

## Oil and Gas

Central Asia

**Initiation report**  
Equity research  
February 7, 2010

### Tethys Petroleum Limited

**Attractive portfolio:** Tethys Petroleum Limited (TPL), a Toronto listed company, offers unique exposure to large-scale oil and gas resources in Central Asia. TPL has five exploration and production projects in the vast hydrocarbon basins of Kazakhstan, Tajikistan and Uzbekistan where several global major oil and gas companies are currently operating. TPL believes that the contract areas have significant exploration and production potential and it may create more value by applying modern methods and technologies in its operations. In our view, TPL will expand its portfolio to more exploration and production projects in the near future, in particular in Uzbekistan.

**Significant Growth Potential:** TPL has recently discovered oil in its Akkulka property, Kazakhstan and the company may materially upgrade its oil reserves. Well AKD01 successfully tested oil in two zones, a lower zone interpreted as being a Jurassic dolomite sequence and an upper zone interpreted as Cretaceous sandstone. We estimate potential recoverable oil in place in lower and upper zones to be 149mn bbls. We believe the likelihood for further increase in oil reserves is substantial from Kulbas exploration property.

**Prime Location:** TPL properties are located close to the existing gas pipelines that put the company in a favorable position to sell gas from its current production to domestic market and future production to Russia and China. TPL, one of few international oil and gas companies, enjoys strong government support and friendly business environment in the region that will contribute to TPL's operations expand further.

**Generous tax environment:** TPL offers exposure to Kazakhstan's oil & gas fiscal regime, which is less burdensome than that governing Russian oil & gas companies. PSA in Tajikistan is one of the most generous in the world with 70% of output going to TPL after cost recovery. In Uzbekistan, TPL has to pay just 15% tax on income from its operations in North-Urtabulak field.

**We are initiating coverage of TPL with a BUY rating, 12-month target price CAD2.00/share.** Our 12-month target price is based on a combined DCF and resource-based valuation approach. We apply DCF valuation to TPL's producing and near production assets and use resource-based valuation EV/Resources for valuing undeveloped oil & gas resources in Kazakhstan and Tajikistan. Our 2010 combined DCF and resource-based valuation results in equity valuation of US\$342mn or US\$1.93/share (CAD2.06/share). We set our target price at CAD2.00/share which represents **94% upside** to current TPL's share price of CAD1.03 (05.02.2010). We note that we conservatively estimated recoverable oil (30mn bbls) in Akkulka, Kazakhstan in our DCF valuation, and believe that oil reserves will be materially upgraded following the appraisal drilling results. This leaves ample room for the company valuation to increase beyond our projections.

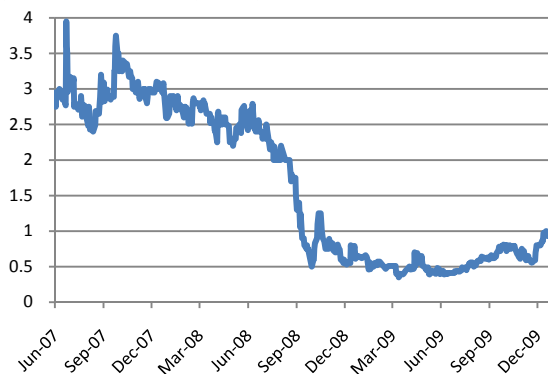
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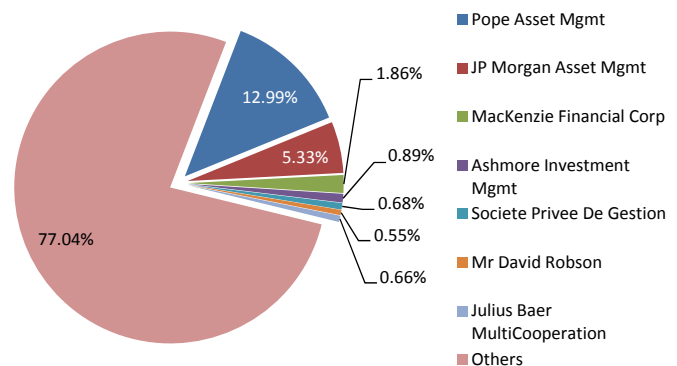
<b>Rating</b>	<b>BUY</b>
<b>Target Price CAD</b>	<b>2.00</b>
Current Price CAD	1.03
Bloomberg	TPL CN Equity
Mkt Cap CAD	149.9
Common shares	144.6
outs., mn	
52-wk range CAD:	0.35-1.00
Web:	<a href="http://www.tethyspetroleum.com">www.tethyspetroleum.com</a>
Free Float, shares	128.377
mn	
Major Shareholder	Pope Asset Management
	(13%)
Average Daily	0.49
Trading Volume, 6	
months, mn shares	

**Figure 1: TPL share price performance (CAD)**



Source: Bloomberg

**Figure 2: Shareholders structure**



Source: Bloomberg (as of 01.01.2010)

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## Investment summary

### Attractive portfolio

Tethys Petroleum Limited, a Toronto listed company, offers unique exposure to large-scale oil and gas resources in Central Asia. TPL has five exploration and production projects in the vast hydrocarbon basins of Kazakhstan, Tajikistan and Uzbekistan where several global major oil and gas companies are currently operating. TPL believes that the contract areas have significant exploration and production potential and it may create more value by applying modern methods and technologies in its operations. In our view, TPL will expand its portfolio to more exploration and production projects in the near future, in particular in Uzbekistan. Specifically, we note the following:

- **Kazakhstan:** TPL has two exploration and development projects in the Kyzylai and Akkulka fields. The assets of the two blocks have 2P reserves of 13.2mnboe. TPL produces gas at 560 mcm/day in Kyzylai and in December, 2009, signed a Gas Production Contract with the Ministry of Energy and Mineral Resources of Kazakhstan which gives TPL the exclusive gas production rights in the Production Contract Area for an initial period of nine calendar years. As a result TPL will increase total production to over 1,100 mcm/day from the two blocks. The gas production is currently temporarily suspended following a recent request from Intergas Central Asia, the operator of the Bukhara-Urals gas trunkline, due to technical problems with a storage facility. Recent oil discovery in the Akkulka Block in December 2009 may increase the company's oil resources significantly. The Kul-Bas Block similar to the Akkulka block in terms of geology and structure, has strong exploration potential with 369mnboe unrisked mean prospective resources. The total prospective resources (unrisked mean) in Kazakhstan assets are estimated at 744.17mnboe.
- **Tajikistan.** TPL has a Production Sharing Contract (Bokhtar PSC) over a 34,785 km<sup>2</sup> contract area, twice as the size of Kuwait and three times larger than Qatar. The field covers almost all the Tajik portion of the Afghan-Tajik basin, east part of the prolific Amu-Darya basin. The large prospective region has existing oil and gas discoveries but has seen limited exploration to date. There are over 50 different prospective fields in the contract area with an estimated reserve of 1.4bcm.
- **Uzbekistan.** TPL produces oil in the North Urtabulak oilfield in Uzbekistan under a Production Enhancement Contract. It was estimated that the oilfield had 129mnbbbls initially in place. Given that over 53mnbbbls had been produced as of December 31, 2008, and 47% of reserves were recoverable, according to the UzbekNefteGas estimates, TPL believes that over 7mnbbbls left to be recovered. In January this year TPL received a President's support in the form of a Decree requesting UzbekNefteGas to support TPL in its expansion plans, possibly in the Amu Darya and the Ustyurt basins.

### Key advantages

TPL properties are located close to the existing gas pipelines that put the company in a favorable position to sell gas from its current production to domestic market and future production to Russia and China. TPL, one of few international oil and gas companies, enjoys strong government support and friendly business environment in the region that will contribute to TPL's operations expand further.

## Valuation

We value TPL based on a combined DCF and peer group multiples methods. Our valuation results in CAD2.00/share which is 94% above current TPL's share price. DCF valuation includes development of production and near production assets in Kazakhstan and Uzbekistan. Peer group multiples is used to value prospective oil and gas resources in Tajikistan and Kazakhstan properties, which are not included in DCF valuation. Our valuation results are summarized in Table 3.

Figure 3. Share price under various Valuation Methods			
	Estimated Equity Value (US\$m)	US\$/share	CAD/share
Combined DCF and peer group multiples valuation	347	1.93	2.06
Peer Group Multiples (EV/Resources)	203	1.29	1.38
Peer Group Multiples (EV/Reserves)	177	1.13	1.21

Source: Eurasia Capital estimates

We combine the results of DCF valuation (CAD1.17/share) and peer group multiples valuation EV/Resources (CAD0.89/share) and set the **12-months target price of CAD2.00/share**. This represents **94% upside** to current TPL's share price of CAD1.03/share. We therefore initiate coverage of TPL with **BUY** recommendation.

### DCF Valuation

Our combined DCF valuation covers development of TPL's all shallow gas deposits and conservatively estimated deep oil reserves (30mn bbls) in Kazakhstan, and production from North Urtaulak field in Uzbekistan. We use 16% WACC, which assumes 4% risk-free rate (the current 30-year Canadian Government Bond rate), market equity risk premium of 8%, beta of 1 and Kazakhstan risk premium of 4%. We assume a flat Brent price after 2013 of US\$80/bbl in DCF valuation (please see our assumptions for production, opex and capex numbers in sections "Production & Sales" and "Financials").

We estimate TPL's production and near production oil and gas assets at US\$195mn. To this we add US\$148mn, an estimated value of risked prospective resources in Tajikistan (adjusted for Sangam's share of 49%) and Kazakhstan valued at US\$0.51/boe (please see the section "Comparable Valuation"). Our 2009 DCF valuation results in equity valuation of US\$342mn or US\$1.93/share (CAD2.06/share) at current exchange rate of CAD1.068 per US\$1. In valuing price per share, we estimate total shares outstanding on fully dilutive basis to be 177.5mn (including possible equity issuance on the Hong Kong Stock Exchange at US\$1.5/share). The results of our DCF valuation are outlined below in Figure 4.

Figure 4. DCF Valuation Results

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenues	56	166	371	364	276	209	159	121	95	74	57	44	32
EBITDA	20	46	140	147	107	63	45	35	27	20	15	10	6
DD&A	(13)	(23)	(24)	(20)	(16)	(13)	(11)	(9)	(8)	(7)	(7)	(6)	(6)
EBIT	7	23	116	127	91	50	34	25	19	13	8	4	(0)
Less: Income Tax	(1)	(6)	(31)	(26)	(19)	(9)	(6)	(4)	(3)	(2)	(2)	(1)	(0)
EBIAT	7	17	85	100	72	41	28	21	15	11	6	3	(1)
Plus: DD&A	13	23	24	20	16	13	11	9	8	7	7	6	6
Less: Capital expenditures	(28)	(68)	(39)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
+ / - Changes in net working capital	0	2	(10)	(7)	(3)	(2)	(2)	4	4	3	3	2	2
Unlevered Free Cash Flow	(9)	(26)	60	113	84	51	37	34	27	20	15	10	6
WACC	16%												
NPV FCF	175												
EV	175												
LESS: Debt	7												
PLUS: Cash (Average 2010)	26												
Equity Value DCF	195												
Equity Value Undeveloped Resources	148												
Total Equity Value	342												
Diluted Shares	178												
Share Price US\$	1.93												
Share Price CAD	2.06												

Although our valuation results in estimated price per share of CAD2.06, we set the target at CAD2.00/share as we believe this may be a difficult psychological barrier for the price to break.

### Comparable Valuation

Although Tethys Petroleum is currently producing significant amounts of oil and gas compared to similar sized companies in the region, Tethys Petroleum's significant part of asset base is represented by resources that are yet to be moved into reserves. As such, we believe TPL's the most suitable peer group is the exploration companies, whose assets primarily consist of resources, that have significant deposits in the CIS countries. We consider the companies represented in the table below are comparable with TPL and share similar risk profiles. These companies typically have limited production capacity and operate at loss. This makes it complicated, if not meaningless, to compare these companies on the basis of financial multiples. In addition, the potential upside of most of these companies derives from their exploration success which is not reflected in their current profitability and financial multiples.

Therefore, we decided to compare these companies on the basis of their resources and reserves.

