

Tethys Petroleum Limited

Consolidated Financial Statements
For the years ended December 31, 2014 and 2013

Contents

Responsibility Statement of the Directors' in Respect of the Annual Report and Accounts	1
Independent Auditor's Report to the shareholders of Tethys Petroleum Limited	2
Consolidated Financial Statements	3-6
Notes to Consolidated Financial Statements	7-58

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

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

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

External auditors have examined the consolidated financial statements and have expressed an opinion on the consolidated statements. Their report is included with the consolidated financial statements.

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

We confirm that to the best of our knowledge:

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

We draw attention to the section entitled “Going Concern” in Note 2 to the Consolidated Financial Statements which describes the material uncertainties relating to the Company’s adoption of the going concern basis in preparing the Financial Statements for the year ended December 31, 2014.

For and on behalf of the Board

J. Bell

Executive Chairman

March 31, 2015

D.S. Lay

Chief Financial Officer

March 31, 2015



Independent Auditor's Report

To the Shareholders of Tethys Petroleum Limited

We have audited the accompanying consolidated financial statements of Tethys Petroleum Limited which comprise the consolidated statement of financial position as at December 31, 2014 and the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Tethys Petroleum Limited as at December 31, 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 2 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Tethys Petroleum Limited's ability to continue as a going concern.

Other matter

The consolidated financial statements of Tethys Petroleum Limited for the year ended December 31, 2013, were audited by another auditor who expressed an unmodified opinion on those statements on March 31, 2014.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta, Canada
March 31, 2015

PricewaterhouseCoopers LLP
111 5th Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F: +1 403 781 1825, www.pwc.com/ca

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

	Note	As at December 31	
		2014	2013
Non-current assets			
Intangible assets	13	47,630	31,074
Property, plant and equipment	14	13,804	15,291
Restricted cash	15	623	660
Investment in joint arrangements	18	4	4
Deferred tax	11	258	322
		62,319	47,351
Current assets			
Cash and cash equivalents	20	3,112	25,109
Trade and other receivables	16	634	1,358
Advances		-	4,000
Restricted cash	15	116	475
Assets of a disposal group classified as held for sale	19	172,514	156,325
		176,376	187,267
Total assets		238,695	234,618
Equity			
Share capital	24	33,645	28,756
Share premium	24	321,724	307,295
Other reserves	24	42,845	42,621
Accumulated deficit		(198,560)	(182,533)
Non-controlling interest	25	6,096	6,454
Total equity		205,750	202,593
Non-current liabilities			
Financial liabilities - borrowings	21	5,489	-
		5,489	-
Current liabilities			
Financial liabilities - borrowings	21	5,139	4,965
Derivative financial instruments – warrants	21	-	17
Current taxation		364	144
Trade and other payables	22	4,102	4,946
Provisions	9	1,759	520
Liabilities of a disposal group classified as held for sale	19	16,092	21,433
		27,456	32,025
Total liabilities		32,945	32,025
Total equity and liabilities		238,695	234,618
Going concern	2		
Commitments and contingencies	28		

The notes on pages 7 to 58 form part of these consolidated financial statements. The consolidated financial statements were approved by the Board on March 31, 2015 and were signed on its behalf.

J. Bell
Executive Chairman

D.S. Lay
Chief Financial Officer

Tethys Petroleum Limited

Consolidated Statements of Comprehensive Income (Loss)
(in thousands of US dollars except per share information)

	Note	Year ended December 31,	
		2014	2013
Sales and other revenues	7	27,389	36,945
Sales expenses	2	(2,287)	(3,036)
Production expenses		(13,476)	(13,640)
Depreciation, depletion and amortization		(1,270)	(12,619)
Business development expenses		(1,881)	(2,695)
Administrative expenses	8	(17,647)	(18,703)
Restructuring costs	9	(2,585)	-
Transaction costs of assets held for sale	19	(243)	(611)
Share based payments	10	(224)	(862)
Gain on Tajik farm-out		-	8,214
Foreign exchange loss - net		(200)	(113)
Fair value gain on derivative financial instrument - net		17	830
(Loss)/profit from jointly controlled entity	17	(1,356)	298
Finance costs - net	21	(1,247)	(1,460)
Loss before taxation from continuing operations		(15,010)	(7,452)
Taxation	11	(463)	(3,083)
Loss for the year from continuing operations		(15,473)	(10,535)
Loss for the year from discontinued operations net of tax	5	(912)	(7,096)
Loss and total comprehensive loss for the year		(16,385)	(17,631)
Loss and total comprehensive loss attributable to:			
Shareholders		(16,027)	(17,148)
Non-controlling interest		(358)	(483)
Loss and total comprehensive loss for the year		(16,385)	(17,631)
Loss per share attributable to shareholders:			
Basic and diluted – from continuing operations	12	(0.05)	(0.03)
Basic and diluted - from discontinued operations	12	-	(0.02)

No dividends were paid or are declared for the year (2013 – \$Nil).

The notes on pages 7 to 58 form part of these consolidated financial statements.

Tethys Petroleum Limited

Consolidated Statements of Changes in Equity (in thousands of US dollars)

	Note	Attributable to shareholders					Non-controlling interest	Total equity
		Share capital	Share premium	Accumulated deficit	Option reserves	Warrant reserve		
Balance at January 1, 2013		28,671	306,725	(165,385)	25,113	16,592	8,437	220,153
Comprehensive loss for the year		-	-	(17,148)	-	-	(483)	(17,631)
Dividend paid to non-controlling interest		-	-	-	-	-	(1,500)	(1,500)
Transactions with shareholders								
Share-based payments		-	-	-	907	-	-	907
Issue of warrants		-	-	-	-	9	-	9
Exercise of options		85	570	-	-	-	-	655
Total transactions with shareholders		85	570	-	907	9	-	1,571
Balance at January 1, 2014	24	28,756	307,295	(182,533)	26,020	16,601	6,454	202,593
Comprehensive loss for the year		-	-	(16,027)	-	-	(358)	(16,385)
Transactions with shareholders								
Shares issued		4,889	15,808	-	-	-	-	20,697
Share issue costs		-	(1,379)	-	-	-	-	(1,379)
Share-based payments		-	-	-	224	-	-	224
Total transactions with shareholders		4,889	14,429	-	224	-	-	19,542
At December 31, 2014	24	33,645	321,724	(198,560)	26,244	16,601	6,096	205,750

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

The notes on pages 7 to 58 form part of these consolidated financial statements.

Tethys Petroleum Limited

Consolidated Statements of Cash Flows

(in thousands of US dollars)

	Note	Year ended December 31,	
		2014	2013
Cash flow from operating activities			
Loss before taxation from continuing operations		(15,010)	(7,452)
Loss before tax from discontinued operations*	5	(912)	(8,150)
		(15,922)	(15,602)
Adjustments for			
Impairment charge in loss from discontinued operations	5	-	7,010
Share based payments	10	224	862
Net finance cost		1,247	1,460
Depreciation, depletion and amortization		1,270	13,534
Fair value gain on derivative financial instruments		(17)	(830)
Net unrealised foreign exchange gain		(192)	(43)
Gain on Tajik farm-out		-	(8,214)
Loss/(profit) from jointly controlled entity		1,356	(298)
Movement in deferred revenue		-	(1,191)
Movement in provisions		1,239	-
Net change in working capital	27	(389)	2,807
Cash used in operating activities		(11,184)	(505)
Corporation tax paid		(320)	(276)
Net cash used in operating activities		(11,504)	(781)
Cash flow from investing activities			
Interest received		198	216
Expenditure on exploration and evaluation assets		(8,683)	(4,529)
Expenditures on property, plant and equipment		(17,386)	(19,280)
Movement in restricted cash		137	(778)
Investment in jointly controlled entity		-	(4)
Repayment of loan receivable from jointly controlled entity		-	200
Proceeds of Tajik farm-out (net of costs)	14	-	62,959
Movement in advances to construction contractors		782	(1,081)
Other advances	31	-	(4,000)
Movement in value added tax receivable		(90)	(3,113)
Net change in working capital	27	285	170
Movement in asset retirement obligation		-	(253)
Net cash (used in)/from investing activities		(24,757)	30,507
Cash flow from financing activities			
Proceeds from issuance of borrowings, net of issue costs	21	11,604	4,714
Repayment of borrowings	21	(8,803)	(8,389)
Interest paid on borrowings		(1,721)	(2,360)
Proceeds from issuance of equity, net of issue costs		13,568	523
Movement in other non-current liabilities		(153)	(283)
Net cash from/(used in) financing activities		14,495	(5,795)
Effects of exchange rate changes on cash and cash equivalents		(97)	50
Net (decrease)/increase in cash and cash equivalents		(21,863)	23,981
Cash and cash equivalents at beginning of the year		25,731	1,750
Cash and cash equivalents at end of the year		3,868	25,731
Cash and cash equivalents at end of the year comprises:			
Cash reclassified as assets of a disposal group held for sale	19	756	622
Cash and cash equivalents	20	3,112	25,109
		3,868	25,731

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

The notes on pages 7 to 58 form part of these consolidated financial statements.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements (tabular amounts in thousands of US dollars)

1 General information

The principal executive office of Tethys Petroleum Limited and its subsidiaries (collectively "Tethys" or the "Company") are in Guernsey, British Isles. Tethys Petroleum Limited is incorporated in the Cayman Islands and the address of the Company's registered office is 89 Nexus Way, Camana Bay, Grand Cayman, Cayman Islands. Tethys is an oil and gas company operating within the Republic of Kazakhstan, Republic of Tajikistan and Georgia. Tethys' principal activity is the acquisition of and exploration and development of crude oil and natural gas fields.

