those previously expected by the Company, which is a reflection of the current gas market uncertainty in Central Asia. As at the reporting date and at the date of approval of these interim consolidated financial statements, the gas price remains the subject of negotiations which have not been finalised. This is a source of measurement uncertainty in the Company's impairment test since there can be no assurance as to what price will be achieved.

The current price estimates for the Kyzylloi field results in an excess of recoverable amount over the carrying value of the Kyzylloi field of \$33.7 million. The current price estimates for the Akkulka field results in an excess of recoverable amount over the carrying value of the Akkulka field of \$23.5 million.

# **Tethys Petroleum Limited**

Notes to Interim Consolidated Financial Statements

(Unaudited)

**For the period ended March 31, 2009**

---

(tabular amounts in thousands of US dollars)

If the forecast prices applied to the Kyzylloi impairment test were to reduce by US\$0.10 per Mcf below the assumed price of US\$2.67 per Mcf, the excess of recoverable amount over the carrying value of the Kyzylloi field would be reduced by approximately \$2.0 million for each \$US0.10 diminution of actual price realised.

If the forecast prices applied to the Akkulka impairment test were to reduce by US\$0.10 per Mcf below the assumed price of US\$2.67 per Mcf, the excess of recoverable amount over the carrying value of the Akkulka field would be reduced by approximately \$2.6 million for each \$US0.10 diminution of actual price realised.

## **Oil and gas reserves**

Reserves and resources are used in the units of production calculation for depreciation 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 and 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.

## **Other significant areas of judgement**

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

# Tethys Petroleum Limited

Notes to Interim Consolidated Financial Statements

(Unaudited)

For the period ended March 31, 2009

---

(tabular amounts in thousands of US dollars)

## 5 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. 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 also operates a corporate segment which recently acquired a number of drilling rigs and related oil and gas equipment which will be utilised in Kazakhstan, Tajikistan and possibly throughout the rest of Central Asia. Although the Tajikistan segment does not meet the quantitative thresholds required by IFRS 8, management has concluded that this segment should be reported, as it is closely monitored by the executive directors.

<b>Period ended March 31, 2009</b>	<b>Kazakhstan \$</b>	<b>Tajikistan \$</b>	<b>Other and Corporate \$</b>	<b>Consolidated \$</b>
Segment revenue	494	35	-	529
Segment result	(2,834)	(219)	(2,670)	(5,723)
Net finance income	(89)	-	(204)	(293)
<b>Loss before and after tax attributable to equity shareholders</b>	<b>(2,923)</b>	<b>( 219)</b>	<b>(2,874)</b>	<b>(6,016)</b>

# Tethys Petroleum Limited

## Notes to Interim Consolidated Financial Statements

(Unaudited)

For the period ended March 31, 2009

(tabular amounts in thousands of US dollars)

The segment assets and liabilities at March 31, 2009 and capital expenditures for the three months then ended are as follows:

	<b>Kazakhstan</b> \$	<b>Tajikistan</b> \$	<b>Other and Corporate</b> \$	<b>Consolidated</b> \$
Segment assets	68,063	8,722	31,416	108,201
Segment liabilities	1,623	103	7,216	8,942
Capital additions	1,683	5,851	2,703	10,237
Depreciation and amortization	315	27	175	517
	<b>Kazakhstan</b> \$	<b>Tajikistan</b> \$	<b>Other and Corporate</b> \$	<b>Consolidated</b> \$
<b>Period ended March 31, 2008</b>				
Segment revenue	1,431	-	-	1,431
Segment result	(637)	(62)	(3,038)	(3,737)
Net finance income (cost)	(61)	-	(813)	(874)
<b>Loss before and after tax attributable to equity shareholders</b>	<b>( 698)</b>	<b>( 62)</b>	<b>(3,851)</b>	<b>(4,611)</b>

The segment assets and liabilities at December 31, 2008 and capital expenditures for the three months ended March 31, 2008 are as follows:

	<b>Kazakhstan</b> \$	<b>Tajikistan</b> \$	<b>Other and Corporate</b> \$	<b>Consolidated</b> \$
Segment assets	68,240	2,801	42,507	113,548
Segment liabilities	1,844	154	7,820	9,818
Capital additions	1,434	-	2,107	3,541
Depreciation and amortization	1,105	-	-	1,105

The segment assets attributable to the Kazakhstan segment consist mainly of capital additions related to the Kyzylol and Akkulka fields, including the installation of pipelines linking these fields to the Bhukara-Urals trunk line, as well as the costs of exploration pending determination of the Kulbas field. All sales in the Kazakhstan segment were made to a single customer.

# Tethys Petroleum Limited

## Notes to Interim Consolidated Financial Statements

(Unaudited)

For the period ended March 31, 2009

---

(tabular amounts in thousands of US dollars)

The segment assets attributable to the Tajikistan segment consist of the costs of exploration pending determination of the Tajikistan production sharing contract. All sales in the Tajikistan segment were to a single customer.

The other and corporate segment assets consist mainly of oil and gas equipment such as drilling rigs and related equipment and cash and cash equivalents. The other and corporate segment liabilities consist mainly of the loans obtained to finance the purchase of two drilling rigs, more fully disclosed in note 15.

There were no inter-segment sales.

### 6 Administrative expenses

	March 31, 2009	March 31, 2008
	\$	\$
<b>Administrative expenses by nature</b>		
Staff costs	1,186	1,133
Share-based payments – value of employee service	704	841
Travel cost	564	617
Foreign exchange loss (gain)	1,794	(25)
Other administrative costs	1,225	1,459
	<hr/> 5,473	<hr/> 4,025

Key management personnel have been identified as the board of directors and seven senior managers. Details of key management remuneration are shown in note 20.

### 7 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”).

# Tethys Petroleum Limited

## Notes to Interim Consolidated Financial Statements

(Unaudited)

**For the period ended March 31, 2009**

---

(tabular amounts in thousands of US dollars)

The maximum number of Ordinary Shares reserved for issuance under the plan equals 10% of the outstanding Ordinary Shares after giving effect to the Treasury Offering. 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 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.

The Company has approved the grant to its executive officers of warrants to acquire 6,767,504 Ordinary Shares. The warrants will be exercisable at US\$4.125 through the period ending December 25, 2009 in respect of 1,353,501 Ordinary Shares, US\$5.50 through the period ending June 25, 2011 in respect of 2,255,835 Ordinary Shares, and US\$6.875 through the period ending December 25, 2012 in respect of 3,158,168 Ordinary Shares.

Stock options – The following table summarizes the stock option activity under the 2007 Long Term Stock Incentive Plan for the three months ended March 31, 2009.