**Figure 5. Peer Group Key Ratios**

	Market Cap (US\$m)	EV (US\$m)	EV/2P reserves (US\$/boe)	EV/Reserves and Resources (US\$/boe)
Regal Petroleum	388.89	328.87	1.95	0.32
Volga Gas	289.81	275.25	4.29	0.60
Max Petroleum	120.67	239.46	23.95	0.22
Roxi Petroleum	69.56	141.71	28.34	0.55
BMB Munai	63.96	119.7	1.41	0.80
Jupiter Energy	36.67	34.63	4.02	0.80
Caspian Energy	16.91	30.96	5.03	0.36
Frontera Resources	12.42	117.37	n/a	0.44
<b>Average</b>			<b>9.86</b>	<b>0.51</b>
<b>Tethys Petroleum</b>	<b>119.79</b>	<b>118.48</b>	<b>8.46</b>	<b>0.37</b>

Source: Bloomberg, Eurasia Capital estimates

From the table above, TPL's current EV/Total Resources multiple is 0.37 US\$/boe. When this figure is compared to the average EV/Total resources of the peer group, it is about 30% (27.5%) lower than the average. If we apply the peer group's average EV/Total Resources multiple of US\$0.51/boe to TPL's total reserves and resources of 321mnboe, then we derive to the EV value of US\$163.7mn for TPL. By adding to this value TPL's current net cash position of US\$16.3mn, its assets in Uzbekistan valued at US\$6.5mn and assets of Asia Oilfield Services valued at US\$17mn, we get total value of US\$203.3mn for TPL. This would indicate a share price of US\$1.29, which implies 42% upside to the TPL's current share price.

In a similar way, we used EV/2P reserves multiple to estimate the equity value of TPL. In this case we got share price of US\$1.13. As was discussed earlier, the asset base of the companies in this category is primarily represented by resources. Thus, we believe that 2P reserves less accurately reflect the companies' true value. In addition, the reserves reports are out of date and do not include the discoveries made by the ongoing explorations. Furthermore, the above 2P reserves figure does not include TPL's significant oil discovery in Akkulka in late December 2009. This may substantially increase TPL's reserves and as a result, underestimates the company's valuation based on EV/2P reserves multiples.

Further, we gave more detailed summary of the major oil and

**Figure 6. EV/Total Resources Valuation**

TPL's total reserves and resources (mnboe)	321
Average EV/Total resources for peers (US\$/boe)	0.51
Estimated EV value (US\$m)	163.7
Asset value of Asia Oilfield Services (US\$m)	17
Asset value in Uzbekistan (US\$m)	6.3
Net cash position (US\$m)	16.3
Equity Value (US\$m)	203.3
Total number of ordinary shares	157,169,769
<b>Implied share price (US\$)</b>	<b>1.29</b>

Source: Bloomberg, Eurasia Capital estimates

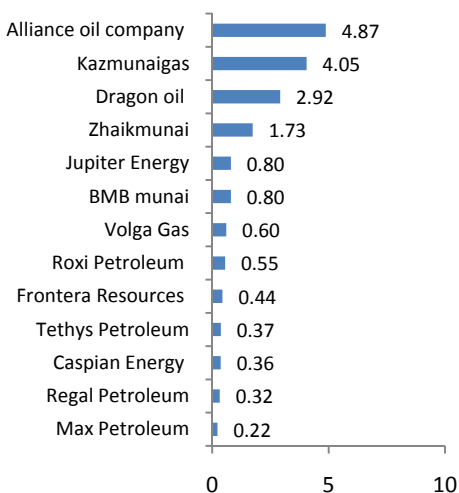
**Figure 7. EV/2P reserves valuation**

TPL's 2P reserves (mnboe)	14
Average EV/2P reserves of peers (US\$/boe)	9.86
Estimated EV value (US\$m)	138.04
Asset value of Asia Oilfield Services (US\$m)	17
Asset value in Uzbekistan (US\$m)	6.3
Net cash position (US\$m)	16.3
Equity Value (US\$m)	177.64
Total number of ordinary shares	157,169,769
<b>Implied share price (US\$)</b>	<b>1.13</b>

Source: Bloomberg, Eurasia Capital estimates

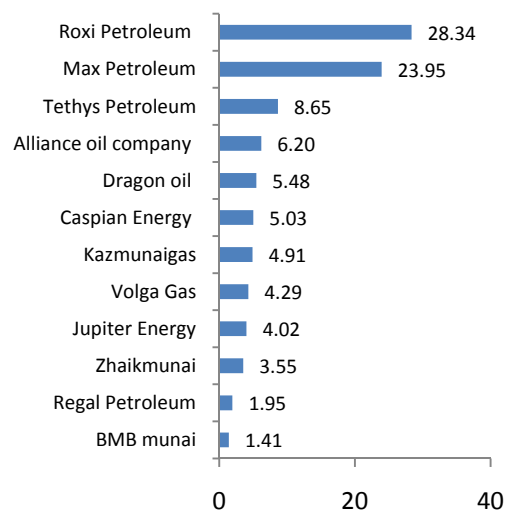
gas players in FSU in Figures 1 and 2. When mature oil and gas players added to the table and compared on the basis of EV/Total resources multiple, TPL clearly stands out with substantial discount compared to other players. TPL's value is estimated at US\$0.37/boe relative to the average of US\$1.47/boe, implying 297% upside potential.

Figure 8: EV/Total Resources



Source: Bloomberg, Eurasia Capital estimates

Figure 9: EV/2P Reserves



Source: Bloomberg, Eurasia Capital estimates

Figure 10. Peer Group Valuation

	Market Cap (US\$m)	EV (US\$m)	EV/2P reserves (US\$/boe)	EV/Reserves and Resources (US\$/boe)
Kazmunaigas	11338	10470	4.91	4.05
BMB munai	63.96	119.7	1.41	0.80
Zhaikmunai	1554	1881.61	3.55	1.73
Caspian Energy	16.91	30.96	5.03	0.36
Frontera Resources	12.42	117.37	n/a	0.44
Max Petroleum	120.67	239.46	23.95	0.22
Jupiter Energy	36.67	34.63	4.02	0.80
Roxi Petroleum	69.56	141.71	28.34	0.55
Dragon oil	3687.33	3531.46	5.48	2.92
Volga Gas	289.81	275.25	4.29	0.6
Alliance oil company	2786.36	3021.9	6.20	4.87
Regal Petroleum	388.89	328.87	1.95	0.32
<b>Average</b>			<b>8.10</b>	<b>1.47</b>
<b>Tethys Petroleum</b>	<b>119.79</b>	<b>118.48</b>	<b>8.46</b>	<b>0.37</b>

Source: Bloomberg, Eurasia Capital estimates

## Risks

We believe that one of the key risks stems from the fact that although initial flow rates are excellent from AKD01, TPL is yet to provide tangible confirmation of the resource base. Hence there is significant uncertainty in assumptions we made to estimate recoverable oil in place. Appraisal drilling results will, in our view, significantly reduce these uncertainties related to our assumptions.

As major upside in TPL share price derives from undeveloped resources, we see a risk in execution of this projects. However, TPL management has extensive experience in oil & gas sector in FSU. Chairman and Chief Executive Officer Dr. David Robson has been working on oil and gas projects in former Soviet Union since 1990.

Possible decline in oil prices is another risk that adds to investor concerns. Although consensus is that the worldwide recession is over, the economic outlook is still highly uncertain. In addition, countries worldwide in general and USA in particular are expected to start raising their interest rates going forward. In our view this may put downward pressure on oil prices. However, our short term oil price forecast is US\$65/bbl and we do not expect oil prices to decline more significantly than our forecasted level. Our long-term forecast is flat US\$80/bbl.

The regulatory and legislative regimes governing oil & gas industry in Central Asia, where TPL operates, may change in the future. Should the changes happen for the worse, it will significantly affect TPL operations. In addition, taxation regimes in these countries are not stable which creates significant uncertainties related to taxation in the future.

## Portfolio

Figure 11. TPL Portfolio Summary

Property	TPL interest	Contract area, km <sup>2</sup>	Basin	Expiry date	Contract terms
<b>Kazakhstan</b>					
Kyzyloi Field License and Contract	100%	287.2	North Ustyurt	June 2014	<ul style="list-style-type: none"> <li>- Exploration and production rights, take-or-pay;</li> <li>- In the event of production, royalties payable by TPL will range from 2% to 6% depending on the production achieved;</li> <li>- Sub-contractors, goods, materials and/or services used in TPL's operations must be of Kazakh origin;</li> <li>- Contract price is US\$32/mcm or US\$36.16/mcm incl.VAT.</li> </ul>
Akkulka Block Exploration License and Contract	100%	1,381	North Ustyurt	March 2011	<ul style="list-style-type: none"> <li>- US\$14.4mn investment commitment in 1998-2003 (spent US\$13.2mn); local content requirements apply;</li> <li>- In the event of production, royalties payable by TPL will range from 2% to 6% depending on the production achieved;</li> <li>- US\$3.5mn due to the Kazakh government on commencement of commercial production;</li> <li>- MET expected 0.5% for domestic sales, 10% for exports.</li> </ul>
Kul-Bas Exploration and Production Contract	100%	8,480	North Ustyurt	November 2030	<ul style="list-style-type: none"> <li>- 6 year exploration period followed by a 19 year production period</li> <li>- The contract area is to be gradually relinquished;</li> <li>- US\$7.7mn over the 6 year work program, US\$3.3mn due to the Kazakh Govt.; local content requirements apply for TPL;</li> <li>- MET expected 0.5% for domestic sales, 10% for exports.</li> </ul>
<b>Tajikistan</b>					
Bokhtar Production Sharing Contract	100%	34,751	Afghan-Tajik	June 2033	<ul style="list-style-type: none"> <li>- TPL will recover 100% of its costs from up to 70% of total production; other 30% is split 70%:30% between TPL and the Tajik State whose share of the costs includes all taxes, levies and duties;</li> <li>- The contract area is to be gradually relinquished.</li> </ul>
<b>Uzbekistan</b>					
Production Enhancement Contract	no interest	North Urtabulak oil field	Amu-Darya	8 years after the last workover on a well under the contract is carried out	<ul style="list-style-type: none"> <li>- 50% of incremental production for the first 3 years and 20% thereafter for the next 5 years;</li> <li>- TPL incurs 100% of the costs;</li> <li>- Partner and contractor with 2 state-owned companies</li> </ul>

Source: Tethys Petroleum

Figure 12. TPL Properties Map



Source: Tethys Petroleum

Figure 13. Reserves and Resources Summary

Property	2P mnboe	3P mnboe	Gross resources unrisksd mean			Reserves+Risksd Net Resources mnboe*
			Oil, mnbbbl	Gas, mncm	Total, mnboe	
<b>Kazakhstan</b>	13.2	17.5	293.6	71,637.5	744.2	240.7
<b>Tajikistan</b>	0.767	1.05	566.8	92,757.5	1,144.0	80.1
<i>incl. Leads</i>	-	-	566.0	89,984.0	1,132	78.8
<b>Uzbekistan</b>	-	-	-	-	-	-
<b>Total</b>	<b>14.0</b>	<b>18.6</b>	<b>860,402.6</b>	<b>164,395.0</b>	<b>1,888.2</b>	<b>320.9</b>

Source: McDaniel Reports, TRACS, Tethys Petroleum, Eurasia Capital estimates

## \*Notes:

- After oil discovery in Akkulka AKD01 well, we risked the gross resources unrisksd mean in the Kazakhstan properties at 30%, which we believe more conservative than TPL management's estimate of a range between 30%-60%. On December 22, 2009, TPL announced that the lower zone of the AKD01 deep exploration well (total depth of 3,414 meters) flowed with increasing pressure at 2,803 bbl/day, with 1,373 bbl/day after acidisation. And on February 8, 2010, TPL announced initial results from upper zone which tested oil at 5,400 bopd. After testing on the upper zone, AKD01 has flowed oil at combined rate in excess of 6,800 bopd. See further details below.
- In Tajikistan under the Bokhtar PSC TPL recovers 100% of its costs from up to 70% of the total production, and the remaining is allocated 70% to TPL and 30% to the Tajik State, meaning that 91% can be attributable to TPL. It should be taken into account that in December, 2009, TPL established a joint venture Seven Stars Energy Corporation (SSEC) with an investment company Sangam. TPL, who previously owned 100% interest in the project, transferred its 49% interest to Sangam therefore we assigned for TPL net (51%) gross unrisksd mean resources risked at conservative rate of 15%. See further detail below

## Oil and Gas Projects in Central Asia

### Kazakhstan

#### Key Advantages

TPL has strong exploration and production potential in Kazakhstan where the Company's principal properties are located in the North Ustyurt basin, an extension of the prolific Pre-Caspian sedimentary basin and part of the Ustyurt basin that lies nearby the Aral Sea. Given that the area has had only relatively limited investment in the past and significant oil and gas have already been discovered in the area, TPL believes that the area has substantial hydrocarbon resources. TPL's properties are located in the northern part of the Ustyurt basin where a consortium of China National Petroleum Corporation (CNPC), Malaysia's PETRONAS, South Korea's National Oil Corporation (KNOC), Russia's LUKOil and UzbekNefteGas are operating under a production sharing contract on the exploration and development of oil and gas deposits in the Uzbek section of the basin. According to a USGS report in 2001, discovered hydrocarbons in the North Ustyurt basin were nearly 2.4 billion bbl of oil and 68 bcm of gas in total.