The Company has its primary listing on the Toronto Stock Exchange (TSX) and a standard listing on the London Stock Exchange (LSE).

Statement of compliance

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

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

2 Summary of significant accounting policies

Basis of preparation

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

Going concern

The consolidated financial statements have been prepared on a going concern basis in accordance with IFRS, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. The Management and the board has considered the Company's current activities, funding position and projected funding requirements for the period of at least twelve months from the date of approval of the Consolidated Financial Statements, in determining the ability of the Company to adopt the going concern basis in preparing the Consolidated Financial Statements for the year ended December 31, 2014.

For the year ended December 31, 2014, the Company reported a loss of USD16.4 million (2013: USD 17.6 million) and an accumulated deficit of USD198.6 million (2013: USD182.5 million) at that date and negative working capital of USD7.5 million (2013: positive USD16.4 million) excluding items classified as held for sale.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

On November 2, 2013, Tethys announced the sale of a 50% interest in its Kazakhstan businesses to SinoHan Oil and Gas Investment Number 6 B.V. ("SinoHan"), part of the HanHong Private Equity Management Company Limited, a Beijing, PRC based private equity fund, for USD75 million. Completion is dependent on the Company receiving Kazakh governmental permission and waiver of the States' pre-emptive right (article 36 of Kazakhstan law on Subsoil and Subsoil Use) which have not yet been received and are beyond the Company's control. The Kazakh Government is currently completing due diligence on the Kazakh businesses in order to decide whether or not to exercise its pre-emptive right. In view of the current delay, the Company has agreed an extension of the Longstop Date under the Sale and Purchase Agreement with SinoHan until May 1, 2015. The Company has an obligation to undertake a number of significant Conditions Precedent ("CPs") prior to completion of the sale, including receipt of the approval from the Ministry of Energy, which the Company is actively pursuing, however there is no guarantee that all CPs will be completed prior to the Longstop Date. The potential delay that Kazakh Governmental approval may have on completion of the Kazakh sale of assets is unknown at present. Under the terms of pre-emption, should the Kazakh Government decide not to approve the sale to SinoHan, then it is obliged to complete the sale on the same purchase terms as SinoHan.

In July 2014, the Company and SinoHan agreed the release of the USD3.88 million deposit placed by SinoHan into escrow upon signature of the Sale and Purchase Agreement to assist with the further implementation of the Kazakh capex programme. This is in the form of a minimal interest bearing loan which will be deducted from the consideration due from SinoHan on completion. Upon completion of the sale to SinoHan, the Company will receive proceeds of USD 71.12 million (USD 75 million less the released escrow deposit of USD 3.88 million), plus potential future bonuses estimated to be USD2.07 million. Furthermore, upon completion, to the extent that the Company has spent in excess of USD20 million on capital expenditure from July 1, 2013, SinoHan will enter into a shareholder loan in an amount and on terms equivalent to the funding provided by the Company. By December 31, 2014, an excess of approximately USD10 million had been funded by the Company. This effectively means that on completion, the Company's share of future cash calls will be reduced by at least USD10 million.

In consideration for SinoHan agreeing to extend the Longstop Date, the Company has agreed that it shall be responsible for legal and other costs and expenses incurred by SinoHan pursuant to the Sale and Purchase Agreement up to a maximum aggregate amount of USD700,000 in the event that the CPs are not met or are waived by the Longstop Date and the Buyer has complied with its obligations.

Furthermore, if the SinoHan deal does not complete by the Longstop date of May 1, 2015, the above described USD3.88m advance will become repayable within 10 days upon request from SinoHan (refer to note 21.1).

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

These circumstances indicate the existence of a material uncertainty related to events or conditions that may cast significant doubt about the Company's ability to continue as a going concern and accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

In order to support the Company's short term liquidity position, which has been adversely affected by the recent decrease in world oil prices, management has been implementing a cost reduction programme with respect to its operational and G&A costs and has been searching for additional sources of financing. Subsequent to the year end (refer to note 30), the Company entered into two separate loan agreements under which it raised total net proceeds of USD9.26 million.

In accordance with a number of current assumptions, these funds should be sufficient to cover the Company's expenditures for the next twelve months, including its obligations under the Bokhtar agreement until the end of April 2015 (refer to note 28), by which time it is anticipated that the SinoHan transaction will have completed.

However, in the event that the SinoHan transaction does not complete by the Longstop Date, the Company will need to secure additional funding in order to meet its contractual obligations under the Tajik Bokhtar licence and Kazakh Exploration and Production licences (refer to note 28) and to repay the SinoHan advance and legal costs.

The cessation of cash call payments to the Bokhtar Joint Operating Company would potentially dilute the Company's equity interest and failure to meet its Kazakh commitments could potentially result in the confiscation of licences.

The Company's ability to continue as a going concern is dependent upon completion of the SinoHan deal, its ability to fund its capital expenditure programs including its contractual obligations, its ability to renew and maintain access to debt facilities, equity issuances, manage risks associated with depressed oil prices and potential Tenge devaluation and ability to generate positive cash flows from operations. There can be no assurances that management will be successful with these initiatives. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported revenues, expenses and balance sheet classifications that would be necessary if the Company was unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

Discontinued operation

The results of the Uzbekistan segment have been disclosed as a discontinued operation and shown separately from the results of the Company's continuing operations in Kazakhstan, Tajikistan and Georgia. Further details are given in note 5.

Disposal group held for sale

The Company has announced the sale of a 50% plus one share interest in the subsidiary company which owns its Kazakhstan businesses. The assets and liabilities of the Company's Kazakhstan businesses have therefore been grouped together in the Consolidated Statement of Financial Position as "assets of a disposal group held for sale" and shown as current assets and "liabilities of a disposal group held for sale" shown as current liabilities. Further details are given in note 19.

New and amended accounting standards adopted by the Company

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

The Company adopted the following new and revised standards, along with any consequential amendments. These changes were made in accordance with applicable transitional provisions.

- IAS 32, Financial Instruments, Presentation ("IAS 32") has been amended to clarify the requirements for offsetting financial assets and liabilities. The amendment clarifies that the right to offset must be available on the current date and cannot be contingent on a future event. The Company adopted these amendments on January 1, 2014 which did not result in any material impact on the consolidated financial statements.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

- IFRIC 21, Accounting for Levies imposed by governments (“IFRIC 21”) was issued which clarifies that the obligating event giving rise to a liability to pay a levy is the activity described in the relevant legislation that triggers payment of the levy. The Company adopted IFRIC 21 on January 1, 2014 which did not result in any material impact on the consolidated financial statements.
- IFRS 2, Share based payments has been amended to clarify the definition of vesting conditions. The amendment clarifies that the vesting condition is either a service or performance condition and separately defines these two conditions. The Company adopted these amendments on July 1, 2014 which did not result in any material impact on the consolidated financial statements.
- IFRS 3, Business combinations has been amended to clarify that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32. The standard is further amended to clarify that all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognized in profit and loss. The Company adopted these amendments on July 1, 2014 which did not result in any impact on the consolidated financial statements.

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2015, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these early and is currently evaluating the impact of adopting this standard on its consolidated financial statements.

- The IASB completed the final element of its comprehensive publication of IFRS 9 Financial Instruments in July 2014. The package of improvements introduced by IFRS 9 includes a logical model for classification and measurement, a single, forward-looking ‘expected loss’ impairment model and a substantially-reformed approach to hedge accounting. The IASB has previously published versions of IFRS 9 that introduced new classification and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). The July 2014 publication represents the final version of the Standard, replaces earlier versions of IFRS 9 and completes the IASB’s project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 is effective for annual periods beginning on or after 1 January 2018.
- IFRS 10, Consolidated financial statements (“IFRS 10”), and IAS 28, Investments in associates and joint ventures (“IAS 28”), has been amended to address an inconsistency between IFRS 10 and IAS 28 in regards to a sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when the transaction involves a business combination, and whereas a partial gain is recognized when the transaction involves the assets that do not constitute a business. Additionally, the amendments clarify the exception from preparing consolidated financial statements, the consolidation requirements for subsidiaries which act as an extension of an investment entity, and the requirements for equity accounting for investments in associates and joint ventures. The amendments to IFRS 10 and IAS 28 are effective for annual periods beginning on or after January 1, 2016.
- IFRS 11, Accounting for acquisitions of interests in joint operations (“IFRS 11”), has been amended to provide specific guidance on accounting for the acquisition of an interest in a joint operation that is a business. The amendment to IFRS 11 is effective for annual periods beginning on or after January 1, 2016.
- IFRS 15, Revenue from contracts with customers (“IFRS 15”), has been issued as a new standard on revenue recognition and will supersede IAS 18, Revenue, IAS 11, Construction Contracts and related interpretations. IFRS 15 is effective for annual periods beginning on or after January 1, 2017.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

Basis of consolidation

Subsidiaries

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

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

Loss of control

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

Business combinations

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

Joint arrangements

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

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

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

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

The Company recognises the portion of gains or losses on the sale of assets by the Company to the joint venture that is attributable to the other parties in the joint venture. The Company does not recognise its share of profits or losses that

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

results from the purchase of assets by the Company from the joint venture until when the asset is resold or, where relevant, as the asset is depreciated by the jointly controlled entity.