	<b>Number of options</b>	<b>Weighted average exercise price \$</b>
Outstanding at the beginning of the period	6,675,000	2.67
Granted	330,000	2.50
Forfeited	-	N/A
Exercised	-	N/A
Expired	-	N/A
	<hr/>	
Outstanding at March 31, 2009	7,005,000	2.67
	<hr/>	
Exercisable at March 31, 2009	3,802,000	2.70
	<hr/>	

# Tethys Petroleum Limited

## Notes to Interim Consolidated Financial Statements

(Unaudited)

**For the period ended March 31, 2009**

(tabular amounts in thousands of US dollars)

The following table lists the options outstanding at March 31, 2009 by exercise price.

Exercise price \$	Options outstanding	Weighted average remaining term (in years)	Options exercisable	Weighted average remaining term (in years) \$
2.50	2,475,000	6.32	825,000	6.32
2.75	4,470,000	5.27	2,937,000	5.26
3.18	60,000	5.68	40,000	5.68
Total	7,005,000	5.65	3,802,000	5.50

For options granted during the three months ended March 31, 2009, the weighted average fair value on the date of grant, estimated using the Black-Scholes option pricing model was \$0.2543 per option, using the following weighted average assumptions: dividend yield of 0%; expected term of 4.0 years; a risk free interest rate of 1.65%; and an expected volatility of 94.6%.

For the three months ended March 31, 2009, there was \$704,000 (2008 – \$841,000) of pre-tax compensation expense for options granted under the 2007 Long Term Stock Incentive Plan. As of March 31, 2009, there was \$1.2 million of total unrecognized compensation expense related to unvested stock options granted under the plan. The Company expects to recognize the expense over a weighted-average period of 0.82 years.

Warrants – The following table summarizes the warrant activity for the three months ended March 31, 2009.

	Number of warrants	Weighted average exercise price \$
Outstanding at the beginning of the period	11,636,956	4.43
Granted	-	N/A
Forfeited	-	N/A
Exercised	-	N/A
Expired	-	N/A
Outstanding at March 31, 2009	11,636,956	4.43
Exercisable at March 31, 2009	11,636,956	4.43

# Tethys Petroleum Limited

Notes to Interim Consolidated Financial Statements

(Unaudited)

For the period ended March 31, 2009

---

(tabular amounts in thousands of US dollars)

The following table lists the warrants outstanding at March 31, 2009 by exercise price.

Exercise price \$	Warrants outstanding	Weighted average remaining term (in years)	Warrants exercisable	Weighted average remaining term (in years)
2.50	1,346,154	2.50	1,346,154	2.50
1.25	638,298	2.69	638,298	2.69
2.50	2,090,000	8.19	2,090,000	8.19
3.25	795,000	1.95	795,000	1.95
4.13	1,353,501	0.74	1,353,501	0.74
5.50	2,255,835	2.24	2,255,835	2.24
6.88	3,158,168	3.74	3,158,168	3.74
Total	11,636,956	3.71	11,636,956	3.57

As of March 31, 2009, there was no unrecognized compensation expense related to unvested warrants.

## 8 Taxation

There is no current period income tax charge (2008 – \$Nil).

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

At March 31, 2009, the Company's Kazakhstan based subsidiary Tethys Aral Gas LLP had net operating loss carry forwards ("NOLs") for income tax purposes of approximately \$4,357,093 (2008 – \$4,393,500). If the NOLs are not utilized to reduce taxable income in future periods, they will expire in various amounts from 2012 through 2016. No deferred tax asset has been recognised due to the unpredictability of future profits streams.



# Tethys Petroleum Limited

Notes to Interim Consolidated Financial Statements

(Unaudited)

For the period ended March 31, 2009

---

(tabular amounts in thousands of US dollars)

## 9 Loss per share

### Basic and diluted loss per share

	Loss for the period \$	Weighted average number of shares (thousands)	Per share amount \$
<b>Period ended March 31, 2009</b>			
Loss attributable to ordinary shareholders – Basic and diluted	(6,016)	67,591	(0.09)
<b>Period ended March 31, 2008</b>			
Loss attributable to ordinary shareholders – Basic and diluted	(4,611)	45,117	(0.10)

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.

**Tethys Petroleum Limited**  
Notes to Interim Consolidated Financial Statements  
(Unaudited)  
**For the period ended March 31, 2009**

---

(tabular amounts in thousands of US dollars)

**10 Intangible assets**

	<b>Exploration and evaluation assets \$</b>
<b>Cost</b>	
At January 1, 2009	11,688
Additions	5,882
Amounts written off to exploration and evaluation costs	<u>(17)</u>
<b>At March 31, 2009</b>	<u>17,553</u>
<b>Net book value</b>	
At January 1, 2009	<u>11,688</u>
<b>At March 31, 2009</b>	<u>17,553</u>
<b>Cost</b>	
At January 1, 2008	7,335
Additions	6,205
Amounts written off to exploration and evaluation costs	<u>(1,852)</u>
<b>At December 31, 2008</b>	<u>11,688</u>
<b>Net book value</b>	
At January 1, 2008	<u>7,335</u>
<b>At December 31, 2008</b>	<u>11,688</u>
Asset retirement obligation asset at net book amount included in above	
<b>At March 31, 2009</b>	59
At December 31, 2008	126

**Tethys Petroleum Limited**  
Notes to Interim Consolidated Financial Statements  
(Unaudited)  
For the period ended March 31, 2009

(tabular amounts in thousands of US dollars)

**11 Property, plant and equipment**

	Oil and gas properties \$	Oil and gas equipment \$	Vehicles \$	Office and computer equipment \$	Total \$
<b>Cost</b>					
At January 1, 2009	51,971	20,040	1,388	967	74,366
Additions	1,528	3,299	49	29	4,905
<b>At March 31, 2009</b>	<b>53,499</b>	<b>23,339</b>	<b>1,437</b>	<b>996</b>	<b>79,271</b>
<b>Accumulated depreciation</b>					
At January 1, 2009	4,112	72	187	156	4,527
Charge for the period	316	111	53	37	517
<b>At March 31, 2009</b>	<b>4,428</b>	<b>183</b>	<b>240</b>	<b>193</b>	<b>5,044</b>
<b>Net book value</b>					
At January 1, 2009	47,859	19,968	1,201	811	69,839
<b>At March 31, 2009</b>	<b>49,071</b>	<b>23,156</b>	<b>1,197</b>	<b>803</b>	<b>74,227</b>
<b>Cost</b>					
At January 1, 2008	35,499	2,057	579	386	38,521
Additions	16,912	17,983	809	581	36,285
Assets derecognized	(440)	-	-	-	(440)
<b>At December 31, 2008</b>	<b>51,971</b>	<b>20,040</b>	<b>1,388</b>	<b>967</b>	<b>74,366</b>
<b>Accumulated depreciation</b>					
At January 1, 2008	143	-	19	32	194
Charge for the year	3,969	72	168	124	4,333
<b>At December 31, 2008</b>	<b>4,112</b>	<b>72</b>	<b>187</b>	<b>156</b>	<b>4,527</b>
<b>Net book value</b>					
At January 1, 2008	35,356	2,057	560	354	38,327
<b>At December 31, 2008</b>	<b>47,859</b>	<b>19,968</b>	<b>1,201</b>	<b>811</b>	<b>69,839</b>
Assets under construction at net book amount included in above					
<b>At March 31, 2009</b>	28,952	-	-	-	28,952
At December 31, 2008	27,668	3,210	-	-	30,878
Asset retirement obligation at net book amount included in above:					
<b>At March 31, 2009</b>	146	-	-	-	146
At December 31, 2008	175	-	-	-	175