Proximity to the existing pipelines, Central Asia Center Gas Transmission System and Bukhara-Urals Gas Pipeline, enables TPL to export both to Russian and Chinese markets after the production reaches the commercially viable scale.

#### Properties

TPL properties are located within the Aktobe Oblast region of western Kazakhstan. They are:

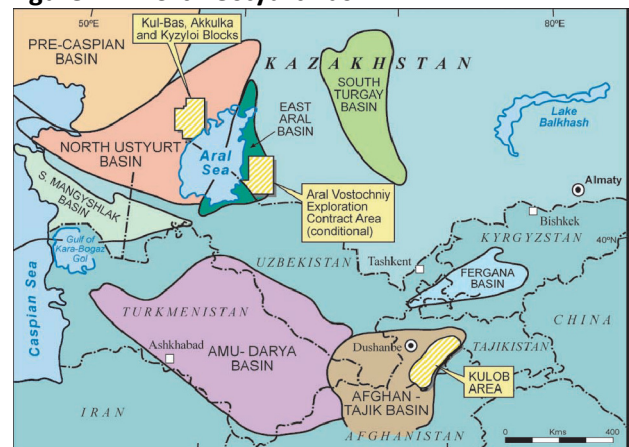
- the Kyzylloi Field (under the terms of the Kyzylloi Field License and Production Contract),
- the Akkulka Block (the Akkulka Block Exploration License and Contract) and
- the Kul-Bas Block (the Kul-Bas Exploration and Production Contract).

#### Resources And Production

The TPL's prospective resources in the contract areas were evaluated by McDaniel & Associates in 2007. The key conclusions of the Resource Report were as follows:

- A large number of prospects in several horizons have been identified in the Contract areas;

**Figure 14. North Ustyurt Basin**



Source: Tethys Petroleum

- A large number of these prospects are relatively shallow and would be relatively inexpensive to drill;
- Although large portion of the prospective resources are interpreted to be natural gas, TPL has established natural gas gathering and transmission infrastructure in the area that will allow successful prospects to be put on production within a relatively short period of time;
- Most of the prospective resources are assigned to deep prospects that have higher risk but the potential for much larger resources per discovery.

**Figure 15. Kyzylloi and Akkulka: Reserve Summary (mncm)**  
(effective December 31, 2008)

Property	Proved Reserves (P)	Proved + Probable (2P)	Proved + Probable + Possible (3P)
Kyzylloi	778.4	1,195.7	1,453.7
Akkulka	440.8	828	1,220.2
Kul-Bas	-	-	-
<b>Total</b>	<b>1,219.2</b>	<b>2,023.7</b>	<b>2,673.9</b>
<b>Total, mn boe</b>	<b>8.0</b>	<b>13.2</b>	<b>17.5</b>

Source: McDaniel Reserve Report 2007

McDaniel report was based on the assumption that in the deeper Triassic-lower Jurassic prospects the chances of encountering oil and gas were 50% and 50%, respectively. TPL focuses on oil and oil associated gas prospects. McDaniel studies estimated that the prospective oil and natural gas resources, based on the unrisked mean, total 294 mnbbbl of oil and 76.6 bcm of natural gas, or 744 mnboe.

**Figure 16. Prospective Resources**

	Low estimate	Best estimate	High estimate	Unrisked mean	Risked mean
<b>Kyzyloi Field License and Production Contract</b>					
Crude Oil Resources, mnbbbl	-	-	-	-	-
Natural Gas Resources, mncm	144.43	625.47	2,814.56	1,138.27	182.56
Resources, mnboe	0.85	3.68	16.56	6.70	1.07
<b>Akkulka Exploration License and Contract</b>					
Crude Oil Resources, mnbbbl	33.39	103.87	324.45	145.86	11.94
Natural Gas Resources, mncm	8,209.50	26,053.57	84,932.01	37,820.35	3,174.55
Resources, mnboe	81.69	257.15	824.15	368.36	30.61
<b>Kul-Bas Exploration and Production Contract</b>					
Crude Oil Resources, mnbbbl	30.08	99.89	339.04	147.70	12.77
Natural Gas Resources, mncm	7,155.82	24,523.86	87,526.50	37,635.50	3,720.90
Resources, mnboe	72.18	244.17	853.96	369.11	34.66
<b>Total Company</b>					
Crude Oil Resources, mnbbbl	63.47	203.77	663.52	293.56	24.70
Natural Gas Resources, mncm	15,509.77	51,202.93	175,273.03	76,594.12	7,078.00
Resources, mnboe	154.71	504.99	1,694.66	744.17	66.34

Source: McDaniel Resource Report 2007

Given the surprising discovery of oil in Akkulka AKD-01 well and that Kul-Bas field is similar to Akkulka in terms of geology and resource base, TPL believes that the chance of success may increase to 30%-60% range from McDaniel's estimate of 7%-9%. This means that the risked mean prospective resources may reach between 220-440mnboe range from the previously estimated over 65mnboe (see below). Given the positive news, we risked the gross resources unrisked mean at 30%, resulting in increasing total reserves plus net risked resources to over 240mnboe from McDaniel's estimate of 83.8mnboe. TPL is currently considering booking those findings as reserves in the coming months.

Currently TPL produces 560 mcm/day from the Kyzyloi field. After the company received an approval for the Akkulga Gas Production Contract (Phase 2 of the Kyzyloi/Akkulka gas development) on December 24, 2009, it now plans to increase the production to 1,100 mcm/day in 1Q2010, and further increase in this year. The production from the Kyzyloi is currently suspended following a recent request from Intergas Central Asia, the operator of the Bukhara-Urals gas trunkline and Bozoi underground gas storage facility (UGS), due to technical problems with the storage facility. Expecting that the suspension is temporary, TPL is now taking the opportunity to carry out maintenance and servicing of equipment at its Booster Compressor Station.

### Kyzyloi Field Licence and Production Contract

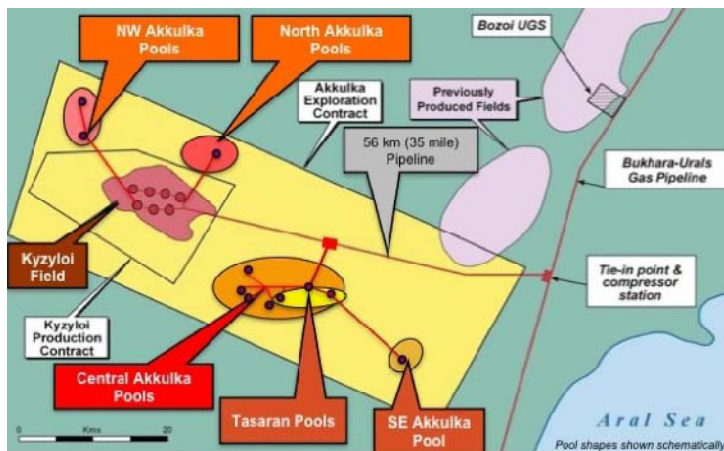
The Kyzyloi Field License and Production Contract grants TPL exploration and production rights over an area of approximately 287.2 km<sup>2</sup> and extends down

to the base of the Paleogene sequence. Kyzylloi, a shallow gas field, contains natural gas (~97% methane, no sulphur) in sandstones of Paleogene age at depths down to approximately 610 meters. First discovered in 1967 and well defined both on Soviet-era seismic data and on more recent data shot by the JNOC in 1995 to 1996, the field has over 1.45 bcm proved, probable and possible reserves, according to the McDaniel Reserve Report.

The exploration drilling works carried out in 2005 in the Akkulka AKK05 well encountered gas from the Kyzylloi Sandstone interval at rates of up to 224mcm/day of dry gas, indicating that the well has proved a northeasterly extension of the Kyzylloi Field. Tests from several wells in recent years showed gas flows at rates between 32-240 mcm/day.

TPL delivers the gas produced from the Kyzylloi field through a 56 km pipeline to the Bukhara–Urals gas pipeline at an approximately 560 mcm/day rate. The pipeline is owned and operated by InterGaz Central Asia, a subsidiary of state-owned company KazTransGaz. The gas produced is sold to Asia Gas NG LLP, a local company, under a long term contract at a fixed price of US\$32/mcm. Additional gas, produced over the contracted amount, is to be sold at a price adjusted to the market conditions.

**Figure 17. Kazakhstan: Kyzylloi-Akkulka Gas Development**



Source: Tethys Petroleum

### Akkulka Block Exploration Licence and Contract

BNM (acquired by TPL) signed the Akkulka Exploration Licence and Contract with the Kazakh State Committee of Investments on September 17, 1998. The contract initially granted BNM exploration rights for a period of five years, and has been extended three times and now, after the company has met all its obligations envisaged under the contract, will be effective until March 2011. The Contract area now covers approximately 1,380.53 km<sup>2</sup> at Paleogene level and 1,667 km<sup>2</sup> at deeper levels. TPL has identified a total of seven Triassic-lower Jurassic prospects in the Contract area. There are three major sandstone units in the Paleogene sequence: (i) the lower Tasaran Sandstone; (ii) the

Kyzyloi Sandstone, which is the main reservoir unit in the Kyzyloi Field; and (iii) the Oligocene Sandstone, the main sand unit in the Bozoi field. The gas in the field is dry (~97% methane, minor CO<sub>2</sub>, no sulphur) with the source being biogenic and possibly from deeper zones. In 2007, McDaniel estimated that recoverable net proved plus probable gas reserves within the Contract area may reach 0.41 bcm based upon drilling and testing.

The contract extension obtained in December 2009 allowed further exploration of both deep and shallow prospects identified on the block. On December 22, 2009, TPL announced that the lower zone of the AKD01 deep exploration well (total depth of 3,414 meters) flowed with increasing pressure at 2,803 bbl/day, with 1,373 bbl/day after acidisation. On 8<sup>th</sup> February 2010, TPL announced initial results from upper zone which tested oil at 5,400 bopd. After testing on the upper zone, AKD01 has flowed oil at combined rate in excess of 6,800 bopd (see below).

TPL received final governmental approval for the Akkulka Gas Production Contract (Phase 2 of the Kyzyloi/Akkulka gas development) on December 24, 2009, giving TPL the exclusive gas production rights in the Production Contract Area for an initial period of nine years. The initial seven wells assigned to this Contract have already been connected into to TPL's existing Kyzyloi pipeline and additional compression has already been installed and tested at the Booster Compressor Station on the Bukhara-Urals gas pipeline. The company is planning to produce with the initial planned gas flow from the Akkulka Contract area at an estimated rate of 560 mcm/day. Together with the Kyzyloi (Phase 1) production, TPL's total gas production volume may double to approximately 1,100 mcm/day of gas. TPL may start the production of gas in Akkulka immediately once it signs a gas sales agreement with buyers and arranges transportation with InterGas.

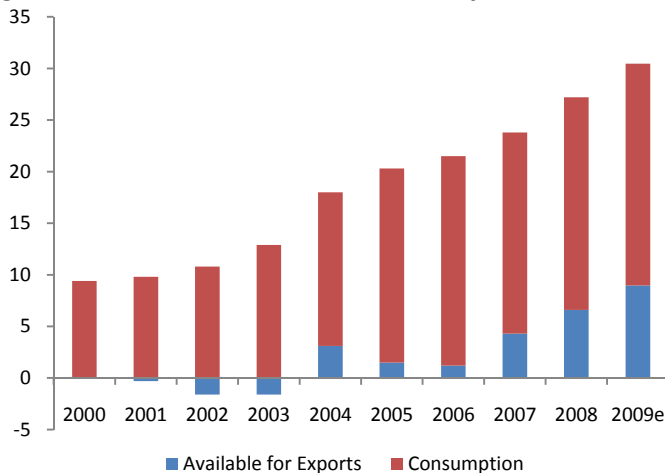
## Marketing

TPL believes that it may double the price of the Akkulka gas as opposed to the Kyzyloi gas. The Akkulka gas is not contracted yet and now TPL expects that negotiations can begin with potential gas buyers on pricing and off-take with a view to commencing gas sales in early 2010. In the Company's view, the reference point for the price may be the current market price for the gas supplied from Uzbekistan to Kazakhstan which is estimated at US\$200/mcm for 2010. TPL may benefit from the recent trend in gas trade with the Central Asian countries where the gas prices have been pegged to the international market conditions, in particular, to the European prices. Given this, we conservatively estimate that the Akkulka gas may be sold at about US\$74/mcm, which gives a premium twice as high as the Kyzyloi contract price. In the meantime, TPL expects to sell phase 2 gas to the same buyer at the phase 1 price until June 2010 after the Bukhara Urals line resumes operation.