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

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

Segment reporting

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

Foreign currency translation

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

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

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

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

Oil and gas exploration and evaluation expenditure

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

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

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

Farm-out arrangements

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

Test production and the appraisal and development phase

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

Oil and gas properties in the production phase

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

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

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

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

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

Other property, plant and equipment

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

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

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

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 consolidated statement of comprehensive income so as to reduce the carrying amount to its recoverable amount (i.e. the higher of fair value less costs to sell and value in use).

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

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

Asset retirement obligation (ARO)

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

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

Financial instruments

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

Restricted cash

Non-current restricted cash comprises a restricted deposit placed as security with respect to amounts owed to a related party (note 26). They are carried at fair value with gains or losses taken to the consolidated statement of comprehensive income.

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

Trade receivables, loans and other receivables

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

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

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive loss. When a trade receivable is not collectable, it is written off against the allowance account for trade receivables.

Cash and cash equivalents

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

Financial liabilities - borrowings

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

Trade payables

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

Equity instruments

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

Derivative financial instruments

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

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

Derivative contracts qualifying for the 'own-use' treatment

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

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

Inventories

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

Non-current assets held for sale and discontinued operations

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

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

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

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

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

Taxation including deferred taxation

The tax expense represents current tax and deferred tax.

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

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

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

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

Share-based payments

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

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

Warrants

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

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

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

Provisions

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

Revenue recognition

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

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

Revenue from natural gas and oil sales is recognised when it has been lifted and the risk of loss transferred to a third-party purchaser and is shown net of Mineral Extraction Tax (MET) and value-added tax.

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

Sales expenses

Sales expenses represent agent commissions paid in relation to securing its gas sales contracts and are accrued as gas sales revenue is generated.

Borrowing costs

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

Leases

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

Fair value

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

Amortised Cost

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

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

3 Financial Risk Management

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

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

a) Financial risk factors

Credit risk

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

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

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

	December 31 2014	December 31 2013
Trade receivables	-	84
Cash and cash equivalents	3,112	25,109
Restricted cash	739	1,135
	3,851	26,328
Assets of disposal group held for sale (note 19):		
Trade receivables	1,540	2,203
Cash and cash equivalents	757	622
Restricted cash	1,922	1,664
Loans receivable from jointly controlled entities	1,500	2,676
	5,719	7,165
	9,570	33,493

Concentration of credit risk associated with the above trade receivable balances in Kazakhstan is as a result of contracted sales to two customers during the year. The Company does not believe it is dependent upon these customers for sales due to the nature of gas products and the associated market. At December 31, 2014, the trade receivable amounted to USD 1,540,000 (2013 – USD 2,203,000), none of which was greater than 30 days overdue.

Although a significant amount of the deposits at financial institutions are not covered by bank guarantees, the Company does not believe there to be a significant risk of credit loss as the majority of counterparty banks used are those with high

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

credit ratings (A- or equivalent) assigned by international ratings agencies (Fitch and Standard and Poors). Banks used in Central Asia generally do not have credit ratings assigned by international ratings agencies, however, deposits held with these banks are kept to a minimum as much as possible.

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. This risk relates to the Company's ability to generate or obtain sufficient cash or cash equivalents to satisfy these financial obligations as they become due. Since inception, the Company has incurred significant consolidated losses from operations and negative cash flows from operating activities, and has an accumulated deficit at December 31, 2014. Refer also to the section on Going Concern on page 7.

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

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

December 31, 2014	Carrying amount	Contractual cash flows	Less than 1 year	1-3 years	4-5 years	Thereafter
Non-derivative financial liabilities						
Trade and other payables	4,102	4,102	4,102	-	-	-
Financial liabilities - borrowings (note 21)	10,628	12,213	5,963	6,250	-	-
	14,730	16,315	10,065	6,250	-	-
Liabilities of disposal group held for sale (note 19)						
Trade and other payables	5,710	5,710	5,504	159	47	-
Financial liabilities – borrowings (note 21)	4,871	5,525	3,235	2,290	-	-
	10,581	11,235	8,739	2,449	47	-

Tethys Petroleum Limited

Notes to Consolidated Financial Statements
(tabular amounts in thousands of US dollars)

December 31, 2013	Carrying amount	Contractual cash flows	Less than 1 year	1-3 years	4-5 years	Thereafter
Non-derivative financial liabilities						
Trade and other payables	4,946	4,946	4,946	-	-	-
Financial liabilities - borrowings (note 21)	4,965	5,247	5,247	-	-	-
	9,911	10,193	10,193	-	-	-
Liabilities of disposal group held for sale (note 19)						
Trade and other payables	7,007	7,191	6,810	220	110	51
Financial liabilities – borrowings (note 21)	8,947	10,549	4,832	5,717	-	-
	15,954	17,740	11,642	5,937	110	51

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

There can be no assurance that debt or equity financing will be available or sufficient to meet the Company's requirements or if debt or equity financing is available, that it will be on terms acceptable to the Company (see note 2 – Going concern). The inability of the Company to access sufficient capital for its operations could have a material adverse impact on the Company's financial condition, results of operations and prospects.

Market risk

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

Commodity price risk

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

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

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

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

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

There were no commodity price financial derivatives outstanding as at December 31, 2014 and 2013.

Interest rate risk

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

The Company is exposed to interest rate risk on short term deposits to the extent that reductions in market interest rates would result in a decrease in the interest earned by the Company. A decrease of 100 basis points in the interest rate would have resulted in a decrease of USD 23,000 in the interest earned in the current year (2013 – USD 39,000).

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

	Fixed rate financial instruments	Variable rate financial instruments	Total
At December 31, 2014			
Restricted cash	623	116	739
Cash and cash equivalents	-	3,112	3,112
Financial liabilities - borrowings	(6,726)	(3,902)	(10,628)
	(6,103)	(674)	(6,777)
Assets of disposal group held for sale (note 19)			
Restricted cash	1,922	-	1,922
Cash and cash equivalents	-	757	757
Financial liabilities - borrowings	(4,871)	-	(4,871)
	(2,949)	757	(2,192)

	Fixed rate financial instruments	Variable rate financial instruments	Total
At December 31, 2013			
Restricted cash	660	475	1,135
Cash and cash equivalents	-	25,109	25,109
Financial liabilities - borrowings	(4,965)	-	(4,965)
	(4,305)	25,584	21,279
Assets of disposal group held for sale (note 19)			
Restricted cash	1,664	-	1,664
Cash and cash equivalents	-	622	622
Financial liabilities - borrowings	(8,947)	-	(8,947)
	(7,283)	622	(6,661)

Tethys Petroleum Limited

Notes to Consolidated Financial Statements (tabular amounts in thousands of US dollars)

Foreign exchange risk

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

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

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

In USD equivalent at December 31, 2014	CAD '000	GBP '000	EUR '000	KZT '000
Cash and cash equivalents	19	1,788	26	754
Trade and other receivables	-	34	2	9,532
Trade and other payables	(21)	(184)	(78)	(2,393)
Financial liabilities – borrowings	-	(2,769)	-	(4,871)
Net exposure	(2)	(1,131)	(50)	3,022

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

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

2014 Effect in USD'000	CAD	GBP	EUR	KZT
Profit or (loss) before tax	-	(127)	(3)	354
2013 Effect in USD'000				
Profit or (loss) before tax	(2)	(201)	(2)	112

A 10% strengthening of the USD against the currencies above at December 31, 2014 would have had an equal but opposite effect on the amounts shown above, assuming all other variables remained constant.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

b) Capital risk management

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

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

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

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

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

At December 31	2014	2013
Total financial liabilities - borrowings (note 21)	10,628	4,965
Total financial liabilities – borrowings of disposal group (note 19)	4,871	8,947
Less: cash and cash equivalents	(3,112)	(25,109)
Less: cash and cash equivalents of disposal group (note 19)	(757)	(622)
Net debt / (funds)	11,630	(11,819)
Total equity	205,750	202,593
Total capital	217,380	190,774

If the Company is in a net debt position, the Company will assess whether the projected cash flow is sufficient to service this debt and support ongoing operations. Consideration will be given to reducing the total debt or raising funds through an alternative route such as the issuing of equity. Refer also to note 2 Going Concern.

c) Fair value hierarchy

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

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

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

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

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

December 31, 2014	Level 1	Level 2	Level 3	Total
Warrants (note 21.2)	-	-	-	-
Total liabilities	-	-	-	-

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

4 Critical judgements and accounting estimates

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Critical accounting estimates and assumptions

The significant areas of estimation uncertainty in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are summarized as follows:

Recoverability of asset carrying values

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

If there are low oil prices or natural gas prices during an extended period, the Company may need to recognise significant impairment charges. The assessment for impairment entails comparing the carrying value of the cash-generating unit with its recoverable amount, that is, value in use. Value in use is usually determined on the basis of discounted estimated future net cash flows. Determination as to whether and how much an asset is impaired involves management estimates on

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

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.