# Tethys Petroleum Limited

## Notes to Interim Consolidated Financial Statements

(Unaudited)

For the period ended March 31, 2009

---

(tabular amounts in thousands of US dollars)

Borrowing cost of \$15,109 (2008 – \$712,000) relating to the manufacturing of one (2008 – one) drilling rig has been capitalised within the oil and gas equipment category. The effective weighted average interest rate of the relevant borrowing was 19.2% (2008 – 22.7 %). The effective interest rate is higher than the nominal rate due to the cost of associated warrant.

Assets under construction as at March 31, 2009 and December 31, 2008 includes the cost of developing the Akkulka concession are and tie-in pipeline and are not being depreciated until commencement of production.

### 12 Investments

	<b>March 31, 2009</b>	<b>December 31, 2008</b>
	\$	\$
Restricted cash	595	587

Restricted cash at March 31, 2009 and December 31, 2008 consisted of bank deposits held in Kazakhstan. These deposits have been placed to satisfy local Kazakhstan requirements in respect of asset retirement obligations.

### 13 Trade and other receivables

	<b>March 31, 2009</b>	<b>December 31, 2008</b>
	\$	\$
<b>Current</b>		
Trade receivables	1,476	1,124
Prepayments	815	900
Receivable from related parties	50	-
Other receivables	658	640
	<u>2,999</u>	<u>2,664</u>
<b>Non-current</b>		
Advances to construction contractors	594	1,514
Value added tax receivable	3,938	4,843
	<u>4,532</u>	<u>6,357</u>
	<u>7,531</u>	<u>9,021</u>

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.

Trade receivables of \$923,000 (December 31, 2008 – \$1,020,000) are more than thirty days past due but are not considered impaired. The other classes within trade and other receivables do not contain impaired assets.

# Tethys Petroleum Limited

## Notes to Interim Consolidated Financial Statements

(Unaudited)

For the period ended March 31, 2009

---

(tabular amounts in thousands of US dollars)

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. For the Akkulka contract, the prepayments relate to the drilling of a new well and payments on compressors, pipes and associated construction work that will constitute phase two of the Company's gas production plan. For Kul-Bas the prepayment related primarily to the drilling of a new well.

### 14 Cash and cash equivalents

	March 31, 2009 \$	December 31, 2008 \$
Cash at bank and in hand	4,464	19,868
Short-term deposits	3,502	2,332
	<hr/> 7,966	<hr/> 22,200

Cash at banks 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.

### 15 Financing liabilities

#### 15.1 Borrowings

	Effective interest rate %	Maturity date	March 31, 2009 \$	December 31, 2008 \$
<b>Current</b>				
Short-term portion of long-term loans	19 – 23 p.a.	2011	978	853
<b>Non-current</b>				
Long-term loans	19 – 23 p.a.	2011	4,800	5,096
			<hr/> 5,778	<hr/> 5,949

Financial borrowings relate to two financing arrangements that were put in place to fund the acquisition of the Telesto deep drilling rig (Telesto) and the Tykhe drilling rig (Tykhe) in 2008.

# Tethys Petroleum Limited

## Notes to Interim Consolidated Financial Statements

(Unaudited)

For the period ended March 31, 2009

---

(tabular amounts in thousands of US dollars)

The loan to fund Telesto bears interest at a nominal rate of 12%. In addition 795,000 warrants to purchase Tethys shares at CAD\$3.25 with a term of three years were issued to lenders. The fair value associated with the warrants issued has been recognised as a debt discount and presented as a direct reduction to the face value of the long-term debt, with the effective interest rate method being used to amortise the discount over the life of the loan. Lenders have security over the shares of Tethys Petroleum Inc. which has no other assets except the drilling rig. No corporate guarantees or security are being provided by Tethys. Borrowing costs of \$nil was capitalised to the asset (2008 – \$712,000) as the asset was in a state ready for its intended use by December 2008.

The loan to fund Tykhe bears interest at a nominal rate of 15%. In addition 638,298 warrants to purchase Tethys shares at CAD\$1.25 with a term of three years were issued to lenders. The fair value associated with the warrants issued has been recognised as a debt discount and presented as a direct reduction to the face value of the long-term debt, with the effective interest rate method being used to amortise the discount over the life of the loan. Lenders have security over the shares of AOE Tykhe BV which has no other assets except the drilling rig and in addition a corporate guarantee is being provided by Tethys. Borrowing costs of \$15,109 was capitalised to the asset (2008 – \$nil) during the quarter.

Based on the borrowing rates currently available to the Company for long term borrowings with similar terms and average maturities, the fair value of the non-current financial borrowings approximates its carrying value.

### 15.2 Warrant liability

	<b>March 31, 2009</b>	<b>December 31, 2008</b>
	\$	\$
<b>Current</b>		
Warrant liability	106	146

The warrant liability represents the financial liability relating to share warrants that are exercisable 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 15.1.

The liability was initially recognised at fair value. 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 statement of comprehensive loss.

# Tethys Petroleum Limited

## Notes to Interim Consolidated Financial Statements

(Unaudited)

For the period ended March 31, 2009

---

(tabular amounts in thousands of US dollars)

### 16 Trade and other payables

	<b>March 31, 2009</b>	<b>December 31, 2008</b>
	\$	\$
<b>Current</b>		
Trade payables	669	1,117
Accruals	495	414
Payables to related parties	341	489
Other creditors and accruals	758	715
	<hr/> 2,263	<hr/> 2,735
<b>Non-current</b>		
Other non-current payables	421	523
	<hr/> 2,684	<hr/> 3,258

Trade payables are non-interest bearing and are normally settled on 30 day terms. Accruals represent mainly professional fees and other current creditors consist mainly of local taxes in the Republic of Kazakhstan and the current portion of the Historical cost loan. All current trade and other payables are interest free and payable within 12 months.