TPL has strong potential in selling its current and future production both to growing domestic and export markets, in our view. Gas consumption in Kazakhstan has grown over 8% per annum over the last five years on the back of fast economic growth. Economic recovery in the European countries will also

likely feed Gazprom's appetite to additional supply commitments creating an opportunity for TPL to expand its export options. China is the largest potential market for TPL after adequate production scale is reached in the Company's properties including in Akkulka and Kyzylai.

**Figure 18. Kazakhstan: Gas Production by Use (2000-2009, bcm)**



Source: BP Statistical Review of World Energy, June 2009, Eurasia Capital estimates

### Kul-Bas Exploration and Production Contract

TPL won the Kul-Bas Exploration and Production Contract through its indirect subsidiary Kul-Bas LLP on November 11, 2005. The 25-year contract grants TPL with exploration and production rights over approximately 10,881 km<sup>2</sup> area with an initial six year exploration period and a 19 year production period. After having agreed with the Kazakh authorities, TPL contract area is relinquished gradually: 20% was relinquished in 2007, 0% in 2008, 10% in 2009, 20% is by end-2010 and all remaining territories, outside commercial discovery areas, by end-2011.

The Kul-Bas Block is similar to the Akkulka Block in terms of geological and structural features with the possible addition of a Palaeozoic play in the northwest of the block. The Kul-Bas area, having been subject to regional magnetic, gravity and seismic surveys in the Soviet-era with limited shallow wells in the southern part surrounding Akkulka Block, is considered by TPL to be under-explored. The AKD01 well oil discovery has lead TPL to believe that the chance of success in Kul-Bas prospective resources may increase to 30%-60% from the previous appr.20%.

### Akkulka Oil Discovery

In December 2010, TPL announced that it reached a total depth of 3,424 meters in its exploration well AKD01 in Akkulka Block and encountered two zones of potential moveable hydrocarbons. The lower Jurassic dolomite

successfully yielded over 1,500 bbls of oil to surface. The zone has 8.2 metres of net pay with a porosity of 16.9% and it appears to be regionally extensive. The oil flowed at over 1,000 bbls, however due to reduction in permeability immediately proximal to the wellbore, acidization was performed by third party. Following the acid stimulation well has been flowing at rates of up to 2,803bbl/day with approximately 50% of the flow is a 45 degree API crude oil, the remainder being hyper-saline brine and spent acid. The AKD01 covers most likely an area of some 60 km<sup>2</sup> (14,826 acres) according to the company. The upper Cretaceous sandstone has 9 meters thick of net pay with a porosity of 23% and a hydrocarbon saturation of 76%. On 8<sup>th</sup> February 2010, TPL announced initial results from upper zone which tested oil at 5,400 bopd. After testing on the upper zone, AKD01 has flowed oil at combined rate in excess of 6,800 bopd.

Figure 19. Estimated ROIP (mn bbls)		
	Lower Zone	Upper Zone
Area of closure (sq. km)	60	60
Average Net Pay (m)	8.2	9
Porosity	16.9%	23%
Recovery Factor	25%	25%
Hydrocarbon Saturation	76%	76%
Shrinkage factor	60%	60%
Conversion factor cm to bbl	6.29	6.29
ROIP	59.6	89.1
Appraisal Well Success Rate	20%	20%
Discounted ROIP	11.9	17.8
<b>Total</b>	<b>29.7</b>	

Source: Tethys Petroleum

Our volumetric resource estimate indicates the potential recoverable oil in place (ROIP) to be 149mn bbls. We use the well data provided by the company and make a number of assumptions to arrive at ROIP. We assume recovery factor of 25% and shrinkage factor of 0.6 which is an average for light oil in this region. Our calculations are conservatively discounted by 20% to account for appraisal risk and uncertainties related to our assumptions. We use 30mn bbls (discounted ROIP) in our DCF model.

## Tajikistan

### Key Advantages

TPL, the only international oil and gas company in Tajikistan, has concluded a first Production Sharing Contract in Tajikistan in 2008. TPL's assets are located in the southern Afghan-Tajik basin, an eastward extension of the prolific Amu Darya basin, where large gas discoveries were found in the Turkmenistan and Uzbekistan sections of the basin. With strong support from the Government of Tajikistan, TPL, the largest foreign investor in the country's oil and gas sector, is expected to benefit from strong domestic demand for gas at a relatively high price, amid declining gas supplies from Uzbekistan.

### Resources and Production

TPL engaged TRACS International Consultancy Limited (TRACS) to evaluate TPL's oil and natural gas reserves attributable to Beshtentak and Komsomolsk fields, located within the Tajikistan Contract Area. TRACS prepared a Reserve Report (in accordance with NI 51-101) dated May 20, 2009, based on information available as of March 31, 2009.

**Figure 20. Summary of Oil and Natural Gas Reserves Attributable to the Beshtentak and Komsomolsk Fields, as of March 31, 2009**

Reserve category	Light and Medium Crude Oil <sup>(1)</sup>		Natural Gas	
	Gross (mdbl)	Net <sup>(2)</sup> (mdbl)	Gross (mncm)	Net <sup>(2)</sup> (mncm)
Proved	-	-	92.4	65.2
Probable	13.7	9.6	78.4	56.7
2P	13.7	9.6	170.8	121.9
Possible	13.7	9.6	64.4	45.3
3P	27.4	19.1	235.2	167.2
<b>3P, 000 boe</b>	<b>27.4</b>	<b>19.1</b>	<b>1,479</b>	<b>1,052</b>

Source: TRACS Report, Eurasia Capital estimates

(1) includes condensate.

(2) TPL receives 70% of the additional oil and gas production.

**Figure 21. Gross prospective and contingent resources<sup>(1)</sup> attributable to the Bokhtar PSC**

Fields	Prospective Resources				Contingent resources		
	Low estimate	Best estimate	High estimate	Risked mid estimate	Low estimate	Best estimate	High estimate
<b>Komsomolsk</b>							
Gas Condensate Resources, mbbl	131.3	170.7	262.2	49.5	7.9	51.2	186
Natural Gas Resources, mncm	1,257.8	1,634.6	2,510	473.1	76.5	490.1	1,779
Resources, thboe	7,525	9,779.2	15,016.3	2,830.5	457.6	2,932	10,643.8
<b>Beshtentak</b>							
Crude Oil Resources, mbbl	6.6	11.7	17.7	3.4	110	610	4,350
Natural Gas Resources, mncm	257.8	456.1	784.7	141.6	0	127.5	150.1
Resources, thboe	1,522.4	2,693.5	4,631.8	835.6	110	1,359.4	5,232.6
<b>Khoja Sartez</b>							
Natural Gas Resources, mncm					59.5	65.1	68
Resources, thboe	-	-	-	-	349.7	383	399.7
<b>Total Company</b>							
Crude Oil Resources, mbbl	-	-	-	-	110	610	4,350
Gas condensate Resources, mbbl	-	-	-	-	7.9	51.2	186
Natural Gas Resources, mncm	-	-	-	-	136	682.7	1,997
Resources, thboe	-	-	-	-	917.3	4,674.4	16,276
<b>Total Prospects, mnboe</b>	<b>9</b>	<b>12.5</b>	<b>19.6</b>	<b>3.7</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Leads</b>							
Lead Resources, mnboe		1,132			-	-	-
<b>Total Bokhtar PSC Leads and Prospects mnboe</b>		<b>1,144.5</b>			<b>-</b>	<b>-</b>	<b>-</b>

Source: TRACS Report, Eurasia Capital estimates

(1) Low, best and high estimates are made according to the COGE Handbook definitions

Under the Bokhtar PSC, TPL recovers 100% of its costs from up to 70% of the total production, and the remaining is allocated 70% to KPL and 30% to the Tajik State. Therefore we assigned 91% of the resources to TPL. Also, in December, 2009, TPL established a joint venture Seven Stars Energy Corporation (SSEC) with an investment company Sangam. TPL transferred its 49% interest to Sangam and now holds 51% interest. Therefore, we assigned for TPL net gross unrisks mean resources risked at a conservative rate of 15% that resulted in total reserves plus net risked resources of 80mnboe attributable for TPL.

### Bokhtar Production Sharing Contract

TPL's wholly owned subsidiary Kulob Petroleum Limited (KPL) entered into a Production Sharing Contract (the "Bokhtar PSC") with the Government of Tajikistan on June 13, 2008. The 34,785 km<sup>2</sup> contract area, twice as the size of Kuwait and three times larger than Qatar, is located in the south-western part of Tajikistan, including almost all the Tajik portion of the Afghan-Tajik basin, the eastward part of the prolific Amu-Darya basin. The contract province includes the Kulob, Qurgonteppa and Dushanbe areas. The large prospective region has existing oil and gas discoveries but has seen limited exploration to date. There are over 50 different prospective structures in the contract area and several existing oil and gas fields, including the Beshtentak, Komsomolsk and Khoja Sartez fields.

The PSC entitles TPL the exclusive right to conduct oil and gas operations during the 25-year term of the PSC. TPL recovers 100% of its costs from up to 70% of the total production, and the remaining is allocated 70% to KPL and 30% to the Tajik State, whose share of the costs includes all taxes, levies and duties.

**Figure 22. Tajikistan: Bokhtar PSC Area**



Source: Tethys Petroleum

In December, 2009, TPL through its wholly owned subsidiary, Tethys Tajikistan Limited (TTL), established a joint venture Seven Stars Energy Corporation (SSEC) with an investment company Sangam, a Tajik partner. TPL holds a 51% interest and manage the new venture. As a result of the deal, TPL-wholly owned KPL has been transferred to SSEC giving Sangam a 49% indirect stake in KPL. Sangam will be responsible particularly for the commercial operations. In addition TTL has signed a loan agreement with SSEC to finance work programs and field development plans in Tajikistan.

**Figure 23. Fields Summary**

Field	Background	Production/Potential	Recent developments
Komsomolsk	27 prospecting and exploration wells drilled. The Jurassic reservoir was reached at 2,150 meters depth. Shut in 1987. Limited production continued until 1993.	About 2bcm produced in 1966-2000. Maximum production rate was in 1968 at 767 mcm per day.  TPL believes potential remains in East Komsomolsk where small amount of gas has been produced to date.	TPL has to date conducted workover activities on three wells. In August 2009, drilling operations commenced on the East Komsomolsk KOM200 appraisal well, the first new non-state well ever drilled in Tajikistan. As of December 9, 2009, the drilling reached 1,217 meters depth (planned 2,610 meters). TPL is now preparing the well to drill ahead to the primary targets in the deeper Hauterivian sandstones and Jurassic limestones. TPL plans to have the well on production in 1Q2010.
Beshtentak	Discovered in 1970. 45km north of the Kulob city.	24 operational wells, incl. 4 oil producing at up to 2,000 meters. Potential may increase if sufficient investment is attracted and technology is deployed.	Rehabilitation work is continuing on the BST80 well. Oil and gas have been recovered from the well which is now about to be acidized. If successful, the BST80 well will be put on production. Gas can be delivered to the Kulob city via an operational gas pipeline system on the field, while oil can either be refined locally or exported. Five well have been identified on the field for further rehabilitation.
Khoja Sartez	Located on the north east part of one of the several large salt domes in the Kulob area	In December 2008, gas was successfully tested from the Khoja Sartez 22 well at estimated rates up to 80,000 m <sup>3</sup> per day. Initial limited gas supply was commenced and was delivered through a 12km pipeline.	Delivery of gas under the Tajik Gas Supply Contract was suspended in March 2009 when production from one producing well in the field was halted due to a rehabilitation need.  In January last year KPL signed a 1-year gas sales contract with Kulyabgaz, a state-owned company, to supply gas to the Kulob city at a fixed price of 300 Tajik Somoni/mcm (appr. US\$86/mcm at the exchange rate effective at that time) and the initial contract was to supply up to 65 mcm/day.
East Olimtoi well (EOL09)	South-east part of the Bokhtar PSC area, south of Kulob and north of the Panj river. The planned total depth of the well is 3,800 - 4,500 meters	Being drilled now. It is targeting potential reservoirs in the Paleogene sequence, which is productive further north in both the Beshtentak oil field and Khoja Sartez gas condensate field.	As of December 2009, casing was set and cemented on the well at a depth of 2,910m. TPL is now preparing to upgrade the drilling system for the next section of the well. It is also verifying the target location using the seismic data recently it acquired.