Oil and gas reserves

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

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

Asset retirement obligation

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

Income taxes

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

Other significant areas of judgement

The significant areas of critical judgment in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are summarized as follows:

Going concern

The Board has considered the Company's current activities, funding position and projected funding requirements for the period of at least twelve months from the date of approval of the Consolidated Financial Statements, in determining the ability of the Company to adopt the going concern basis in preparing the Consolidated Financial Statements for the year ended December 31, 2014. The assessment of the Company's ability to execute its strategy to meet its future funding requirements involves judgement.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

Disposal group held for sale

Classification of Disposal Group as Held for Sale and Discontinued Operations requires that an entity classify assets or a disposal group as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use and if the sale is highly probable. The Company has announced the sale of a 50% plus one share interest in the subsidiary company which owns its Kazakhstan businesses. The assets and liabilities of the Company's Kazakhstan businesses have therefore been grouped together in the Consolidated Statement of Financial Position as "assets of a disposal group held for sale" and shown as current assets and "liabilities of a disposal group held for sale" shown as current liabilities. The sale is subject to Kazakh State approvals, including the waiver on pre-emption (Article 36). Closing will take place once these approvals are received. On October 31, 2014, the Company entered into an agreement with SinoHan to extend the one-year longstop date for completing the sale by a period of six months, until May 1, 2015.

Fair value of stock based compensation and warrants

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

CGU Identification

A cash generating unit (CGU) is defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of cash inflows of other assets or groups of assets. The allocation of assets into CGUs requires significant judgement and interpretations with respect to the integration between assets, the existence of active markets, similar exposure to market risks, shared infrastructures, and the way in which management monitors its operations.

5 Discontinued operations

The Board formally decided in December 2013 to exit from Uzbekistan and the results of the Uzbekistan segment have been disclosed as a discontinued operation and shown separately from the results of the Company's continuing operations in Kazakhstan, Tajikistan and Georgia. The result from discontinued operation can be summarised as follows:

	Year ended	
	December 31, 2014	December 31, 2013
Revenue	-	2,263
Expenses	(912)	(3,403)
Impairment charge	-	(7,010)
Loss before tax	(912)	(8,150)
Tax	-	1,054
Loss after tax	(912)	(7,096)
Cash flows from the discontinued operation were as follows:		
Net cash used in operating activities	(2,019)	(2,095)
Net cash used in investing activities	-	(862)
Net cash from financing activities	-	-
Net cash used in discontinued operations	(2,019)	(2,957)

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

6 Segmental Reporting

Geographical segments

Management has determined the operating segments based on the reports reviewed by the Executive Directors that are used to make strategic decisions. Reports provided to the Executive Directors with respect to segment information are measured in a manner consistent with that of the consolidated financial statements. The assets and liabilities are allocated based on the operations of the segment and for assets, the physical location of the asset.

The Executive Directors consider the business from predominantly a geographic perspective and the Company currently operates in two geographical markets: Kazakhstan and Tajikistan. The company has discontinued operations in Uzbekistan and the results for the Uzbekistan segment have been shown separately from the rest of the Company. The Company previously operated under the North Urtaulak Production Enhancement Contract, which gave incremental production rights to increase the production volume of oil from wells on the North Urtaulak Oil Field

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

The Company also operates a corporate segment which acquired a number of drilling rigs and related oil and gas equipment which are utilised in Kazakhstan and Tajikistan according to operational requirements.

The segment results for the year ended December 31, 2014 are as follows:

	Kazakhstan	Tajikistan	Georgia	Other and Corporate	Continuing operations	Uzbekistan(1)
Gas sales	8,191	-	-	-	8,191	-
Oil sales	18,920	-	-	-	18,920	-
Other income	26	252	-	-	278	-
Other operating income	-	-	-	2,019	2,019	-
Segment revenue and other income	27,137	252	-	2,019	29,408	-
Inter-segment revenue	-	-	-	(2,019)	(2,019)	-
Segment revenue and other income from external customers	27,137	252	-	-	27,389	-
(Loss)/profit from jointly controlled entity	(1,356)	-	-	-	(1,356)	-
Profit / (loss) before taxation	5,634	(1,486)	(9)	(19,149)	(15,010)	(912)
Taxation	(51)	(96)	-	(316)	(463)	-
Net profit / (loss) for the year	5,583	(1,582)	(9)	(19,465)	(15,473)	(912)

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

In Kazakhstan sales were made to two customers representing greater than 10% of total segment revenue of USD 18,920,000 and USD 8,191,000.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

Borrowing costs of USD 451,681 and USD 352,892 incurred in the Corporate segment were capitalised in the Kazak and Tajik segments respectively during the year.

Amortisation of USD 113,515 of assets held in the Corporate segment was capitalised during the year.

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

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

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

In Kazakhstan sales were made to two customers representing greater than 10% of total segment revenue of USD 24,980,000 and USD 10,930,000.

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

Sales in the Uzbekistan segment were to one customer.

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

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

Tethys Petroleum Limited

Notes to Consolidated Financial Statements (tabular amounts in thousands of US dollars)

The segment assets and liabilities as at December 31, 2014 and capital expenditures for the year are as follows:

	Kazakhstan(1)	Tajikistan	Georgia	Uzbekistan	Other and Corporate	Group
Total assets	172,514	35,654	12,175	8	18,344	238,695
Total liabilities	16,092	2,400	178	408	13,867	32,945
Cash expenditure on exploration & evaluation assets, property, plant and equipment	19,288	4,212	2,297	-	272	26,069

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

	Kazakhstan	Tajikistan	Other and Corporate	Continuing operations	Uzbekistan(2)
Depreciation, depletion & amortization	-	-	1,270	1,270	-

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

Included in Kazakh and Tajik liabilities are payables in relation to exploration and evaluation assets of USD 19,085 and USD 2,265,545 respectively.

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

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

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

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

Tethys Petroleum Limited

Notes to Consolidated Financial Statements
(tabular amounts in thousands of US dollars)

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

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

Included in Kazakh and Tajik liabilities are payables in relation to exploration and evaluation assets of USD 96,263 and USD 700,800 respectively. Total assets and liabilities for Tajikistan include the underlying assets of SSEC and its subsidiaries.

7 Sales and other operating revenues

	Year ended	
	December 31, 2014	December 31, 2013
Gas sales	8,191	10,930
Oil sales	18,920	25,530
Other revenue	278	485
Revenue from continuing operations	27,389	36,945

8 Administrative expenses

Administrative expenses by nature	Year ended	
	December 31, 2014	December 31, 2013
Staff expenses	8,871	8,686
Travel expenses	2,278	3,145
Professional fees	2,348	2,768
Office costs	1,989	1,974
Other administrative expenses	2,161	2,130
	17,647	18,703

9 Restructuring costs

On December 1, 2014 the Company announced a downsizing program with staff reductions and cost reductions in all key general and administrative expenses areas. At the same time the Company announced its intention to close its Dubai, Washington and Toronto offices as soon as practical. The costs associated with this programme of restructuring have been shown in the Consolidated Statement of Comprehensive Income separately from administrative expenses to provide additional information in relation to these non-recurring expenses. Restructuring costs for the year were USD 2,585,000 (2013: nil). At December 31, 2014 the Company has a provision for restructuring costs of USD1,759,000 (2013: nil) which is expected to be settled within one year.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

10 Share-based payments

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

The maximum number of Ordinary Shares reserved for issuance under the plan equals 12% (2013: 12%) of the outstanding Ordinary Shares. The plan is administered by the Compensation and Nomination Committee of the Board of Directors. Options may be granted pursuant to recommendations of the Compensation and Nomination Committee. The Compensation and Nomination Committee may determine the vesting schedule and term, provided that options may not have a term exceeding ten years. Subject to any resolution passed by the Compensation and Nomination Committee, options will terminate three months after an option holder ceases to be a Service Provider.

The exercise price of options granted under the plan may not be less than the closing price of Ordinary Shares on the principal stock exchange where the Ordinary Shares are listed as of the date of the option grant. The plan contains amendment provisions which allow amendments to the plan by the Board of Directors, without shareholder approval, for amendments of a “housekeeping” nature, changes to vesting or termination provisions, and discontinuance of the plan. The plan also provides that outstanding options will vest immediately on the occurrence of a “change of control” (as defined in the plan). Options granted under the plan are only assignable to certain related entities of an option holder or otherwise with the consent of the Company.

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

The following table lists the options outstanding at December 31, 2014 by exercise price:

Exercise price \$	Options outstanding	Weighted average remaining term (in years)	Options exercisable	Weighted average remaining term (in years)
CAD 0.66	120,000	0.04	120,000	0.04
CAD 0.71	60,000	0.09	60,000	0.09
CAD 0.74	330,000	3.73	220,000	3.73
CAD 0.80	210,000	4.01	100,000	3.98
CAD 0.88	4,785,000	2.32	4,785,000	2.32
CAD 1.60	3,738,000	0.80	3,738,000	0.8
CAD 1.72	240,000	1.22	240,000	1.22
USD 2.00	360,000	1.13	360,000	1.13
USD 2.10	3,182,400	0.27	3,182,400	0.27
USD 2.50	2,208,000	0.57	2,208,000	0.57
USD 2.75	129,000	0.31	129,000	0.31
Total	15,362,400	1.24	15,142,400	1.20

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

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

	Number of options	Weighted average exercise price \$
Outstanding at January 1, 2013	33,864,000	1.35
Granted	420,000	0.73
Forfeited	(85,000)	0.83
Exercised	-	-
Expired	(491,600)	1.45
Outstanding at December 31, 2013	33,707,400	1.35
Exercisable at December 31, 2013	31,688,400	1.38
Outstanding at January 1, 2014	33,707,400	1.35
Granted	120,000	0.72
Forfeited	(10,000)	0.88
Exercised	-	-
Expired	(18,455,000)	1.15
Outstanding at December 31, 2014	15,362,400	1.58
Exercisable at December 31, 2014	15,142,400	1.59

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

	December 31, 2014	December 31, 2013
Weighted average fair value	\$0.1876	\$0.2537
Risk free rate	1.28%	1.41%
Expected term	3.00 years	3.00 years
Volatility	66%	64%
Dividend	Nil	Nil
Weighted average share price of options exercised in year	n/a	n/a

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

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

Warrants

The following table summarizes the warrant activity for the years ended December 31, 2014 and December 31, 2013.