Other non-current payables relate to the accrual for historical cost due to the Government of Kazakhstan on the Kyzyloi contract in Kazakhstan. The principal amount outstanding at March 31, 2009 was \$864,863 (2008 – \$908,098) and this is to be repaid in quarterly instalments by March 2014. The liability is non-interest bearing. The liability is measured at amortised cost using the effective interest rate method. The net present value of liability using an assumed rate of interest of 15% (2008 – 10%) is \$577,732 (2008 – \$680,000) of which \$157,000 (2008 – \$157,000) is current, leaving a non-current balance of \$420,732 (2008 – \$523,000).

Based on the borrowing rates currently available to the Company for loans with similar terms and average maturities, the fair value of the non-current liability relating to historic costs approximates it carrying value (2008 – \$508,441).

**Tethys Petroleum Limited**  
Notes to Interim Consolidated Financial Statements  
(Unaudited)  
**For the period ended March 31, 2009**

---

(tabular amounts in thousands of US dollars)

**17 Provisions for other liabilities and charges**

	<b>Asset retirement obligation</b>
	<b>\$</b>
At January 1, 2009	465
Arising during the period	71
Change in estimated cash flow	(166)
Unwinding of discount due to passage of time	4
	<hr/>
<b>At March 31, 2009</b>	<b>374</b>
	<hr/>
Of which	
Current	-
Non-current	374

**Asset retirement obligation**

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 2012 and 2022. The provision has been estimated using existing technology at current prices, escalated at 10% (2008 – 10%) and discounted at 11% (2008 – 11%). The economic life and the timing of the ARO are dependent on Government legislation, commodity price 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.



# Tethys Petroleum Limited

Notes to Interim Consolidated Financial Statements

(Unaudited)

For the period ended March 31, 2009

(tabular amounts in thousands of US dollars)

## 18 Share capital

	March 31, 2009 Number	December 31, 2008 Number
<b>Authorized</b>		
Ordinary shares with a par value of 10 US cents each	700,000,000	700,000,000
Preference shares with no par value	50,000,000	50,000,000

Ordinary equity share capital Allotted and fully paid	Number	Share capital \$	Share premium \$
At January 1, 2008	45,116,696	4,511	94,972
Issued during the year for cash	21,276,596	2,128	43,626
<b>At December 31, 2008</b>	<b>66,393,292</b>	<b>6,639</b>	<b>138,598</b>
At January 1, 2009	66,393,292	6,639	138,598
Issued during the period for purchase of oil and gas equipment	1,400,000	140	701
<b>At March 31, 2009</b>	<b>67,793,292</b>	<b>6,779</b>	<b>139,299</b>

On January 13, 2009, 1,400,000 ordinary shares were issued to a supplier as partial consideration for the purchase of a coil tubing unit. The fair value of the share issued was determined by reference to average price of the Company's shares that traded on the Toronto Stock Exchange on the day that the company took possession of the asset.

As at March 31, 2009 a total of 18,641,956 (December 31, 2008 – 18,311,596) 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 7.

On April 9, the Company issued 15 million ordinary shares to Rosehill Energy Limited as consideration for the acquisition of its wholly owned subsidiary. Details of this transaction are disclosed in note 19.

There are currently no preference shares outstanding (2008 – None).

# **Tethys Petroleum Limited**

Notes to Interim Consolidated Financial Statements

(Unaudited)

**For the period ended March 31, 2009**

---

(tabular amounts in thousands of US dollars)

## **19 Events occurring after the reporting period**

### **Acquisition of subsidiary**

On April 9, 2009 Tethys Petroleum Limited completed the acquisition from the British company Rosehill Energy Ltd, of 100% of the share capital of its subsidiary (the “Contractor”), a company incorporated in Cyprus. The Contractor holds Rosehill Energy Ltd’s entire interest in the Production Enhancement Contract (“PEC”) for the North Urtabulak Oil Field in Uzbekistan. The consideration for the purchase of this project was 15 million ordinary shares in Tethys Petroleum Limited restricted from resale for periods up to one year from completion.

Due to the relatively short period of time that has elapsed since the completion date of this transaction, the Company has not finalised its assessment of the fair value of the identifiable assets and liabilities of the Contractor. The review of the fair value of the assets and liabilities acquired will be completed within 12 months of the acquisition date at the latest, taking into account the inherently uncertain nature of the oil and gas industry.

# Tethys Petroleum Limited

Notes to Interim Consolidated Financial Statements

(Unaudited)

For the period ended March 31, 2009

---

(tabular amounts in thousands of US dollars)

## 20 Related party transactions

### Investment in subsidiaries

All subsidiaries, as listed below, have been consolidated into the consolidated accounts. A list of the investments in subsidiary undertakings (all of whose operations comprise one class of business, being Oil and Gas Exploration, Development and Production), including the name, proportion of ownership interest, country of operation and country of registration, is given below.

	Percentage	Country of operation	Country of registration
Tethys Uzbekistan Ltd.	100%	Netherlands	Netherlands
Amu Darya Petroleum Ltd.*	100%	BVI	BVI
Tethys Petroleum Inc.	100%	USA	USA
Tethys Afghanistan Inc.	100%	USA	USA
Tethys Kazakhstan Limited	100%	Guernsey	Guernsey
Tethys Aral Gas LLP*	100%	Kazakhstan	Kazakhstan
Kul-Bas LLP*	100%	Kazakhstan	Kazakhstan
Tethys Munai Gaz LLP*	100%	Kazakhstan	Kazakhstan
Tethys Services Kazakhstan LLP*	100%	Kazakhstan	Kazakhstan
Asia Oilfield Equipment BV*	100%	Kazakhstan/ Tajikistan	Netherlands
Tethys Europa BV*	100%	Netherlands	Netherlands
AOE Telesto BV*	100%	Kazakhstan	Netherlands
AOE Tyke BV*	100%	Netherlands	Netherlands
AOE Tyke SA*	100%	Tajikistan United	Luxemburg United
Tethys Services Limited	100%	Kingdom	Kingdom
Tethys Caspian Limited	100%	Cyprus	Cyprus
Tethys Tajikistan Limited	100%	Tajikistan	Jersey
Tethys Services Tajikistan Ltd.*	100%	Tajikistan	Tajikistan
Kulob Petroleum Ltd.*	100%	Tajikistan	Jersey
Seven Stars Energy Corporation*	100%	Tajikistan	BVI
Tethyda Limited	100%	Cyprus	Cyprus
Bokhtar Petroleum Ltd.*	100%	Jersey	Jersey

\*Indirect shareholding of parent company.

The results of the above subsidiaries have been included in the consolidated accounts. The principal activity of all of the subsidiaries is oil and gas exploration, development and production.