## Marketing

TPL through its subsidiary, KPL, signed a 1-year gas sales contract with OJSC Kulyabgaz in January 2009 to supply gas to the Kulob city. However, the contract was suspended in March 2009 due to a halt in one of the producing wells. KPL had a contractual obligation to supply 65 mcm/day at a fixed price of 300 Tajik somoni/mcm (appr.US\$86/mcm). A limited volume of gas was initially supplied and delivered through a 12 km pipeline from the Khoja Sartez Field to the Kulob city.

TPL is also considering concluding a similar contract to supply the capital city of Dushanbe from the Komsomolsk field operations at an expected higher price due to the high demand there. TPL believes that the Tajik side is interested in diversifying its gas purchase sources, in particular, amid falling supply commitments by Uzbekistan, Tajikistan's largest gas supplier. Although no specific agreements have been reached yet, the price of gas for Dushanbe market, likely to be pegged to the import price, is believed to be favorable for TPL. In December 2009, the Government of Tajikistan agreed with the Government of Uzbekistan to purchase 250 mncm of the Uzbek gas in 2010, as opposed to the offered 400 mncm, at an estimated US\$200-240/mcm.

## Uzbekistan

### Key Advantages

TPL is the only international junior oil producer in Uzbekistan. Producing oil at North Urtabulak, the second largest oilfield in Uzbekistan, TPL is seeking more exposure to exploration, development and production opportunities across the country. Having proven to be a committed and reliable partner and having established strong relationships with UzbekNefteGas National Holding Company and the government agencies, TPL is well positioned to expand further in Uzbekistan. TPL enjoys favorable tax, foreign exchange, customs regimes and other exemptions provided with the national and international agreements Uzbekistan has signed with foreign countries. TPL is free from local content requirements and uses stable and sufficient supply of power, natural gas, water and other infrastructure services.

### Production And Resources

It was estimated that the oil field initially had 129 mn bbls in place. Given that over 53 mn bbls had been produced as of December 31, 2008, and 47% of reserves were recoverable, according to the UzbekNefteGas estimates, TPL believes that over 7 million barrels left to be recovered. TPL is, therefore, striving to squeeze all the recoverable oil by applying advanced methods.

There are 24 wells in TPL's inventory, out of which 16 at full production. Current average production is over 2,000 bbl/day, 1,000 bbl/day net to TPL.

### Production Enhancement Contract

TPL currently produces oil at the North Urtabulak Field in Uzbekistan under the Production Enhancement Contract (PEC) between Rosehill Energy (now the subsidiary of TPL) and UzbekNefteGas. Under the contract, TPL:

- conducts workovers of existing wells,
- drills a new vertical development well into a salt hazard area at the North Urtabulak Field, and
- implements additional joint projects with UzbekNefteGas nearby Umid and South Kemachi Fields.
- The PEC requires TPL to incur 100% of the costs of workovers on existing wells and the drilling of new wells. TPL's share is 50% of the incremental production in the first 3 years and 20% for the next 5 years. The terms are reset once TPL does any additional work on a well during the period or later.

The PEC terminates eight years after the date of the first incremental production from the final well drilled or used in the field by TPL during the term of the PEC.

**Figure 24. Projects Development**

Year	Event
1997-1998	Field reviewed by Baker Hughes
1999	PEC signed; Baker Hughes begins field operations
2006	Rosehill Energy acquired PEC (now acquired by TPL), the 1 <sup>st</sup> horizontal well drilled
2007	The 1 <sup>st</sup> vertical well in Salt Hazard Area drilled
2009	TPL acquired PEC

Source: Tethys Petroleum

TPL expects to begin work on additional wells in 2010, which would have the effect of resetting the eight year period each time a well is completed and production obtained. No reserves or resources have been attributed to TPL under the PEC.

### Marketing

TPL pumps oil from the wells it operates first, then flows oil to its storage tanks through pipelines. Once in the container, TPL assesses the quality of the oil jointly with UzbekNefteGas. UzbekNefteGas's larger storage tanks gather the oil from the wells in the field including those of TPL and transport to the Ferghana Oil Refinery Plant. TPL uses jointly appointed marketing agents to sell its share of the refined products for export and receives the proceeds in its offshore account. Oil price TPL sells at is not fixed and reflects international market conditions. The average realized price (ex-field) is about 50% of the Brent Oil price.

### Expansion Plans and Opportunities

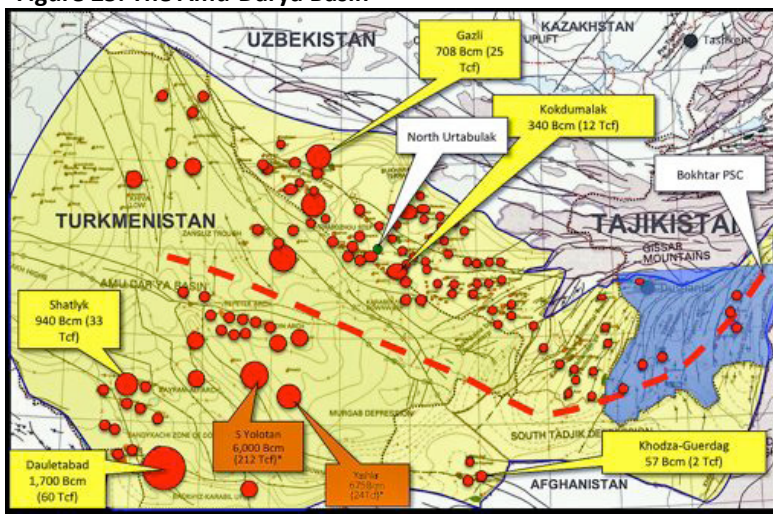
TPL believes that Uzbekistan has strong exploration opportunities, in particular in the Amu-Darya and Ustyurt basins. At the beginning of January, 2010, the President of Uzbekistan signed a resolution suggesting UzbekNefteGas to support the TPL's activities in the oil and gas industry in Uzbekistan. The decision enables TPL to further expand to perspective areas and increase oil production on existing fields in the country, including in the following focus areas:

- **Increasing production at the North Urtabulak oil field.** TPL's new field development well, NUR116, is drilling on schedule and has reached 2,007 meters depth with planned 2,475 meters. TPL is currently completing a dynamic reservoir model for the field, to assist in field development planning, and is in the process of introducing several new techniques to increase production including radial drilling and organic acid stimulation. TPL believes there is substantially more recoverable oil remaining in the field by tapping in other wells in the field. Currently there are over 100 wells that belong to UzbekNefteGas.
- **Chegara.** TPL believes Chegara oil field, almost the size of the North Urtabulak field, is located in the same Amu-Darya basin. Being recoverable in the 10<sup>th</sup> million of barrels, Chegara is at the late maturity stage and much less developed compared to the North Urtabulak field, therefore needs to drill more wells and carry out more development works. Chegara now contains 12 wells suitable for workovers that belong to UzbekNefteGas. TPL is committed to take on Chegara once an agreement is reached with UzbekNefteGas.
- **New explorations in the Ustyurt basin.** TPL believes there is substantial exploration potential in the Ustyurt basin in northern Uzbekistan that contains several billion cubic meters of gas with active operations by global energy players like Lukoil, Petronas, CNPC are

KNOC. TPL has recently announced a new exploration oil discovery in Akkulka, located in the Ustyurt basin in Kazakhstan. Having achieved the positive results in Kazakhstan, TPL believes it can add value to exploration works in similar geology in Uzbekistan.

- **Other fields in the Amu-Darya basin.** TPL is seeking opportunities in other fields in the Uzbekistan section of the Amu-Darya basin, a very promising area for large energy companies for its vast oil and gas exploration potential. The South Yolotan-Osman gas field in Turkmenistan, the world's fifth largest with best estimate of 6 trillion cubic meters in reserves, is also located in this basin.

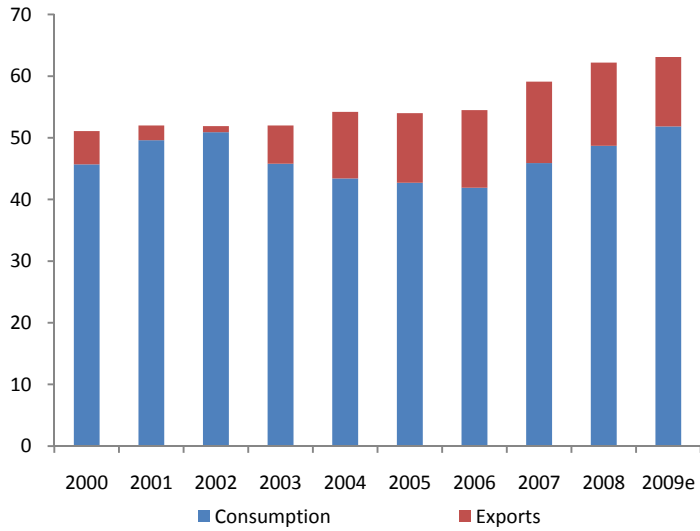
Figure 25. The Amu-Darya Basin



Source: Tethys Petroleum

TPL has an attractive market potential on the back of recent developments in gas trade of Central Asia with Russia and China. Turkmenistan is likely to diversify its gas export channels by committing less supply to Russia, increasing its export to Iran and launching gas trades with China. Uzbekistan, who has been offering more gas to the Russian gas monopoly in recent years, may benefit from these developments. Turkmenistan cut gas supplies to Gazprom to 30 bcm for 2010 from the previous 50bcm, while Uzbekistan reached an agreement to increase the volume to 15.5 bcm in 2010 from 11.25 bcm last year. TPL will likely be well positioned in such situation once the Company reaches an agreement with UzbekNefteGas on taking opportunities in the Ustyurt basin given the proximity to the Gazprom's gas transport system.

Figure 26. Uzbekistan: Gas Production by use (2000-2009, bcm)



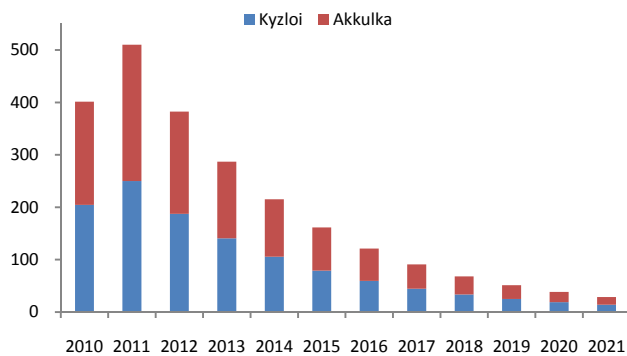
Source: BP Statistical Review of World Energy, June 2009, Eurasia Capital estimates

## Production & Sales

Kyzloi shallow wells are producing on average at 70mcm/well per day according to TPL's management. There are 8 wells in Kyzloi field and we forecast production from this field to peak at 250 mcm in 2011. TPL is planning to drill 2 more shallow wells in Kyzloi in 2010-11. Akkulka shallow gas wells (currently six) are ready for production and are expected to be onstream in February 2010 once the gas purchase agreement is signed. Akkulka field has higher pressure than Kyzloi, and production is expected to run at 90mcm/well per day. There are 6 wells in Akkulka field and gas production will peak at 260mcm in 2011 in our model. We assume gas production to decline after reaching peak at 25% rate.

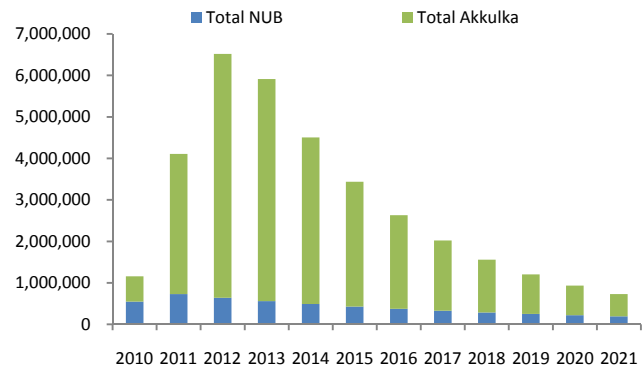
TPL has entered into a take-or-pay contract with KPC in 2007 and can deliver up to 850mcm from Kyzloi field. The contract expires on 1 December 2012. The price of gas is fixed at US\$32/mcm excluding 12% VAT, however VAT on capital expenditures can be offset against VAT on gas revenues, giving TPL an effective gas price of 35.8 per mcm. Gas beyond the contract period and gas from Akkulka pool will be sold on market terms. We forecast a flat price of US\$90/mcm for Kyzloi gas from 2013 and Akkulka gas from 2011.