	Number of warrants	Weighted average exercise price \$
Outstanding at January 1, 2013	2,254,538	2.39
Granted	77,205	0.82
Expired	(64,705)	0.98
Outstanding at December 31, 2013	2,267,038	2.38
Exercisable at December 31, 2013	2,267,038	2.38
Outstanding at January 1, 2014	2,267,038	2.38
Expired	(177,038)	0.94
Outstanding at December 31, 2014	2,090,000	2.50
Exercisable at December 31, 2014	2,090,000	2.50

Of the warrants outstanding and exercisable at the end of the year, 280,000 relate to warrants granted to the Company's officers.

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

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

The following table lists the warrants outstanding at December 31, 2014 by exercise price.

Exercise price \$	Warrants outstanding	Weighted average remaining term (in years)	Warrants exercisable	Weighted average remaining term (in years)
2.50	2,090,000	2.44	2,090,000	2.44

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

11 Taxation

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

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

	Year ended	
	December 31, 2014	December 31, 2013
Loss before income taxes from continuing operations	(15,010)	(7,452)
Income tax rate	20%	20%
Expected income tax recovery	(3,002)	(1,490)
<i>Increase/ (decrease) resulting from:</i>		
Non-deductible expenses net of functional currency foreign exchange impact ¹	(3,804)	(110)
Revisions in tax estimates and foreign exchange impact on tax pools ¹	2,353	1,409
Impact of effective tax rates in other foreign jurisdictions	2,892	2,649
Losses and tax assets not utilised/recognised	2,024	625
	463	3,083
Current tax expense	425	577
Deferred tax expense	38	2,506
	463	3,083

Note 1 – amounts were significantly affected by the 20% devaluation of the Kazakh Tenge during February, 2014.

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

	December 31, 2014	December 31, 2013
Capital assets	-	-
Tax losses	(258)	(322)
Other	-	-
Net deferred tax (asset)/ liability	(258)	(322)
<i>Liabilities of disposal group (note 19)</i>		
Capital assets	7,249	5,322
Tax losses	(3,034)	(887)
Other	348	249
Net deferred tax (asset)/ liability	4,563	4,684

No current and deferred tax was charged or (credited) to equity or other comprehensive income. Total tax for the year was charged (credited) to the statement of comprehensive income.

Deferred income tax assets are recognized for tax loss carry forwards and other deductible temporary differences to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company has not recorded deferred tax assets in respect of the following temporary differences:

Tethys Petroleum Limited

Notes to Consolidated Financial Statements (tabular amounts in thousands of US dollars)

	December 31, 2014	December 31, 2013
Capital assets	7,662	4,156
Tax losses	3,248	5,094
Other	772	1,141
	11,682	10,391

Earnings retained by subsidiaries amounted to \$15.9 million at December 31, 2014 (December 31, 2013 - \$30.3 million). No provision has been made for withholding and other taxes that would become payable on the distribution of these earnings as it is not expected that they will be remitted in the foreseeable future.

12 Loss per share

	Loss for the year	Weighted average shares (thousands)	Per share amount \$
Year ended December 31, 2014			
Loss from continuing operations attributable to ordinary shareholders – Basic and diluted	(15,115)	320,555	(0.05)
Loss from discontinued operations attributable to ordinary shareholders – Basic and diluted	(912)	320,555	-
Year ended December 31, 2013			
Loss from continuing operations attributable to ordinary shareholders – Basic and diluted	(10,052)	287,253	(0.03)
Loss from discontinued operations attributable to ordinary shareholders – Basic and diluted	(7,096)	287,253	(0.02)

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, comprising share options and warrants, are currently anti-dilutive and therefore there is no difference between basic and diluted earnings per share. The number of potential ordinary shares excluded from the calculation is 17,232,400 (2013 – 33,955,428).

Tethys Petroleum Limited

Notes to Consolidated Financial Statements
(tabular amounts in thousands of US dollars)

13 Intangible assets

	Uzbekistan	Georgia	Tajikistan	Total
Year ended December 31, 2013				
Opening net book amount	1,401	-	105,973	107,374
Additions	-	-	5,087	5,087
Tajik farm-out – costs recovered (note 14)	-	-	(53,519)	(53,519)
Transfer to “assets of a disposal group held for sale” (note 19)	-	-	(26,467)	(26,467)
Amortisation	(129)	-	-	(129)
Discontinued operation impairment (note 5)	(1,272)	-	-	(1,272)
Closing net book amount	-	-	31,074	31,074
At December 31, 2013				
Cost	-	-	31,074	31,074
Accumulated amortisation and impairment	-	-	-	-
Net book amount	-	-	31,074	31,074
Year ended December 31, 2014				
Opening net book amount	-	-	31,074	31,074
Additions	-	11,996	4,560	16,556
Closing net book amount	-	11,996	35,634	47,630
At December 31, 2014				
Cost	-	11,996	35,634	47,630
Accumulated amortisation and impairment	-	-	-	-
Net book amount	-	11,996	35,634	47,630

Borrowing costs of USD 352,892 (2013 – USD 419,911) have been capitalised within exploration and evaluation assets during the year. The effective weighted average interest rate of the relevant borrowings was 16% (2013 – 18%). The effective interest rate is higher than the nominal rate due to the cost of associated warrants (note 21.2) and royalties (note 21.3).

For the year ended December 31, 2014, USD 2,176,619 (2013 – USD 463,681) was capitalised from staff costs and share-based payment expense.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements
(tabular amounts in thousands of US dollars)

14 Property, plant and equipment

	Oil and gas properties	Oil and gas equipment	Vehicles	Office and computer equipment	Total
Year ended December 31, 2013					
Opening net book amount	101,167	18,385	604	941	121,097
Additions	20,739	6	335	318	21,398
Tajik farm-out – costs recovered	(2,682)	-	(61)	(130)	(2,873)
Transfer to “assets of a disposal group held for sale” (note 19)	(104,770)	(2,503)	53	(490)	(107,710)
Disposals	-	-	(119)	-	(119)
Discontinued operation impairment (note 5)	(4,124)	-	(53)	(19)	(4,196)
Depreciation	(11,839)	(1,279)	(578)	(373)	(14,069)
Tajik farm-out accumulated depreciation on disposal of interest	1,509	-	57	80	1,646
Accumulated depreciation on disposal	-	-	117	-	117
Closing net book amount	-	14,609	355	327	15,291
At December 31, 2013					
Cost	-	22,184	714	813	23,711
Accumulated depreciation and impairment	-	(7,575)	(359)	(486)	(8,420)
Net book amount	-	14,609	355	327	15,291
Year ended December 31, 2014					
Opening net book amount	-	14,609	355	327	15,291
Additions	-	-	68	258	326
Disposals	-	-	(143)	(20)	(163)
Depreciation	-	(1,307)	(192)	(220)	(1,719)
Accumulated depreciation on disposal	-	-	52	17	69
Closing net book amount	-	13,302	140	362	13,804
At December 31, 2014					
Cost	-	22,184	639	1,051	23,874
Accumulated depreciation and impairment	-	(8,882)	(499)	(689)	(10,070)
Net book amount	-	13,302	140	362	13,804

Borrowing costs of USD 246,504 have been capitalised to oil and gas properties in the current year (2013 – USD 1,310,178). Oil and gas properties have been classified as “assets of a disposal group held for sale” (see note 19). The effective weighted average interest rate of the relevant borrowing was 16%, (2013 - 18%). The effective interest rate is higher than the nominal rate due to the cost of associated warrants (note 21.2).

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

For the year ended December 31, 2014, USD 1,172,732 (2012 – USD 636,498) was capitalised to oil and gas properties from staff costs and share-based payment expense.

“Oil and gas properties” assets with a net book value amounting to USD 19,334,689 has been pledged by Tethys Aral Gas LLP (“TAG”) as security for the bank loan facility (note 21.1). These assets are now included with “assets of a disposal group held for sale” (note 19).

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

15 Restricted Cash

Non Current

	December 31, 2014	December 31, 2013
Restricted cash	623	660

The above amounts consist of a deposit of GBP 400,000 placed as security with respect to amounts owed to Vazon Limited (note 26).

Current

	December 31, 2014	December 31, 2013
Restricted cash	116	475

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

Tethys Petroleum Limited

Notes to Consolidated Financial Statements
(tabular amounts in thousands of US dollars)

16 Trade and other receivables

	December 31, 2014	December 31, 2013
Current		
Trade receivables	-	84
Prepayments	209	481
Other receivables	385	695
Value added tax receivable	40	98
	634	1,358
Assets of disposal group held for sale (note 19)		
Other receivables - non-current		
Advances to construction contractors	575	1,444
Value added tax receivable	5,500	9,195
	6,075	10,639
Current		
Trade receivables	1,540	2,203
Prepayments	533	917
Other receivables	1,127	865
Value added tax receivable	2,304	-
	5,504	3,985

Non-current advances to construction contractors relate to suppliers who were paid in advance for materials and services relating to both the Akkulka and the Kul-Bas contracts.