# Tethys Petroleum Limited

## Notes to Interim Consolidated Financial Statements

(Unaudited)

For the period ended March 31, 2009

---

(tabular amounts in thousands of US dollars)

### Other

Vazon Energy Limited (“Vazon”) is a corporation organized under the laws of the Bailiwick of Guernsey, of which Dr. David Robson, Chief Executive Officer, is the sole owner and managing director. Tethys has a management services contract with Vazon that came into effect from June 27, 2007 whereby the services of Dr. Robson and other Vazon employees are provided to the Company. The total cost charged to Tethys for services from Vazon in the quarter ended March 31, 2009 was \$267,030 (2008 – \$321,300).

Oilfield Production Consultants (OPC) Limited and Oilfield Production Consultants (OPC) USA LLC, both of which have one common director with the company, has charged Tethys a monthly retainer fee for engineering expertise, provided services relating to the optimization of the existing compressors and those to be installed as part of Phase 2 gas production from Akkulka, and has consulted on certain reservoir modelling work on projects in Tajikistan. Total fees in quarter ended March 31, 2009 were US\$102,066 (2008 – \$Nil).

The remuneration of the key management personnel of the Company, which includes both directors and other key personnel, is set out below in aggregate.

	<b>March 31, 2009</b>	<b>March 31, 2008</b>
	\$	\$
Salaries and short-term employee benefits	603	563
Share-based payments	332	637
	<hr/>	<hr/>
	935	1,200
	<hr/>	<hr/>

# **Tethys Petroleum Limited**

Notes to Interim Consolidated Financial Statements

(Unaudited)

**For the period ended March 31, 2009**

---

(tabular amounts in thousands of US dollars)

## **21 Commitments and contingencies**

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

The Kyzyloi Field License and Gas Production Contract initially agreed on June 12, 2007. An amendment was granted on November 8, 2007 which extended the terms of the contract to June 13, 2014 with a commitment to spend an additional US\$2,687,000 on a minimum work program focused on the development of the contractual territory. The Company has committed to an additional minimum work program for 2009 which requires US\$100,000 to be spent in completing work-overs in the contractual territory and this was outstanding at March 31, 2009.

### **Akkulka Field Exploration Licence and Contract**

Tethys Aral Gas (“TAG”) a wholly owned subsidiary of the Company is the sole party to the Akkulka Field Exploration License and Contract #265 dated November 17, 1998. The contract initially granted TAG the exploration rights for a period of 5 years, however, the terms of the contracts have been extended to September 17, 2009 through subsequent amendments to the original contract. The latest amendment signed on November 8, 2007 committed the Company to spend an additional US\$1,850,000 on a minimum work program focused on the exploration of the contractual territory. The Company is required to meet this commitment by September 17, 2009. The Company has agreed the 2009 minimum work programme with the Government and is committed to spending US\$1,170,500 on exploration and development activities in 2009 which will satisfy the remaining commitments. This commitment remained outstanding at March 31, 2009.

Furthermore, contingent upon commencement of commercial production on the Akkulka contractual territory, an additional payment in the amount of US\$3,500,000 will be due to the Kazakhstan Government as a reimbursement of historical costs previously incurred by the Government in relation to the contractual territory. The amount and procedure of reimbursement will be subject to the terms and conditions to be set out in the production contract, which is yet to be agreed.

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

Kul-Bas LLP, a wholly owned subsidiary of the Company, owns a 100% interest in “Kul-Bas Exploration and Production Contract” #1897 dated November 11, 2005 (also known as “Greater Akkulka Exploration and Production Contract”), which was concluded for 25 years (first 6 years of exploration and 19 years of production). Under the contract 100% of crude oil produced in the exploration phase is required to be sent to Kazakh refineries. On commencement of commercial production, at least 20% of produced crude oil should be sent to Kazakh refineries. Any associated gas is required to be utilized in accordance with the applicable environmental legislation. The initial minimum work program for the contractual territory resulted in commitment of US\$7,700,000. The minimum work program agreed for 2009 is US\$706,000 for the acquisition and processing of new seismic. The remaining commitment of US\$2,894,000 is required to be satisfied by November 11, 2011.

# **Tethys Petroleum Limited**

## Notes to Interim Consolidated Financial Statements

(Unaudited)

**For the period ended March 31, 2009**

---

(tabular amounts in thousands of US dollars)

In addition to the minimum work program commitments, the Kazakhstan Government is to be compensated for the historical costs related to the contractual territory in the amount of US\$3,275,780. The Company has previously paid an amount of US\$49,137 in relation to this balance. No further payments on this balance are required until commencement of commercial production within the contractual territory. If and when commercial production commences, US\$88,666 is due in quarterly instalments until the remaining historical costs of US\$3,226,643 has been paid in full.

### **Sales Contract**

On January 5, 2006 Tethys' Kazakh subsidiary, TAG, executed a natural gas supply contract with Gaz Impex S.A. ("Gaz Impex") relating to gas sales from TAG's Kyzylloi field in Kazakhstan. In December 2007 this contract was assigned to Kazakhstani Petrochemical Company Kemikal LLP ("KNK").

The contracted price is US\$0.90 per thousand cubic feet (Mcf) (US\$32 per thousand cubic metres (Mcm)) plus VAT which was 13% in 2008 moving to 12% in 2009. The VAT receipts can be offset against VAT costs incurred on the Kyzylloi project. The Gas Supply Contract has a term until the earlier of December 1, 2012, the contract termination date, or until such time as a cumulative quantity of 850 million cubic metres (MMcm) of natural gas is delivered. The contract is based on a take-or-pay principle and covers all gas produced from the Kyzylloi Field Licence and Production Contract area up to termination. As at March 31, 2009, 22.69% of the contract volume had been delivered.

### **Tajikistan**

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

Pursuant to the PSC, Tethys has committed to funding a work program designed to provide data for a focused exploration of the Contract Area and which will be carried out in two stages (the "Work Program"). The first phase of the Work Program will include geological studies, reprocessing of existing seismic and other geophysical data, acquisition of seismic and other geophysical data and the commencement of initial rehabilitation activities on the Beshtentyak and Khoja Sartez fields. The minimum spend commitment under Phase 1 of the contract is US\$3,000,000. This expenditure must be met within 18 months on the effective date of the contract, which is December 13, 2009. This commitment was satisfied through the payment on January 2, 2009 of \$4,925,000 for a contract agreed on November 14, 2008 relating to a seismic survey work program.

# Tethys Petroleum Limited

Notes to Interim Consolidated Financial Statements

(Unaudited)

For the period ended March 31, 2009

---

(tabular amounts in thousands of US dollars)

## Drilling Rig Telesto

On October 16, 2007, Tethys placed an order for a new 2,000 horsepower (1,470 kN) ZJ70/4500L drilling rig (Telesto) from a Chinese supplier. The rig has a nominal drilling depth of 23,000 feet (7,000 metres). The rig was transported from China to Kazakhstan arriving in September 2008 for use on the Akkulka deep exploration program, and though drilling commenced on December 9, 2008 it stopped soon after because of technical problems. The cost of the rig is US\$6,263,000 and at March 31, 2009 the final payment of US\$313,150 (5%) remained outstanding but will be made on completion of a successful operating period.