Figure 27. Gas production forecast (mcm)



Source: Eurasia Capital estimates

Figure 28. Oil production forecast (bbls)



Source: Eurasia Capital estimates

TPL discovered oil at Akkulka and AKD01 deep well tested 6,800 bbl/day of 45° oil from the lower Jurassic dolomite and the upper Cretaceous sandstone. Initial oil production is expected to begin in summer 2010 which will be trucked and sold on domestic market. We forecast total oil production from Akkulka to be 30mn bbls in line with our estimated oil reserves in Akkulka. We believe our oil production forecasts to be conservative given the successful drilling of AKD-01 and potential oil reserves of 150mn bbls in the lower Jurassic and the upper Cretaceous.

Given that substantial infrastructure investments are required (please see section "Investment Program"), we expect that oil will initially be sold to

domestic refineries at US\$35/bbl in 2010. TPL will export oil production from 2012 in our model, with a sales mix of 80% export and remaining oil sold domestically. We forecast a flat Brent price of US\$80/bbl from 2013 and TPL's realized export price to have a US\$15/bbl discount to Brent price.

Oil production from North-Urtabulak field (NUB) in Uzbekistan has averaged at 1,000 bbl/day in 2009. New deep well drilling is progressing as scheduled and is expected to be completed in mid February. The management is planning to carry out work-out on a number of wells in 2010 which will include radial drilling, side tracking, acidization and water isolation. TPL's management is planning to double the oil production from Uzbekistan and reach 2,000 bbl/day in 2010. We forecast average production of 1,500 bbl/day in 2010 and peak production of 2,000 bb/day in 2011 in our model. We assume oil production to decline after reaching peak at 12.5% rate. TPL has put a new marketing team with an objective to improve pricing of its oil coming from NUB field. We forecast an average oil price of US\$30/bbl in 2010, US\$35/bbl in 2011 and US\$40/bbl thereafter.

Figure 29. Production and Sales Forecast												
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Price</b>												
Uzbekistan	30	35	40	40	40	40	40	40	40	40	40	40
Brent Crude	65	65	75	80	80	80	80	80	80	80	80	80
TPL realized export price	50	50	60	65	65	65	65	65	65	65	65	65
Kazakhstan Oil Domestic	32.5	32.5	37.5	40	40	40	40	40	40	40	40	40
Kakhstan Kyzloi Gas	35.8	35.8	35.8	90	90	90	90	90	90	90	90	90
Kakhstan Akkulka Gas	63	90	90	90	90	90	90	90	90	90	90	90
<b>Oil Production ('000 bbls)</b>												
Uzbekistan	539	720	630	551	482	422	369	323	283	247	216	189
Kazakhstan Oil Export	0	0	4,632	4,217	3,163	2,372	1,779	1,334	1,001	751	563	422
Kazakhstan Oil Domestic	603	3,328	1,158	1,054	791	593	445	334	250	188	141	106
<b>Total</b>	<b>1,142</b>	<b>4,048</b>	<b>6,420</b>	<b>5,823</b>	<b>4,436</b>	<b>3,387</b>	<b>2,593</b>	<b>1,991</b>	<b>1,534</b>	<b>1,186</b>	<b>920</b>	<b>717</b>
<b>Gas Production (mncm)</b>												
Kyzloi	204	250	188	141	105	79	59	44	33	25	19	14
Akkulka	197	260	195	146	110	82	62	46	35	26	20	15
<b>Total</b>	<b>402</b>	<b>510</b>	<b>383</b>	<b>287</b>	<b>215</b>	<b>161</b>	<b>121</b>	<b>91</b>	<b>68</b>	<b>51</b>	<b>38</b>	<b>29</b>
<b>Revenue</b>												
Uzbekistan Oil	16	25	25	22	19	17	15	13	11	10	9	8
Kazakhstan Oil Export	0	0	278	274	206	154	116	87	67	51	38	29
Kazakhstan Oil Domestic	20	108	43	42	32	24	18	13	10	8	6	5
Kyzloi	7	9	7	13	9	7	5	4	3	2	2	1
Akkulka	12	23	18	13	10	7	6	4	3	2	2	1
<b>Total Gross Revenue</b>	<b>56</b>	<b>166</b>	<b>371</b>	<b>364</b>	<b>276</b>	<b>209</b>	<b>159</b>	<b>121</b>	<b>95</b>	<b>74</b>	<b>57</b>	<b>44</b>

Source: Eurasia Capital estimates

## Taxation in Kazakhstan

Tax legislation in Kazakhstan refers oil and gas companies operating in the country to “subsurface users”. Oil and gas companies in Kazakhstan (“the companies”) enter into subsurface use contracts to acquire the rights to exploit the mineral resources of the country. There are two types of subsurface use contracts in Kazakhstan: a production sharing agreement (PSA) and an excess profit tax (EPT) contract. The tax regime described in this section does not apply to PSAs and contracts specifically approved by the President of Kazakhstan. The major taxes that may have material effect on the oil and gas companies in Kazakhstan are summarized in Figure 30.

**Figure 30 . Major Taxes Summary**

Tax types	Rate
Bonuses	variable
Mineral Extraction Tax	1.5% to 20%
Excess Profit Tax	0% to 60%
Rent tax on export	2% to 32%
VAT	12%
Crude oil export duty	0%

Source: Kazakh legislations

### Bonuses

The companies are subject to pay two types of bonuses: signature bonus and commercial discovery bonus.

- Signature bonus - a lump-sum payment paid by a company for the right to use the subsurface.
  - For oil exploration contracts, the bonus is fixed at 2,800 MCI (Monthly calculation index), equivalent to approximately KZT3,956,400 in 2010 (appr. US\$26,719 as of January 27, 2010).
  - For oil production contracts, the bonus is fixed at 3,000 MCI, equivalent to appr. KZT4.2mn (appr. US\$28,628) in case reserves have not been approved. Where reserves have been approved, the bonus is calculated by a formula which applies a 0.04% rate to the approved reserves and 0.01% to the provisionally approved reserves.
- Commercial discovery bonus - fixed at 0.1 % of the value of proven extractable resources and paid by the companies when a commercial discovery is made on the contract area. The value of the mineral resources is determined using the price established at the International (London) Petroleum Exchange in Platts.

### Excess Profit Tax (EPT)

EPT is paid when the portion of income that after Corporate Income Tax is paid exceeds 125% of the sum of certain deductions defined by the legislation. EPT is calculated annually by applying the rates, indicated in Figure 31, to the tranches of excess income. Each tranche is determined by applying the ratio to the deductions and taking from it the previous tranches, until the limit of taxable income is reached.

**Figure 31. Excess Profit Tax Rates**

Ratio of income to deductions	EPT rate
≤ 1.25	0%
1.25 - 1.3	10%
1.3 - 1.4	20%
1.4 - 1.5	30%
1.5 - 1.6	40%
1.6 - 1.7	50%
1.7 ≤	60%

### Mineral Extraction Tax (MET)

MET is paid from the production value that is based on the international prices. The tax rates depend on the volume of production (see Figure 32). If the production is processed domestically either by the producer or by a purchaser, the rates are cut by 50%. A 10% flat rate applies in the case of natural gas that is exported, and if sold domestically, then rates are lowered to 0.5% - 1.5% depending on the annual production.

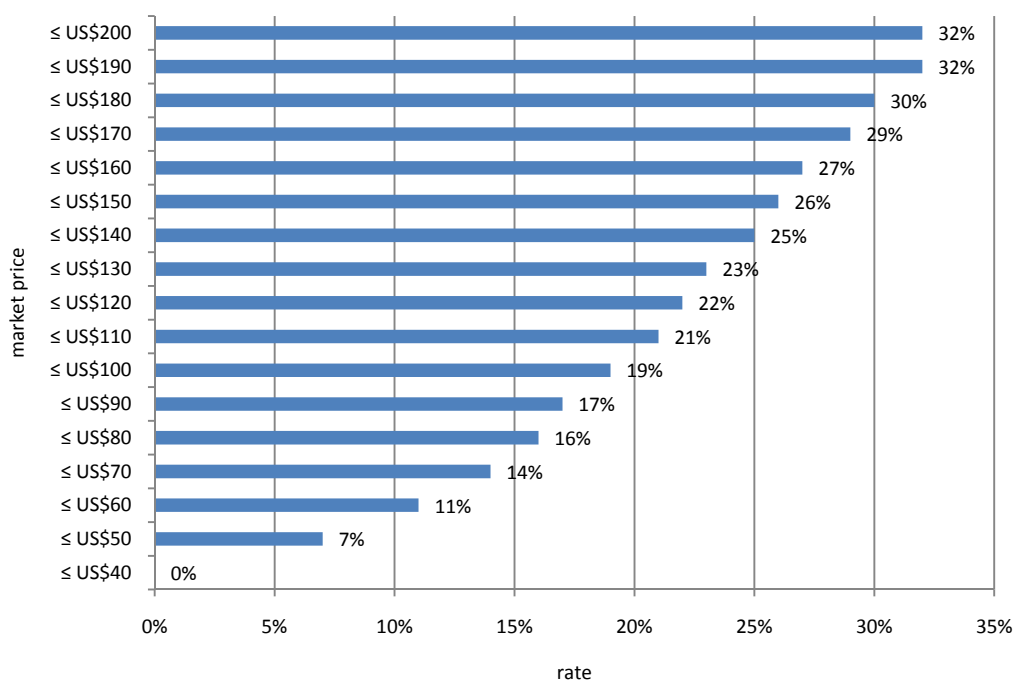
**Figure 32. Mineral Extraction Tax**

Annual production of crude oil, including gas condensate (000 tons)	Rate		
	2009	2010	2011
≤ 250	5%	6%	7%
≤ 500	7%	8%	9%
≤ 1,000	8%	9%	10%
≤ 2,000	9%	10%	11%
≤ 3,000	10%	11%	12%
≤ 4,000	11%	12%	13%
≤ 5,000	12%	13%	14%
≤ 7,000	13%	14%	15%
≤ 10,000	15%	16%	17%
> 10,000	18%	19%	20%

### Rent Tax on Export

The Rent Tax on Export is paid by oil and gas condensate exporter companies from the value of the exported crude oil depending on the international prices. The tax period of this tax is a calendar quarter.

**Figure 33. Rent Tax on Export (US\$/bbl)**



Source: Kazakh legislations

### Corporate Income Tax (CIT)

CIT rate in 2009 was 20% and is 17.5% in 2010 and 15% in 2011.

**Value added tax (VAT) and Export Duties**

VAT rate is 12%. Crude oil, natural gas, and gas condensate sold domestically are subject to 12% VAT. 0% rate applies for export sales and international transportation services (including transportation of oil and gas via trunk pipelines). Since February 1, 2005, export of natural gas, crude oil and gas condensate to Russia is taxed at 0% rate in Kazakhstan, pursuant to a bilateral agreement.

Customs export duty on crude oil is paid at the rate adjusted periodically in line with international prices. Currently there is no export duty on oil and gas.

## Strategic Priorities

TPL differentiated itself in its approach to oil & gas exploration and development business. It has developed shallow gas assets with low capex and high profitability which is providing stable, internally generated cash to the company. At the same time TPL acquired large exploration properties with significant upside potential and company's exploration efforts are giving tangible results. Such an approach not only allowed the company to survive what seemed to be difficult times for junior and major resource companies alike but also to gain strong foothold in Central Asia. Today, TPL is in position to realize its significant growth potential. Oil production can increase from current 1,000 bbls/day to over 17,856 bbls/day in 2012 representing 160% CAGR on our estimates.

### Development of Oil & Gas Assets

In the very short term, TPL is likely to intensify its efforts to sign a gas purchase agreement for shallow gas from standing by Akkulka pools. This will increase immediate cash flows to TPL. In the short to mid-term, TPL is likely to focus on appraising and developing deep Akkulka oil resources. This will include drilling 6 deep wells on our estimates and if successful, constructing oil infrastructure which is likely to include oil processing facility and at least 240km pipeline. The pipeline could connect to either Shalqar or Embiz (major oil offloading system in Kazakhstan) stations. TPL is also planning to drill deep exploration well on Kul-Bas property towards the end of 2010.

In Uzbekistan, the company will focus on growth through getting more wells suitable for work-overs in NUB and taking over Chegara field. There are over 100 wells on NUB although not all of them are suitable for work-overs. UNG, owner of NUB field, has shown interest in letting TPL to do work-overs on other wells on NUB field. In addition, TPL is the best candidate to conclude another PEC on Chegara field. We expect TPL to get Chegara in 2H2010 or early 2011. We also note that TPL is likely to apply for exploration block in Uzbekistan in North-Ustyurt Basin.