Current trade and other receivables are unsecured and non-interest bearing. Normal payment terms for the Company are 30 days. Prepayments primarily relate to prepaid insurance and other corporate operating expense items. There are no trade receivables overdue past thirty days (December 31, 2013 – nil). The other classes within trade and other receivables do not contain impaired assets.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements
(tabular amounts in thousands of US dollars)

17 Loan receivable from jointly controlled entity

Joint Venture – Aral Oil Terminal (Kazakhstan)

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

The following amounts represent the movements in the loan receivable:

	Year ended	
	December 31, 2014	December 31, 2013
Balance, beginning of year	-	2,403
Share of profit	-	298
Finance income on loan receivable	-	175
Part repayment of loan receivable	-	(200)
Transfer to “assets of a disposal group held for sale” (note 19)	-	(2,676)
Balance, end of year	-	-
Assets of disposal group held for sale (note 19)		
Balance, beginning of year	2,676	-
Share of profit	(1,356)	-
Finance income on loan receivable	180	-
Part repayment of loan receivable	-	-
Transfer to “assets of a disposal group held for sale” (note 19)	-	-
Balance, end of year	1,500	-

The loan bears interest at 10 percent per annum, is unsecured and repayable on demand.

18 Investment in joint arrangements

Aral Oil Terminal (Kazakhstan)

As discussed in note 17, in 2011, the Company entered into a Joint Venture Agreement with Olisol Investments Limited under which it has a 50% interest in the jointly controlled entity, AOT. At December 31, 2014, investment in the joint venture was USD 1,115,728 (2013 – USD 1,115,728). The investment for the current year is included within assets of a disposal group held for sale (note 19). The Company has classified the arrangement as a joint venture (in which the company has rights to the assets, and obligations for the liabilities, relating to the arrangement) and is accounted for using the equity method of accounting. The key risk faced by AOT is its reliance on a single customer as currently only the oil produced by the Company is processed at the facility.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements (tabular amounts in thousands of US dollars)

Summary financial information for Aral Oil Terminal is as follows:

	December 31, 2014	December 31, 2013
Assets		
Non-current assets	7,463	10,794
Cash and cash equivalents	11	29
Current assets (excluding cash)	2,402	2,473
Total assets	9,876	13,296
Liabilities		
Non-current liabilities	464	567
Trade and other payables	1,118	329
Current liabilities (excluding trade and other payables)	10,136	11,427
Total liabilities	11,718	12,323
Net (liabilities)/assets	(1,842)	973
50% share of net (liabilities)/assets	(921)	487
Comprising:		
Share of shareholders' equity opening balance	487	189
Share of profit after tax in current year	(1,356)	298
Foreign currency translation	(52)	-
	(921)	487

	Year ended	
	December 31, 2014	December 31, 2013
Revenue	1,581	5,534
Depreciation and amortisation	(877)	(590)
Other expenses	(2,663)	(2,303)
Interest expense	(936)	(1,234)
(Loss)/profit before tax	(2,895)	1,407
Tax	184	(810)
(loss)/profit after tax from continuing operations and total comprehensive (loss)/income	(2,711)	597
50% share of joint venture (loss)/profit after tax	(1,356)	298

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

Bokhtar Operating Company (Tajikistan)

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

Tethys Petroleum Limited

Notes to Consolidated Financial Statements
(tabular amounts in thousands of US dollars)

19 Assets and liabilities of disposal group held for sale

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

Once the sale transaction completes the Company will no longer control and consolidate the Kazakhstan businesses but will instead exercise joint control with SinoHan and account for its interest in the joint venture using the equity method of accounting.

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

	December 31, 2014	December 31, 2013
Non-current assets		
Intangible assets	29,062	26,467
Property, plant and equipment	125,218	107,710
Restricted cash	1,922	1,664
Prepayments and other receivables	6,075	10,639
Investment in jointly controlled entities	1,116	1,116
	163,393	147,596
Current assets		
Inventories	1,358	1,446
Trade and other receivables	5,506	3,985
Loan receivable from jointly controlled entity	1,500	2,676
Cash and cash equivalents	757	622
	9,121	8,729
Total assets	172,514	156,325
Non-current liabilities		
Financial liabilities - borrowings	2,220	5,171
Deferred taxation	4,563	4,684
Trade and other payables	206	263
Asset retirement obligations	948	795
	7,937	10,913
Current liabilities		
Financial liabilities - borrowings	2,651	3,776
Trade and other payables	5,504	6,744
	8,155	10,520
Total liabilities	16,092	21,433
Net assets	156,422	134,892

Tethys Petroleum Limited

Notes to Consolidated Financial Statements
(tabular amounts in thousands of US dollars)

20 Cash and cash equivalents

	December 31, 2014	December 31, 2013
Cash at bank and in hand	3,112	5,572
Short-term deposits	-	19,537
	3,112	25,109

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

21 Financial liabilities

21.1 Borrowings

	Effective interest rate	Maturity date	December 31, 2014	December 31, 2013
Current				
Escrow loan	Libor + 1% p.a.	2015	3,901	-
Rig loans	14.76% p.a.	2017	1,238	-
Rig loans – Option A	19.9% p.a.	2014	-	3,538
Rig loans – Option B	19.5% p.a.	2014	-	1,427
			5,139	4,965
Non-current				
Rig loans	14.76% p.a.	2017	5,489	-
			5,489	4,965
Liabilities of disposal group (note 19)				
Current				
Kazakh loan	14.0% p.a.-15.9% p.a.	2014	2,651	3,776
Non-current				
Kazakh loan	14.0% p.a.-15.9% p.a.	2016	2,220	5,171
			4,871	8,947

The fair value of financial liabilities held at amortised cost approximates the carrying value.

Escrow loan

On July 9, 2014, the Company entered into a loan agreement with SinoHan Oil and Gas Investment Number 6 BV whereby SinoHan agreed an early release of the escrow deposit made in connection with the sale transaction referred to in note 19. The loan bears interest at the rate of 1 month US LIBOR plus 1% per annum. On completion of the sale transaction with SinoHan, the loan amount will not be repayable and will be deducted from the consideration due to the Company under the Sale and Purchase Agreement. If the parties mutually agree to abort the transaction or it does not complete before the Longstop date under the agreement then the loan is repayable with 10 days' notice or otherwise accrues interest at 15% per annum.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

Rig loans

On February 13, 2014, the Company entered into a new loan agreement to seek to borrow up to USD12 million. The loan is secured by the shares of the borrower, a wholly owned subsidiary of the Company, which in turn owns two drilling rigs and other equipment. At December 31, 2014, loans with a face value of USD4.665 million and GBP2.026 million have been borrowed under the agreement.

The lenders receive an initial repayment followed by 34 equal monthly instalments, incorporating interest and capital, together with a single balloon repayment of half of the principal amount at the maturity date.

These borrowings are held at amortized cost with interest payable of 12% per annum and an effective interest rate of 14.76% per annum.

The previous rig loans were fully repaid during February 2014. Warrants to acquire ordinary shares in the Company were issued to lenders in connection with those loans. Details of these warrants are given in note 21.2.

Kazakh loan

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

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

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

As at December 31, 2014, 1.935 billion KZT (USD12.9 million) of funds have been advanced to the Company in relation to the loan agreement, with a remaining repayment period over 3 years and monthly repayments of both principal and interest (at a weighted average effective interest rate of 14.99%).

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

Certain oil and gas property assets have been pledged by both TAG and AOT as security for the above-mentioned bank loan facility.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

21.2 Derivative financial instrument - warrants

	December 31, 2014	December 31, 2013
Balance, beginning of year	17	523
Issued during the year	-	461
Exercised	-	(137)
Fair value gain	(17)	(830)
Balance, end of year	-	17

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

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

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

	December 31, 2014	December 31, 2013
Weighted average fair value	N/A	\$0.04
Risk free rate	N/A	0.93%
Expected term	N/A	0.4 year
Volatility	N/A	51.9%
Dividend	N/A	Nil

The following table summarizes the warrant activity for the years ended December 31, 2014 and December 31, 2013.

	Number of warrants	Weighted average exercise price \$
Outstanding at January 1, 2013	5,775,000	0.81
Granted	1,819,051	0.78
Exercised	(850,000)	0.63
Expired	(2,619,051)	0.86
Outstanding at December 31, 2013	4,125,000	0.81
Exercisable at December 31, 2013	4,125,000	0.81
Outstanding at January 1, 2014	4,125,000	0.81
Expired	(4,125,000)	0.81
Outstanding at December 31, 2014	-	-
Exercisable at December 31, 2014	-	-

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

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

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

21.3 Finance costs / (income)

The net finance cost / (income) comprises:

	Year ended December 31, 2014	Year ended December 31, 2013
Finance costs	1,450	1,676
Finance income	(203)	(216)
	1,247	1,460

22 Trade and other payables

	December 31, 2014	December 31, 2013
Current		
Trade payables	623	1,637
Accruals	3,266	1,569
Other creditors	213	240
Dividend payable to non-controlling interest	-	1,500
	4,102	4,946
Liabilities of disposal group held for sale (note 19)		
Current		
Trade payables	2,447	1,774
Accruals	2,162	3,488
Other creditors	895	1,482
	5,504	6,744
Non-current		
Other non-current payables	206	263
	206	263

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

Tethys Petroleum Limited

Notes to Consolidated Financial Statements
(tabular amounts in thousands of US dollars)

23 Asset retirement obligations

	December 31, 2014	December 31, 2013
At January 1	-	524
Additional obligations incurred	-	112
Change in estimated cash flow	-	616
Liabilities settled	-	(503)
Unwinding of discount due to passage of time	-	46
Transfer to "liabilities of a disposal group held for sale"	-	(795)
	-	-
Liabilities of disposal group held for sale (note 19)		
At January 1	795	-
Additional obligations incurred	87	-
Unwinding of discount due to passage of time	66	-
	948	-

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 2015 and 2022. The provision has been estimated using existing technology at current prices, escalated at 5.4% (2013 – 5.4%) and discounted at 7.4% (2013 – 7.4%). The economic life and the timing of the asset retirement obligation are dependent on Government legislation, commodity prices and the future production profiles of the project. In addition, the estimated cash outflows are subject to inflationary and/or deflationary pressures in the cost of third party service provision. The undiscounted amount of liability at December 31, 2014 is USD 1,520,737 (2013 – USD 1,334,057).