## Drilling Rig Tykhe

On July 25, 2008 Tethys placed an order for a new ZJ30 truck mounted rig (Tykhe) at a cost of US\$5,350,000. The Company paid the rig deposit of US\$1,605,000 in July 2008 and a stage payment of the same amount in September 2008. The third instalment of US\$1,872,500 was settled in the three months to March 31, 2009 and the final payment of US\$267,500 will be made after assembly and a successful operating period.

## Operating leases

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

	<b>Total</b>	<b>Less than 1 year</b>	<b>1 – 3 years</b>
	\$	\$	\$
Operating leases	647,300	479,900	167,400

# **Tethys Petroleum Limited**

## Notes to Interim Consolidated Financial Statements (Unaudited) For the period ended March 31, 2009

---

(tabular amounts in thousands of US dollars)

### **22 Explanation of transition to IFRS**

These interim consolidated financial statements for the period ended March 31, 2009 are the Company's first financial statements prepared under IFRS. For all accounting periods prior to this, the Company prepared its financial statements under generally accepted accounting principles in the United States of America ('US GAAP'). In accordance with IFRS 1 'First time adoption of IFRS', certain disclosures relating to the transition to IFRS are given in this note. These disclosures are prepared under IFRS as set out in the basis of preparation in note 2.

IFRS 1 allows first time adopters to IFRS to take advantage of a number of voluntary exemptions from the general principal of retrospective restatement. The Company has taken the following exemptions:

#### ***IFRS 3 Business Combinations***

This standard has not been applied to acquisitions of subsidiaries that occurred before January 1, 2008, the Company's transition date.

#### ***IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities***

The Company has elected to apply exemption from full retrospective application of Asset retirement obligations as allowed under IFRS 1. As such the Company has re-measured the provisions as at January 1, 2008 under IAS 37, estimated the amount to be included in the cost of the related asset by discounting the liability to the date at which the liability first arose using best estimates of the pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation, and recalculated the accumulated depreciation, depletion and amortisation under IFRS.



**Tethys Petroleum Limited**  
Notes to Interim Consolidated Financial Statements  
(Unaudited)  
**For the period ended March 31, 2009**

(tabular amounts in thousands of US dollars)

	<b>Reconciliation of equity as at January 1, 2008</b>		
	<b>US GAAP</b>	<b>Effect of transition to IFRS</b>	<b>IFRS</b>
	\$	\$	\$
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets(a)	-	7,335	7,335
Property, plant and equipment(b)	37,472	855	38,327
Investments	318	-	318
Other receivables	5,814	-	5,814
	43,604	8,190	51,794
<b>Current assets</b>			
Trade and other receivables	1,360	-	1,360
Cash and cash equivalents	26,692	-	26,692
	28,052	-	28,052
<b>Total assets</b>	71,656	8,190	79,846
<b>Equity and Liabilities</b>			
<b>Equity attributable to shareholders</b>			
Share capital	99,483	-	99,483
Other reserves(c)	20,082	646	20,728
Accumulated deficit(e)	(51,625)	7,155	(44,470)
	67,940	7,801	75,741
<b>Non-current liabilities</b>			
Other non-current payables	776	-	776
Provisions for other liabilities and charges(d)	661	389	1,050
	1,437	389	1,826
<b>Current liabilities</b>			
Trade and other payables	2,279	-	2,279
	2,279	-	2,279
Total liabilities	3,716	389	4,105
<b>Total shareholders' equity and liabilities</b>	71,656	8,190	79,846

**Tethys Petroleum Limited**  
Notes to Interim Consolidated Financial Statements  
(Unaudited)  
**For the period ended March 31, 2009**

---

(tabular amounts in thousands of US dollars)

**22.1 Explanation of the effect of the transition to IFRS**

The following explains the material adjustments to the statement of financial position of the Company.

	\$
<p>(a) <b>Reclassification of cost from property, plant and equipment to intangible assets.</b> In accordance with IAS 16, IAS 38 and IFRS 6 the Company reallocated certain costs relating to unproved properties from property, plant and equipment to intangible assets.</p>	7,661
<p><b>Expense pre licence expenditure.</b> On discontinuance of the policy of full cost accounting, expenditure incurred prior to the date on which the Company obtaining legal title to the relevant licences or concessions to explore and develop areas of interest, previously capitalised within the full cost pool, is written off.</p>	(326)
<p><b>Net effect –increase in intangible assets</b></p>	7,335
<p>(b) <b>Reclassification of cost from property plant and equipment to intangible assets.</b></p>	(7,661)
<p><b>Reverse impairment loss.</b> On transition to IFRS, a previous impairment loss recognised for Kazakhstan oil and gas properties in the year ended December 31, 2007 was reversed. US GAAP establishes a 'cost ceiling' for each cost center which limits the amount of costs that can be capitalized in each cost center. If a cost center's unamortized capitalized costs exceed the ceiling, the net capitalized costs must be written down to the ceiling. In calculating the ceiling limit under US GAAP, the present value of estimated future net revenues is computed by applying current prices of oil and gas reserves to estimated future production of proved oil and gas reserves, less estimated future expenditures to be incurred in developing and producing the proved reserves. The present value of estimated future net revenues is computed using a discount factor of 10% and assuming continuation of existing economic conditions. At the date of transition to IFRS, all CGUs were assessed for impairment by comparing the carrying value of the CGU to the recoverable amount. Recoverable amount was determined as value in use and was calculated as the present value of future cash flows expected to be derived from the CGU. The present value of future cash flows was computed on a pre-tax basis by applying forecast prices of oil and gas reserves to estimated future production of proved and probable oil and gas reserves, less estimated future expenditures to be incurred in developing and producing the proved and probable reserves. The present value of estimated future net revenues is computed using a discount factor of 5%.</p>	12,800
<p><b>Expense unsuccessful exploration and evaluation cost.</b> On the discontinuance of full cost accounting, drilling expenditures associated with unsuccessful exploration wells drilled prior to December 31, 2007 were expensed. These costs were previously included in the carrying value of the full cost pool.</p>	(3,799)

# Tethys Petroleum Limited

Notes to Interim Consolidated Financial Statements

(Unaudited)

For the period ended March 31, 2009

---

(tabular amounts in thousands of US dollars)