The development of Tajik assets requires substantial capital expenditure. TPL has indicated that it is ready to share the risks and expenses of Tajik assets development possibly with strategic investor. In our view, the Tajik assets are likely to be farmed-out which will avoid shareholders' dilution and at the same time retain reasonable upside from sizable discovery there.

### Funding

TPL has filed an application for a secondary listing on the Hong Kong Stock Exchange (HKEx) to establish itself among Asian investment community. We estimate that TPL will require US\$25mn financing which will largely be used to develop its projects in Kazakhstan and to the lesser extent finance

development in Uzbekistan. If the company is unable to raise the necessary funds through the HKEx, we expect it to turn to its institutional shareholders, who so far have been very supportive of the company evidenced by numerous successful private placements. Another possibility is to make share offering on the Toronto Stock Exchange, where lately risk appetite for equity of resource companies and fund raising has returned to the market.

## Financials

### Key Assumptions

- We model oil and gas production according to TPL's guidance and industry practices. We assume that gas in Kyzloi and Akkulka will peak in 2011 at 1.4 mcm/day and will decline thereafter at 25% rate. Oil production in Kazakhstan will reach peak production in 2012 at 16,103 bbl/day and will consequently decline at 30% rate. Uzbekistan oil production will reach peak in 2011 at 2000 bbl/day and decline at 12.5% after that (please see section "Production & Sales" for more details).
- Our long-term Brent price forecast is US\$80/bbl and short-term is US\$65/bbl. Long term gas prices are conservatively forecasted at US\$90/mcm (less than 50% of the current Uzbek-border gas price of over US\$200/mcm) (please see section "Production & Sales" for more details).
- We estimate production costs at US\$5/mcm for gas and US\$10/bbl for oil in Kazakhstan and in Uzbekistan operational cash costs are estimated at US\$16/bbl. We increase our operational costs at inflation rate.

**Figure 34. Cash costs (excluding taxes, US\$/boe)**

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Production costs	3.1	5.9	8.0	8.6	8.8	9.1	9.3	9.5	9.8	10.0	10.2	10.5	10.6
Transportation and selling expenses	0.8	2.4	3.6	4.0	4.0	4.1	4.1	4.2	4.2	4.2	4.3	4.3	4.2
General and administrative Expenses	5.4	7.2	9.3	10.0	10.4	10.8	11.2	11.8	12.4	13.1	13.9	14.9	16.0
<b>Total per boe</b>	<b>9.4</b>	<b>15.5</b>	<b>21.0</b>	<b>22.5</b>	<b>23.2</b>	<b>23.9</b>	<b>24.7</b>	<b>25.5</b>	<b>26.3</b>	<b>27.3</b>	<b>28.4</b>	<b>29.6</b>	<b>30.8</b>

Source: Eurasia Capital estimates

- The oil from from Akkulka block will initially be trucked to either Embi or Shalqar train station. Embi is major oil offloading system and is located around 400km away from Akkulka Block, while Shalqar is 250 - 280km away. However we expect TPL to build a pipeline once it confirms sufficient recoverable reserves to justify the pipeline construction. We estimate oil transportation costs at US\$5/bbl.
- TPL has debt of US\$5.66mn and has to be repaid by the end of 2011 according to their latest filing of 3Q financial statements. We use 21% interest rate on TPL's current debt, and assume repayment in 2011.
- We estimate that over 2010-2012, SGQ's investment program will amount to US\$136mn excluding maintenance expenditures. This includes US\$24mn in 2010, US\$70mn in 2011 and US\$45mn in 2012 (please see section "Investment Program" for more details).
- There are four type of taxes applied in oil & gas in Kazakhstan:
  - Export Rent (levied on price)

- Mineral Extraction Tax (MET levied on price)
- Income Tax (levied on income after expenses including Export Rent and MET)
- Excess profit Tax (EPT levied on excess profit)
- TPL will pay MET on its gas sales, however will not pay EPT on its oil sales on our estimates due low income margin. This can change if TPL realizes higher margin than that projected in our model (Please see section “Fiscal Regime” for more details).
- In Uzbekistan, TPL is liable only to pay 15% income tax from North-Urtabulak operations. We assume the same tax rate for potential operations in Chegara field.
- In Tajikistan, TPL is party to PSA for the term of 25 years with very favorable conditions. TPL can use up to 70% of its output to recover costs, and the remaining 30% is divided 70%-30% between TPL and Tajik Government.

## Investment Program

We forecast that over 2010-2012, SGQ’s investment program will amount to US\$136mn excluding maintenance expenditures. This includes US\$24mn in 2010, US\$70mn in 2011 and US\$45mn in 2012. We note that these numbers are based on current TPL 3P gas reserves in Kazakhstan, estimated oil reserves in deeper Jurassic in Akkulka, Kazakhstan, North-Urtabulak and possible Chegara fields in Uzbekistan. Projected TPL’s investment program does not take into account possible future developments once planned exploration programs reveal additional oil reserves in upper Cretaceous sandstone and Kul-Bas properties.

Figure 35. CapEx Projections (US\$)			
	2010	2011	2012
<b>Kazakhstan</b>			
Shallow Gas Drilling	550,000	550,000	0
Gas Infrastructure	0	5,000,000	0
Deep Well Drilling Akkulka	6,500,000	18,000,000	12,000,000
Deep Well Drilling Kul-Bas	3,000,000	3,000,000	0
Akkulka Oil Infrastructure	10,000,000	40,000,000	25,000,000
<b>Uzbekistan</b>			
Deep Weel 115	2,000,000	0	0
Radial Drilling	300,000	300,000	300,000
Side tracking	220,000	220,000	220,000
Acid Stimulation	300,000	300,000	300,000
Water Isolation	100,000	100,000	100,000
<b>Total</b>	<b>22,970,000</b>	<b>67,470,000</b>	<b>37,920,000</b>

Source: Eurasia Capital estimates

Our estimate of TPL's investment program includes the following:

- TPL is planning to drill two more shallow gas wells at US\$550,000 per well. The company also expects to upgrade its gas processing plant at around US\$5mn in 2011.
- We forecast that the company will have to drill 6 more deep wells in Akkulka at US\$6mn each. Our forecast is based on the estimated oil reserves in lower Jurassic (11.9mn). In addition, TPL may drill an exploration well in Kul-Bas property close to the end of 2010. We do not factor in possible oil discovery from Kul-Bas property.
- The company will have to build an oil pipeline (at least 250km) if it establishes sufficient oil reserves that would justify the pipeline construction. We estimate the cost of the pipeline to be around US\$50mn. In addition, TPL will require oil processing facility at estimated cost of around US\$25mn.
- In Uzbekistan, TPL is drilling a 2500 m deep well and progressing according to the schedule. When we visited North-Urtabulak field on January 6<sup>th</sup> 2010, the company reached 1810 m depth and on January 11, TPL announced that the drilling reached 2007 m. We expected the well drilling to be completed in mid February. The cost of drilling is US\$4mn with US\$2mn paid in 2009 and remaining to be paid in 2010.
- TPL is planning to carry out number of work-over jobs on North-Urtabulak field including radial drilling, side tracking, acidization and water isolation. Radial drilling and side tracking are extremely profitable jobs with average pay back period of 5 to 6 months. We estimate workover capex to be slightly over US\$2.7mn.

## Forecasted Income Statement, Balance Sheet &amp; Cash Flow Statement

Figure 36. Income Statement (US\$ mn)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Oil and gas sales</b>	<b>56</b>	<b>166</b>	<b>371</b>	<b>364</b>	<b>276</b>	<b>209</b>	<b>159</b>	<b>121</b>	<b>95</b>	<b>74</b>	<b>57</b>	<b>44</b>	<b>32</b>
Royalties & Taxes	(1)	(10)	(58)	(51)	(38)	(41)	(31)	(21)	(16)	(12)	(9)	(7)	(5)
Operating costs	(11)	(43)	(71)	(66)	(51)	(40)	(31)	(25)	(19)	(15)	(12)	(9)	(8)
SG&A	(23)	(70)	(115)	(107)	(84)	(66)	(52)	(41)	(33)	(26)	(21)	(17)	(14)
DD&A	(13)	(23)	(24)	(20)	(16)	(13)	(11)	(9)	(8)	(7)	(7)	(6)	(6)
<b>EBIT</b>	<b>7</b>	<b>23</b>	<b>116</b>	<b>127</b>	<b>91</b>	<b>50</b>	<b>34</b>	<b>25</b>	<b>19</b>	<b>13</b>	<b>8</b>	<b>4</b>	<b>(0)</b>
Interest Expense	(1)	(1)	0	0	0	0	0	0	0	0	0	0	0
Income taxes	(1)	(4)	(17)	(19)	(14)	(8)	(5)	(4)	(3)	(2)	(1)	(1)	(0)
<b>Net Income</b>	<b>5</b>	<b>17</b>	<b>85</b>	<b>100</b>	<b>72</b>	<b>41</b>	<b>28</b>	<b>21</b>	<b>15</b>	<b>11</b>	<b>6</b>	<b>3</b>	<b>(1)</b>

Figure 37. Balance Sheet (US\$ mn)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Intangible assets	28	28	28	28	28	28	28	28	28	28	28	28	28
Property, plant and equipment	94	140	155	135	120	108	98	89	82	76	70	65	60
Investments	1	1	1	1	1	1	1	1	1	1	1	1	1
Other receivables	5	5	5	5	5	5	5	5	5	5	5	5	5
Inventories	1	3	8	13	17	20	22	18	14	11	8	7	5
Trade and other receivables	5	14	30	30	23	17	13	10	8	6	5	4	3
Cash & cash equivalents	37	5	65	178	263	314	350	384	410	431	445	456	462
<b>Total assets</b>	<b>169</b>	<b>194</b>	<b>292</b>	<b>390</b>	<b>456</b>	<b>492</b>	<b>516</b>	<b>534</b>	<b>547</b>	<b>556</b>	<b>561</b>	<b>563</b>	<b>562</b>
Total Shareholders' Equity	155	174	259	360	432	473	501	522	537	548	554	557	557
Financial liabilities	6	0	0	0	0	0	0	0	0	0	0	0	0
Other-non-current payables	1	1	1	1	1	1	1	1	1	1	1	1	1
Financial liabilities - borrowings	1	0	0	0	0	0	0	0	0	0	0	0	0
Financial liabilities - warrant	1	1	1	1	1	1	1	1	1	1	1	1	1
Trade and other payables	6	19	31	29	23	18	14	11	9	7	6	4	4
<b>Total Liabilities &amp; Equity</b>	<b>169</b>	<b>194</b>	<b>292</b>	<b>390</b>	<b>456</b>	<b>492</b>	<b>516</b>	<b>534</b>	<b>547</b>	<b>556</b>	<b>561</b>	<b>563</b>	<b>562</b>

Figure 38. Cash Flow Statement (US\$ mn)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Net Income</b>	<b>5</b>	<b>17</b>	<b>85</b>	<b>100</b>	<b>72</b>	<b>41</b>	<b>28</b>	<b>21</b>	<b>15</b>	<b>11</b>	<b>6</b>	<b>3</b>	<b>(1)</b>
DD&A	13	23	24	20	16	13	11	9	8	7	7	6	6
Other Operating Items	1	1	0	0	0	0	0	0	0	0	0	0	0
Change in Net Working Capital	0	2	(10)	(7)	(3)	(2)	(2)	4	4	3	3	2	2
<b>Cash Flow From Operations</b>	<b>20</b>	<b>42</b>	<b>99</b>	<b>114</b>	<b>85</b>	<b>52</b>	<b>38</b>	<b>35</b>	<b>28</b>	<b>21</b>	<b>16</b>	<b>11</b>	<b>7</b>
Capital Expenditures	(28)	(68)	(39)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
<b>Free Cash Flow</b>	<b>(9)</b>	<b>(26)</b>	<b>60</b>	<b>113</b>	<b>84</b>	<b>51</b>	<b>37</b>	<b>34</b>	<b>27</b>	<b>20</b>	<b>15</b>	<b>10</b>	<b>6</b>
Financing Cash Flow	31	(6)	0	0	0	0	0	0	0	0	0	0	0
Net Change In Cash	22	(32)	60	113	84	51	37	34	27	20	15	10	6
<b>Cash, period beginning</b>	<b>15</b>	<b>37</b>	<b>5</b>	<b>65</b>	<b>178</b>	<b>263</b>	<b>314</b>	<b>350</b>	<b>384</b>	<b>410</b>	<b>431</b>	<b>445</b>	<b>456</b>
<b>Cash, period end</b>	<b>37</b>	<b>5</b>	<b>65</b>	<b>178</b>	<b>263</b>	<b>314</b>	<b>350</b>	<b>384</b>	<b>410</b>	<b>431</b>	<b>445</b>	<b>456</b>	<b>462</b>

Source: Eurasia Capital estimates

## Company Profile

### Background

TPL is an oil and gas exploration and production company, with operations in Central Asia, including Kazakhstan, Tajikistan and Uzbekistan. TPL's properties are located primarily in and the North Ustyurt, the Amu Darya and the Afghan-Tajik basins. TPL with US\$120mn in marketcap has primary listing on the Toronto Stock Exchange and secondary listing on the RFCA Exchange in Almaty.