24 Capital and reserves

Share capital and share premium

	December 31, 2014 Number	December 31, 2013 Number
Authorized		
Ordinary shares with a par value of \$0.10 each	700,000,000	700,000,000
Preference shares with a par value of \$0.10 each	50,000,000	50,000,000

Tethys Petroleum Limited

Notes to Consolidated Financial Statements
(tabular amounts in thousands of US dollars)

Ordinary equity share capital Allotted and fully paid	Number	Share capital	Share Premium
At January 1, 2013	286,707,744	28,671	306,725
Issued during the year in connection with the exercise of share options	850,000	85	570
Cost of share issue	-	-	-
At December 31, 2013	287,557,744	28,756	307,295
At January 1, 2014			
Issued during the year – Georgia acquisition	12,000,000	1,200	4,550
Issued during the year – private placement	36,894,923	3,689	11,258
Share issue costs	-	-	(1,379)
At December 31, 2014	336,452,667	33,645	321,724

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

On May 14, 2014, the Company announced that it had entered into a placing agreement to raise USD13 million with new and existing investors (the "Placing") and agreed to raise USD2 million with new and existing investors by way of direct subscription (the "Direct Subscription"). The Direct Subscription and the Placing are together referred to as the "Offering".

The Offering was completed in two tranches. 17,105,764 ordinary shares were issued in the "First Tranche" raising gross proceeds of USD6.95 million. 19,789,159 ordinary shares were issued in the "Second Tranche" raising gross proceeds of USD8.05 million. The Offering was completed in June 2014 raising total gross proceeds of USD15 million.

As at December 31, 2014, a total of 40,374,320 (December 31, 2013 – 34,388,129) ordinary shares are reserved under the Company's Long Term Stock Incentive Plan and Warrants granted by the Company. Details of the options and warrants are given in note 10.

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

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

There are currently no preference shares outstanding (2013 – None).

Tethys Petroleum Limited

Notes to Consolidated Financial Statements (tabular amounts in thousands of US dollars)

Other reserves

Other reserves comprise of option reserves and warrant reserves as set out in the Statement of Changes in Equity. The Option and Warrant Reserves relate to stock options and warrants issued to employees under the Long Term Incentive Plan, details of which are discussed in note 11.

25 Non-controlling interest

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

December 31, 2014	Seven Stars Energy Corporation	Tethys Services Tajikistan Limited	Kulob Petroleum Limited
Non-current assets	-	2	24,023
Current assets	36,278	51	11,064
Non-current liabilities	-	-	-
Current liabilities	(3,272)	(1,160)	(38,434)
Net assets	33,006	(1,107)	(3,347)
Revenue	-	295	-
Profit/(loss) after tax	(1,444)	(696)	(343)
Cash balance at beginning of year	1,503	459	262
Cash balance at end of year	-	19	262

During 2014, Tethys Services Tajikistan Limited and Kulob Petroleum Limited had cash outflows in respect of operating costs, capitalised exploration and evaluation expenditure and purchases of property plant and equipment and cash inflows in the form of funding from Tethys companies.

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

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

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

Kulob Petroleum Limited also received USD 63,404,444 in cash from the farm-out of its exploration interests (note 14) which was then transferred to its ultimate parent company, Tethys Petroleum Limited.

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

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

26 Related party transactions

A list of the investments in subsidiary undertakings including the name, proportion of ownership interest, nature of business, country of operation and country of registration, is given below.

Subsidiaries	Percentage	Nature of business	Country of registration	Country of operation
Tethys Kazakhstan SA	100%	Holding company	Belgium	Belgium
Transcontinental Oil Transportation SPRL	100%	Holding company	Belgium	Belgium
Seven Stars Energy Corporation	85%	Holding company	BVI	Tajikistan
Tethys Uzbekistan Limited	100%	Holding company	Cayman Islands	Uzbekistan
Chegara Production Limited	100%	In liquidation	Cayman Islands	Uzbekistan
TransOxiana Petroleum Limited	100%	In liquidation	Cayman Islands	Dormant
Tethys Production Uzbekistan Limited	100%	Inactive	Cayman Islands	Uzbekistan
Tethys Tajikistan Limited	100%	Holding company	Cayman Islands	Tajikistan
Imperial Oilfield Services Limited	100%	Rig owner	Cayman Islands	Cayman Islands
South Caucasus Petroleum Corporation	100%	Holding company	Cayman Islands	Georgia
Trialeti Petroleum limited	100%	Georgian licence holder	Cayman Islands	Dormant
Lisi Petroleum Limited	100%	Georgian licence holder	Cayman Islands	Dormant
Saguramo Petroleum Limited	100%	Georgian licence holder	Cayman Islands	Dormant
Kulob Petroleum Limited	85%	Tajik licence holder	Cayman Islands	Tajikistan
Resilient Petroleum Limited	100%	Holding company	Cayman Islands	Dormant
Baker Hughes (Cyprus) Limited	100%	Discontinued operation	Cyprus	Uzbekistan
Tethyda Limited	100%	Financing	Cyprus	Cyprus
Tethys Services Georgia limited	100%	Operating company	Georgia	Georgia
Tethys Services Guernsey Limited	100%	Service company	Guernsey	Guernsey
Tethys Aral Gas LLP	100%	Oil & gas E&P	Kazakhstan	Kazakhstan
Kul-Bas LLP	100%	Exploration	Kazakhstan	Kazakhstan
Tethys Services Kazakhstan LLP	100%	Service company	Kazakhstan	Kazakhstan
Asia Oilfield Equipment BV	100%	Equipment lease company	Netherlands	Kazakhstan
Tethys Services Tajikistan Limited	85%	In liquidation	Tajikistan	Tajikistan
Tethys Services Limited	100%	Service company	United Kingdom	United Kingdom
Tethys Petroleum Incorporated	100%	Service company	USA	USA
Tethys Afghanistan Incorporated	100%	Inactive	USA	Dormant
Jointly controlled entities				
Aral Oil Terminal	50%	Oil terminal operations	Kazakhstan	Kazakhstan
Bokhtar Operating Company BV	28.33%	Joint operating company	Netherlands	Tajikistan

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

Vazon Energy Limited

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

Tethys has a management services contract with Vazon that came into effect from June 27, 2007 whereby the services of Dr. Robson and other Vazon employees are provided to the Company. The total cost charged to Tethys for services from Vazon in the year ended December 31, 2014 was USD1,369,307 (2013 – USD1,341,648).

On June 17, 2013, the company made a deposit of GBP400,000 as security for amounts owing to Vazon under the management services contract. The deposit is non-current and restricted (note 15).

On November 4, 2014, Vazon gave the required one year's notice to terminate the management services contract.

Oilfield Production Consultants

Oilfield Production Consultants (OPC) Limited, Oilfield Production Consultants (OPC) Asia LLC and Oilfield Production Consultants USA LLC (collectively "OPC") had one common former director with the Company, Piers Johnson. Mr. Johnson resigned as a Director of the Company on November 17, 2014. Total fees for the year ended December 31, 2014 were USD 55,887 (2013 – USD133,304). These fees represented significantly less than 1% of the turnover of OPC. OPC participated in the 2014 loan financing described in note 21.1 advancing USD400,000 to the Company. The balance due to OPC at December 31, 2014 was USD349,774.

Related party transactions with key management personnel

Two officers of the Company participated in the 2011 loan financing for which they received 75,000 and 232,620 warrants at a fair value of USD6,143 and USD21,983 respectively. Loans advanced were USD150,000 and GBP300,000 respectively and were rolled over upon maturity of their one year term for a further term of one year under the same conditions and terms afforded to non-related parties, except that the warrants originally issued were not extended. Upon rollover, there was a re-issue of 75,000 and 232,620 warrants at a fair value of USD2,940 and USD25,891 respectively. These loans were repaid in full in February 2014 and the warrants expired in May and June 2014.

Ambassador Khalilzad was a non-executive director of the Company until his resignation on November 6, 2014. His company, Khalilzad Associates, provides consultancy services with respect to business development. Total fees for these services amounted to USD45,000 for the period ended December 31, 2014 (2013 – USD65,502).

Dr. David Robson, former Executive Chairman and President had a close family member employed by the Company on standard terms and conditions.