	\$
<b>Expense pre licence expenditure.</b> On discontinuance of the policy of full cost accounting, expenditure incurred prior to the date on which the Company obtaining legal title to the relevant licences or concessions to explore and develop areas of interest, which were previously capitalised within the full cost pool, is written off.	(907)
<b>Increase the carrying value of oil and gas assets due to restatement of the asset retirement obligation.</b> The discounted value of the future cash flows related to funding the Company's asset retirement obligation in relation to oil and gas properties is increased due to a change in the discount rate applied from a risk adjusted rate as required by US GAAP to a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. This results in an addition to the carrying value of oil and gas properties. This increase in carrying value is depreciated over the remaining life of the relevant field in accordance with the Company's depreciation policy.	389
<b>Reduction in depletion of oil and gas properties.</b> Each producing field or concession is depreciated separately using the unit of production method based on proved and probable reserves. Under US GAAP depreciation was based on the countrywide full cost pool of all proved properties, both producing and non-producing, and calculated on the unit of production method over only the proved reserves.	33
<b>Net effect – increase in property, plant and equipment</b>	<b>855</b>
<b>(c) Adoption of IFRS 2.</b> The expense relating to employee options is recognised individually for each vesting tranche over the applicable vesting period, as opposed to on a straight line method over the total requisite service period as permitted by US GAAP.	646
<b>Effect - increase option reserve</b>	<b>646</b>
<b>(d) Increase in asset retirement provision.</b> The provision relating to the cost of future restoration cost of oil and gas properties increases in line with the increase noted in (b) above.	389
<b>Effect – increase in provisions for liabilities and charges.</b>	<b>389</b>
<b>(e) The cumulative effect of these transition adjustments on the accumulated deficit as at January 1, 2008 is a decrease of:</b>	<b>7,155</b>

**Tethys Petroleum Limited**  
Notes to Interim Consolidated Financial Statements  
(Unaudited)  
For the period ended March 31, 2009

(tabular amounts in thousands of US dollars)

<b>Reconciliation of equity as at March 31, 2008</b>			
	<b>US GAAP</b>	<b>Effect of transition to IFRS</b>	<b>IFRS</b>
	\$	\$	\$
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets(a)	-	7,468	7,468
Property, plant and equipment(b)	39,526	1,029	40,555
Investments	423	-	423
Other receivables	7,040	-	7,040
	<hr/> 46,989	<hr/> 8,497	<hr/> 55,486
<b>Current assets</b>			
Inventories	-	-	-
Trade and other receivables	2,090	-	2,090
Cash and cash equivalents	24,467	-	24,467
	<hr/> 26,557	<hr/> -	<hr/> 26,557
<b>Total assets</b>	<hr/> <b>73,546</b>	<hr/> <b>8,497</b>	<hr/> <b>82,043</b>
<b>Equity and Liabilities</b>			
<b>Equity attributable to shareholders</b>			
Share capital	99,483	-	99,483
Other reserves(c)	21,634	(52)	21,582
Accumulated deficit(f)	(56,326)	7,245	(49,081)
	<hr/> 64,791	<hr/> 7,193	<hr/> 71,984
<b>Non-current liabilities</b>			
Financial liabilities – borrowings	4,520	-	4,520
Other non-current payables	754	-	754
Provisions for other liabilities and charges(d)	686	366	1,052
	<hr/> 5,960	<hr/> 366	<hr/> 6,326
<b>Current liabilities</b>			
Financial liabilities – borrowings	780	-	780
Financial liabilities – warrants (e)	-	938	938
Trade and other payables	2,015	-	2,015
	<hr/> 2,795	<hr/> 938	<hr/> 3,733
Total liabilities	<hr/> 8,755	<hr/> 1,304	<hr/> 10,059
<b>Total shareholders' equity and liabilities</b>	<hr/> <b>73,546</b>	<hr/> <b>8,497</b>	<hr/> <b>82,043</b>

# Tethys Petroleum Limited

## Notes to Interim Consolidated Financial Statements

(Unaudited)

For the period ended March 31, 2009

---

(tabular amounts in thousands of US dollars)

### 22.2 Explanation of the effect of the transition to IFRS

The nature of adjustments from US GAAP to IFRS at March 31, 2008 is similar to those at January 1, 2008. There is one additional adjustment relating to share warrants and current liabilities (see (c) and (e) below). Explanations are disclosed in note 22.1.

	\$
(a) Reclassification of cost from property, plant and equipment to intangible assets	7,795
Expense pre licence expenditure	(327)
	<hr/>
Net effect – increase in intangible assets	7,468
(b) Reclassification of cost from property, plant and equipment to intangible assets	(7,795)
Reverse impairment loss	12,800
Expense unsuccessful exploration cost	(3,799)
Expense pre licence expenditure	(907)
Increase the carrying value of oil and gas assets due to restatement of the asset retirement obligation.	306
Reduction of depletion of oil and gas properties	424
	<hr/>
Net effect – increase in property, plant and equipment	1,029
(c) Adoption of IFRS 2	915
Adoption of IAS 32. The Company previously recognised the fair value of foreign currency denominated share warrants as equity within other reserves. On adoption of IFRS the fair value of such warrants is initially recognised as a foreign currency denominated liability, which is subsequently re-measured at each reporting date with the resulting foreign exchange gain or loss being recognised in income.	<hr/>
	(967)
Net effect - decrease in other reserves	<hr/>
	(52)
(d) Increase in asset retirement provision. Effect – increase in provisions for liabilities and charges.	366
(e) Adoption of IAS 32 as explained in (c) above. Effect – increase in current liabilities	938
(f) The cumulative effect of these transition adjustments on the accumulated deficit as at March 31, 2008 is a decrease of:	7,245

**Tethys Petroleum Limited**  
Notes to Interim Consolidated Financial Statements  
(Unaudited)  
**For the period ended March 31, 2009**

(tabular amounts in thousands of US dollars)

<b>Reconciliation of equity as at December 31, 2008</b>			
	<b>US GAAP</b>	<b>Effect of transition to IFRS</b>	<b>IFRS</b>
	\$	\$	\$
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets(a)	-	11,688	11,688
Property, plant and equipment(b)	73,793	(3,954)	69,839
Investments	587	-	587
Other receivables	6,357	-	6,357
	<u>80,737</u>	<u>7,734</u>	<u>88,471</u>
<b>Current assets</b>			
Inventories	213	-	213
Trade and other receivables	2,664	-	2,664
Cash and cash equivalents	22,200	-	22,200
	<u>25,077</u>	<u>-</u>	<u>25,077</u>
<b>Total assets</b>	<u>105,814</u>	<u>7,734</u>	<u>113,548</u>
<b>Equity and Liabilities</b>			
<b>Equity attributable to shareholders</b>			
Share capital	145,237	-	145,237
Other reserves(c)	25,189	(42)	25,147
Accumulated deficit(f)	(74,252)	7,598	(66,654)
	<u>96,174</u>	<u>7,556</u>	<u>103,730</u>
<b>Non-current liabilities</b>			
Financial liabilities – borrowings	5,096	-	5,096
Other non-current payables	523	-	523
Provisions for other liabilities and charges(d)	433	32	465
	<u>6,052</u>	<u>32</u>	<u>6,084</u>
<b>Current liabilities</b>			
Financial liabilities – borrowings	853	-	853
Financial liabilities – warrants (e)	-	146	146
Trade and other payables	2,735	-	2,735
	<u>3,588</u>	<u>146</u>	<u>3,734</u>
Total liabilities	<u>9,640</u>	<u>178</u>	<u>9,818</u>
<b>Total shareholders' equity and liabilities</b>	<u>105,814</u>	<u>7,734</u>	<u>113,548</u>

# Tethys Petroleum Limited

## Notes to Interim Consolidated Financial Statements

(Unaudited)

For the period ended March 31, 2009

---

(tabular amounts in thousands of US dollars)

### 22.3 Explanation of the effect of the transition to IFRS

The nature of adjustments from US GAAP to IFRS at December 31, 2008 is similar to those at January 1, 2008 and March 31, 2008. There are two additional adjustments, both relating to intangible assets (see (a) below). Explanations of all other adjustments are disclosed in note 22.1.

	\$
(a) Reclassification of cost from property, plant and equipment to intangible assets	13,855
Expense pre licence expenditure	(715)
Expense unsuccessful exploration cost. On the discontinuance of full cost accounting, drilling expenditures associated with unsuccessful exploration wells drilled during the prior from January 1, 2008 to December 31, 2008 were expensed. These costs were previously included in the carrying value of the full cost pool.	(1,464)
Increase the carrying value of oil and gas assets due to restatement of the asset retirement obligation on exploration wells drilled during the prior from January 1, 2008 to December 31, 2008 due to reduction in the discount rate as described in note 22.1 (b).	12
	<hr/>
Net effect – increase in intangible assets	11,688
(b) Reclassification of cost from property, plant and equipment to intangible assets	(13,855)
Reverse impairment loss	12,800
Expense unsuccessful exploration cost	(3,799)
Expense pre licence expenditure	(1,347)
Increase the carrying value of oil and gas assets due to restatement of the asset retirement obligation.	98
Reduction of depletion of oil and gas properties	2,149
	<hr/>
Net effect – decrease in property, plant and equipment	(3,954)
(c) Adoption of IFRS 2	1,121
Adoption of IAS 32	(1,163)
	<hr/>
Net effect - decrease in other reserves	(42)
(d) Increase in asset retirement obligation. Effect – increase in provisions for liabilities and charges.	32
(e) Adoption of IAS 32. Effect – increase in current liabilities	146
(f) The cumulative effect of these transition adjustments on the accumulated deficit as at December 31, 2008 is a decrease of:	7,598

(42)

# Tethys Petroleum Limited

## Notes to Interim Consolidated Financial Statements

(Unaudited)

For the period ended March 31, 2009

(tabular amounts in thousands of US dollars)

### Consolidated reconciliation of comprehensive loss for the three months ended March 31, 2008

	US GAAP \$	Effect of transition to IFRS \$	IFRS \$
Sales and other operating revenue	1,431	-	1,431
Production expenditure	(67)	-	(67)
Depreciation, depletion and amortization(a)	(1,496)	391	(1,105)
Exploration expenditure	-	-	-
Fair value gains on derivative financial instrument (b)	-	29	29
Administrative expenses(c)	(3,756)	(269)	(4,025)
<b>Operating loss</b>	<b>(3,888)</b>	<b>151</b>	<b>(3,737)</b>
Finance income	167	-	167
Finance costs(d)	(980)	(61)	(1,041)
<b>Loss before tax</b>	<b>(4,701)</b>	<b>90</b>	<b>(4,611)</b>
Taxation	-	-	-
<b>Comprehensive loss for the period attributable to shareholders</b>	<b>(4,701)</b>	<b>90</b>	<b>(4,611)</b>

The following explains the material adjustments to the statement of comprehensive loss of the Company.

	\$
(a) Reduction in the depletion expense for the quarter as a result of the transaction adjustment explained in note 22.1(b)	391
(b) Fair value gains on derivative financial instrument	29
(c) Increase in the cost of employee share options for the quarter as a result of the transition adjustment explained in note 22.1(c)	(269)
(d) Increase in the accretion charge on the Company's asset retirement obligation due to the transaction adjustment in note 22.1(d)	(61)



# Tethys Petroleum Limited

Notes to Interim Consolidated Financial Statements

(Unaudited)

For the period ended March 31, 2009

(tabular amounts in thousands of US dollars)

	<b>Consolidated reconciliation of comprehensive loss for the year ended December 31, 2008</b>		
	<b>US GAAP</b>	<b>Effect of transition to IFRS</b>	<b>IFRS</b>
	\$	\$	\$
Sales and other operating revenue	5,360	-	5,360
Production expenditure	(1,334)	-	(1,334)
Depreciation, depletion and amortization(a)	(6,449)	2,116	(4,333)
Exploration expenditure(b)	-	(2,292)	(2,292)
Fair value gains on derivative financial instrument (c)	-	929	929
Administrative expenses(d)	(20,587)	(388)	(20,975)
<b>Operating loss</b>	(23,010)	365	(22,645)
Finance income	832	-	832
Finance costs (e)	(449)	78	(371)
<b>Loss before tax</b>	(22,627)	(443)	(22,184)
Taxation	-	-	-
<b>Comprehensive loss for the year attributable to shareholders</b>	(22,627)	( 443)	(22,184)

The nature of adjustments from US GAAP to IFRS at December 31, 2008 is similar to those at March 31, 2008. There are three additional adjustments required for the year relating to intangible assets and property plant and equipment which are explained in note (b) as well as finance income which is explained in note (c)

	\$
(a) Reduction in the depletion expense for the year as a result of the transaction adjustment explained in note 22.1(b)	2,116
(b) Expense unsuccessful exploration wells drilled during the year as explained in note 22.3(a)	(1,464)
Expense pre licence expenditure incurred during the year explained in note 22.1(a)	(388)
Expense pre licence expenditure incurred during the year explained in note 22.1(b)	(440)
Net effect – increase in exploration expenditure	(2,292)

# Tethys Petroleum Limited

Notes to Interim Consolidated Financial Statements

(Unaudited)

For the period ended March 31, 2009

---

(tabular amounts in thousands of US dollars)

(c)	Fair value gains on derivative financial instrument	929
(d)	Increase in the cost of employee share options for the year as a result of the transition adjustment explained in note 22.1.(c)	(388)
(e)	Decrease in the accretion charge on the Company's asset retirement obligation due to the transition adjustment explained in note 22.1.(d).	78

## **Restatement of cash flow statement from US GAAP to IFRS**

The restatement from US GAAP to IFRS had no significant effect on the reported cash flows generated by the Company. The reconciling items between US GAAP presentation and IFRS presentation have no net effect on the cash flows generated.