Three non-executive directors and one executive director of the Company participated in the 2014 rig loan financing described in note 21 on the same terms as other participants. In addition, non-interest bearing advances have been made to three officers of the Company. Amounts advanced during the period and balances outstanding at the end of the period are shown in the table below.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements
(tabular amounts in thousands of US dollars)

	Year ended		Balance as at	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Loans advanced to Company:				
Non-executive director (resigned)	200	-	175	-
Non-executive director	150	-	131	-
Non-executive director (resigned)	100	-	82	-
Executive director (resigned)	167	-	139	-
Amounts advanced by Company:				
Officer	40	54	26	27
Officer	78	76	65	45
Officer	68	50	23	17

Remuneration of key management personnel

Key management personnel have been identified as the twelve Vice Presidents, four Executive Directors and the Non-Executive Directors who have served during the year. The remuneration of the key management personnel of the Company is set out below in aggregate.

	Year ended	
	December 31, 2014	December 31, 2013
Salaries and short-term employee benefits	5,698	5,583
Share-based payments	139	582
	5,837	6,165

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

27 Changes in working capital

	Year ended	
	December 31, 2014	December 31, 2013
Trade and other receivables	(798)	6,345
Inventories	88	2,045
Trade and other payables	(2,083)	(3,285)
Change in working capital	(2,793)	5,105
Non-cash transactions	2,689	(2,128)
Net changes in working capital	(104)	2,977

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

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

	Year ended	
	December 31, 2014	December 31, 2013
Operating activities	(389)	2,807
Investing activities	285	170
Balance	(104)	2,977

28 Commitments and contingencies

The Company is involved in claims and actions arising in the course of the Company's operations and is subject to various legal actions and exposures, including tax positions taken by the Company. Although the outcome of these claims cannot be predicted with certainty, the Company does not expect these matters to have a material adverse effect on the Company's financial position, cash flows or results of operations. If an unfavourable outcome were to occur, there exists the possibility of a material adverse impact on the Company's consolidated net earnings or loss in the period in which the outcome is determined. Accruals for litigation, claims and assessments are recognized if the Company determines that the loss is probable and the amount can be reasonably estimated. The Company believes it has made adequate provision for such legal claims. While fully supportable in the Company's view, some of these positions, including uncertain tax positions, if challenged may not be fully sustained on review.

Kazakhstan

The tax environment in the Republic of Kazakhstan is subject to change and inconsistent application, interpretations and enforcement, and in particular, existing subsurface use contracts are under close scrutiny by the tax and other authorities. This could result in unfavourable changes to the Company's tax positions. Non-compliance with Kazakhstani law and regulations as interpreted by the Kazakhstani authorities may lead to the assessment of additional taxes, penalties and interest. Kazakhstani tax legislation and practice is in a state of continuous development and therefore is subject to varying interpretations and frequent changes, which may be retroactive. Tax periods remain open to retroactive review by the tax authorities for five years. Management believes that its interpretation of the relevant legislation is appropriate and the Company's tax, currency legislation and customs positions will be sustained.

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

Akkulka Production Contract

On December 23, 2009, the Company and the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan ("MEMR") signed the Akkulka Production Contract giving the Company exclusive rights to produce gas from the Akkulka Block for a period of nine years. Contingent upon commencement of commercial production on the Akkulka contractual territory, an amount of USD 2,698,531 will be due to the Kazakhstan Government as a reimbursement of historical costs previously incurred by the Government in relation to the contractual territory, payable upon signature of the Akkulka oil production contract.

Work programmes for the period October 1, 2012 to October 1, 2015 have been agreed totalling USD 4,421,300 which includes a commitment for the period October 1, 2014 to October 1, 2015 of USD 1,172,500. As at December 31, 2014 all commitments for the periods up to October 1, 2015 had been met. It is planned to absorb the AKK16, 18, 19 and 20 wells

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

into the Production Contract and expand the Contract boundaries, once completed (expected in Q2 2015) revised work programmes and commitments will be determined.

Akkulka Exploration Contract

Work programmes for the period January 1, 2014 to March 10, 2015 were agreed totalling USD 19,274,000. Commitments up to December 31, 2014 have been met. An extension to the appraisal period has been granted up to March 10, 2019, the work programme and commitments includes 100km² of 3D seismic in the block in the period March 11, 2015 to March 10, 2016 for an amount of circa USD 1.7million.

Kul-Bas Exploration and Production Contract

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

Work programmes for the calendar years 2013 to 2015 have been agreed totalling USD 14,904,300 which includes a commitment for 2015 of USD 9,441,100. Commitments up to December 31, 2014 were not met and an application was made by the Company to reschedule the remaining commitments. The commitments were rescheduled in Q4 2014 for the work programme up to November 11, 2015 for a total of USD8,855,000 comprising up to two wells.

Kyzyloi Production Contract

In June 2014, the Company received approval from the Ministry of Oil & Gas of the Republic of Kazakhstan for an extension to its Kyzyloi Production Contract for a further 15 years to June 2029. Work programmes for the 15 year period have been agreed totalling USD 114,567,000 which includes a commitment for 2015 of USD 7,487,200.

Tajikistan

Bokhtar Production Sharing Contract

The Company has an effective 28.33% interest (33.33% interest via its 85% owned subsidiary) in Bokhtar Operating Company BV with partners Total and CNPC each having a 33.33% interest.

Under the terms of the farm-out agreement entered into on June 18, 2013 with Total and CNPC the Company is only required to contribute 11.11% or USD9 million of the first USD80 million of the initial work programme. As at December 31, 2014, the joint venture partners had contributed USD 20.9 million to the Bokhtar Operating Company of which the Company's share was USD 2.3 million.

At December 31, 2014, Bokhtar had contractual commitments of USD 85.3 million relating to seismic acquisition, against which payments of USD 13.8 million have been made to date. Tethys share is approximately USD 15 million.

Georgia

Work programmes have been agreed with the Georgian Government which require the Company to conduct at least 100km of seismic studies by July 1, 2015 on Block XIN at an estimated cost of USD2.0 million. The Company has a 56% interest in three blocks in Eastern Georgia and is responsible for funding the first USD10 million of the work programme and 56% of costs thereafter. The Company has contributed USD 5.4 million towards the work programme to date.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements (tabular amounts in thousands of US dollars)

29 Operating leases

Leases as a lessee:

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

December 31, 2014	Total	Less than 1 year	1 – 3 years	Greater than 3 years
Operating leases	2,464	1,086	1,012	366

2013 expenditure on lease commitments included in the consolidated statement of comprehensive income amounted to USD 1,408,745.

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

2012 expenditure on lease commitments included in the consolidated statement of comprehensive income amounted to USD 1,340,971.

30 Subsequent events

Kazakhstan - Akkulka Exploration Contract Extension

On January 6, 2015 the Company announced that its wholly owned Kazakh subsidiary, TethysAralGaz LLP, had received permission from the Ministry of Energy of the Republic of Kazakhstan to extend the Akkulka Exploration Contract for another four years, from March 10, 2015 to March 10, 2019 (subject to certain routine amendments to the Contract).

Corporate - New USD6.0 million loan financing

On January 16, 2015 the Company announced that it had secured a new USD6.0 million unsecured loan facility. The principal is due at the end of two years with interest payments at the rate of 8% per annum being due every 6 months. The loan has been fully drawn down by the Company.

In connection with the loan financing, the Company has issued the lender with 35,600,000 warrants over the Company's shares with a price of C\$0.19. In the event that the Company completes the issuance of any additional new ordinary shares (or options, warrants or other securities convertible into ordinary shares) equal to 7.5% or more of the cumulative aggregate number of outstanding shares, the lender will have the option of surrendering the warrant for a "surrender value" which would be added to the principal amount of the loan and be repayable on the 2 year maturity date. The initial surrender is US\$2.1 million and will decrease by 25% every 6 months over the term of the loan. The loan agreement contains events of default and change of control provisions.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars)

Georgia – Reduction in interests

On January 22, 2015 the Company announced that it has reached agreement subject to finalising documentation with its partner, Georgian Oil and Gas, to remove its current funding obligations of approximately US\$4 million under the farm-out agreement signed in July 2013, through reducing its interest in these projects. Under the terms of the new agreement Tethys will reduce its interest to 49% (from 56%) and GOG became Operator on the licences on Blocks XIA, XIM and XIN, from February 1, 2015.

Kazakhstan - Kyzylai Gas Production Contract 15-year Extension

On January 23, 2015 the Company announced that its wholly-owned Kazakh subsidiary, TethysAralGas LLP, had received permission from the Ministry of Energy of the Republic of Kazakhstan to extend the Kyzylai Gas Production Contract for another 15 years, from June 14, 2014 to December 31, 2029.

The Ministry of Energy granted this contract extension following the Kazakh State Reserves Committee's approval of the new State Reserves for Kyzylai previously announced in May 2014. The Kyzylai contract area has been increased by 56 percent to 449 km² (110, 950 acres) and now encompasses a larger gas bearing area including the AKK05 well (to be worked over later in Q1 2015) and also the AKK08 & AKK10 successful gas wells.

Corporate - New USD3.5 million loan financing

On March 10, 2015 the Company secured a new USD3.5 million unsecured loan facility. The principal is due at the end of two years with interest payments at the rate of 8% per annum being due every 6 months. The loan has been fully drawn down by the Company.

In connection with the loan financing, the Company has issued the lender with 23,333,333 warrants over the Company's shares with a price of C\$0.19. The loan agreement contains events of default and change of control provisions.