The Company was incorporated under the name "Tethys Petroleum Investments Limited" (TPIL), pursuant to the laws of Guernsey, on 12 Aug 2003, specifically to hold certain interests of CanArgo in Central Asia. Until 1Q2007 the Company was a wholly-owned subsidiary of CanArgo, a US public oil and gas company with operations primarily in Georgia. Given the significant capital needs to develop TPIL, in 2006 TPIL was separated from CanArgo to raise financing independently. TPIL changed its name to "Tethys Petroleum Limited" on September 22, 2006.

### Ownership

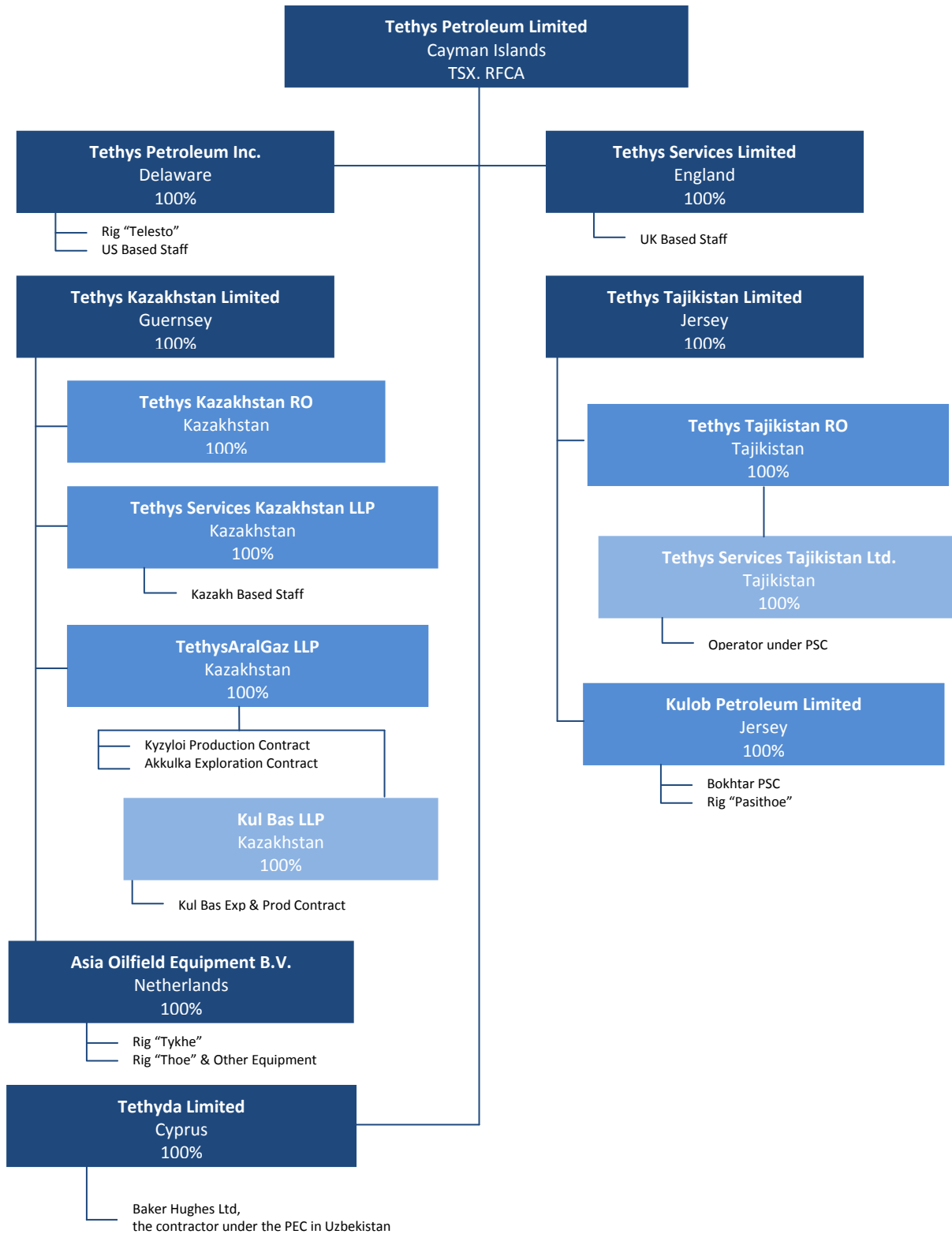
TPL has issued and outstanding common shares of 157,169,769 as of January 25, 2010. The major shareholder of TPL is Pope Asset Management (17.5 mn shares – 12.99%). Institutional Investors own most of the remaining common shares. We estimate the free float at 81.7% after excluding shareholders with larger than 5% holding. Figure 36 contains shareholders with ownership larger than 0.5% of total shares outstanding.

Pope Asset Mgmt	12.99%
JP Morgan Asset Mgmt	5.33%
MacKenzie Financial Corp	1.86%
Ashmore Investment Mgmt	0.89%
Societe Privee De Gestion	0.68%
Julius Baer MultiCooperation	0.66%
Mr David Robson	0.55%
Others	77.04%

Source: Bloomberg

TPL was a wholly owned subsidiary of CanArgo until 2007. In June 2007 TPL made an IPO on the Toronto Stock Exchange and raised US\$50mn at US\$2.75 per share. Since then the company raised US\$50mn at US\$2.35 and US\$20mn at US\$0.387 in June 2008 and June 2009 respectively in public offerings. TPL raised US\$5mn at US\$0.50 per share in December 2009 and US\$10mn at US\$0.79 per share in January 2010 in private placements.

Figure 37. TPL Corporate Structure



Source: Tethys Petroleum

## Management

Tethys Petroleum's Toronto Stock Exchange listing ensures the company's compliance with high standards of corporate governance, subjecting it to strict guidelines and disclosures. In addition to general listing requirements, resource companies are subject to additional disclosure requirements, resulting in a higher level of confidence in the general disclosure process.

Tethys benefits from a strong leadership team of considerable local and international experience across oil and gas exploration and production, banking and finance, and industry.

### Chairman and Managing Director - Dr David Robson

Dr David Robson is Chairman, President and Chief Executive Officer, Tethys Petroleum Group of Companies. His career has been primarily in operating oil and gas companies. He was Chief Executive Officer and one of the founders of the London Stock Exchange listed company JKN Oil & Gas plc and prior to this he was employed in technical and commercial positions in Britoil plc, Hamilton Oil and Mobil. Trained as a geologist with a First Class B.Sc (Hons) degree in Geology and PhD in Geochemistry, Dr. Robson also holds an MBA from the University of Strathclyde. He has worked on oil and gas projects in the former Soviet Union since 1990, establishing the first non-state gas development project in Ukraine, the first non-state drilling in the Ukrainian Black Sea, and the first non-state exploration and development wells in Georgia.



### Chief Financial Officer - Bernard Murphy

Mr. Murphy is a Fellow of the Institute of Chartered Management Accountants (FCMA) and prior to joining the Company has been working in a network providing accounting and finance services to SME's. He has 30 years experience as a management accountant having previously worked for Courtaulds, BOC, BICC and for HSBC Actuaries and Consultants Limited as Finance Director, and in insurance with HSBC and Royal & Sun Alliance. Prior to his finance career he was awarded a B.Sc. (Hons) degree in Civil Engineering from Glasgow University.



### Executive Director and Corporate Secretary- Liz Landles

Ms. Landles is the Executive Director and Corporate Secretary for Tethys Petroleum Limited. Prior to joining Tethys, she became Executive Vice President of CanArgo in November 2005, having worked for the CanArgo since October 1997, principally in an administrative role and as a Director of several CanArgo subsidiaries including Tethys where she was appointed a Director upon incorporation in August 2003. She holds an Advanced Diploma of Business Administration and is a Fellow of The Institute of Business Administration (F.Inst.BA).



**Vice Chairman and Non-Executive Director - Rt. Hon. Peter Lilley MP**

Mr. Lilley was educated at Clare College, Cambridge, where he studied natural science and economics. He was a Director of Greenwell Montagu Securities (1986-87) where he headed the oil investment department and which he joined in 1972. He is Non-Executive Director of J.P. Morgan Flemings Claverhouse Investment Trust plc and of IDOX plc and a Member of Advisory Board, School of Management, University of Southampton. He is currently MP for Hitchin & Harpenden. He was Parliamentary Private Secretary to the Chancellor of the Exchequer, Nigel Lawson (1984-1987). His first ministerial appointment was as Economic Secretary to the Treasury (June 1987), then Financial Secretary to the Treasury (July 1989). He joined Mrs Thatcher's Cabinet as Secretary of State for Trade and Industry 1990-1992. Secretary of State for Social Security 1992-1997. Shadow Chancellor and Deputy Leader of the Conservative Party responsible for overseeing renewal of policy until June 1999.

**Non-Executive Director - Russ Hammond**

Mr. Hammond was educated at St. Catherine's College, Cambridge, where he obtained a Bachelors' degree in Economics. Previously, he was Managing Director of Greenwell-Montagu Securities. Mr. Hammond has been Non-Executive Chairman of Terrenex Acquisition Corporation, oil and gas and joint venture company, since 1992 and a Non-Executive Director of Questerre Energy Inc., an oil and gas exploration and production company listed on the TSX, since 2000. He holds the Order of Honour for services to the Georgian hydrocarbon extraction industry.

**Non-Executive Director - Piers Johnson**

Mr. Johnson is an experienced oilfield engineer with over 25 years experience. He holds a BSc (Hons) degree in Mechanical Engineering from Nottingham University, and is a Chartered Engineer with the Institution of Mechanical Engineers. He is past President Chairman of the London Section of the Society of Petroleum Engineers (SPE), a Member of the petroleum Exploration Society of Great Britain and a member of the Institute of Energy. He is the founder and Managing Director of Oilfield Production Consultants (OPC) Limited, a Petroleum and reservoir Engineering Consultancy specialising in Operational Procedures, Integrated Studies, Wellsite Supervision and Well Test Analysis and prior to this worked for Flopetrol Johnston Schlumberger as Well test Supervisor, Location manager and District Sales Engineer (Asia).



**Non-Executive Director - James Rawls**

Mr. James Rawls is a registered Petroleum Engineer with over 35 years industry experience in engineering and finance. He is the owner and manager of Rawls Resources, Inc., a private oil and gas exploration company. James worked for Exxon Company USA in onshore and offshore development and later went on to a successful 12 year career in National Bank. In the early 1990's, he moved back into oil and gas exploration as president of Hughes-Rawls Corporation. Since that time, he has been involved in drilling oil and gas wells both onshore and offshore, in the United States and elsewhere. James serves or has served on the public company boards of Redcliffe Exploration Inc., Harcor energy Lending Department., Tikal Resources Corporation, and Aquest Energy, Ltd. as well as on the boards of numerous private companies, professional and philanthropic organizations. He holds a BSc degree (distinction) in Petroleum Engineering from Mississippi State University and was named a Distinguished Fellow of the Bagwell School of Engineering in 2007.

**Non-Executive Director - Marcus Rhodes**

Mr. Marcus Rhodes is a Chartered Accountant and experienced auditor. He spent some 17 years working in Eastern Europe and the former Soviet Union, most recently as an Audit Partner with Ernst & Young in their Moscow office. Marcus has worked with a wide variety of clients in many industry sectors including retail and consumer products, paper and pulp, pharmaceuticals, hotels, iron & steel manufacture, aluminium manufacture and mining. He was also the Partner responsible for establishing the Arthur Andersen practice in Uzbekistan and has worked on and been responsible Audit Partner on a number of Russian related IPO's and advised on Eurobond and Russian bond issues. Marcus is currently an independent consultant and also serves as Head of the Audit Committee and non-executive director for three leading Russian companies in the food & beverage and restaurant sectors. He holds a BSc (Hons) degree in Economics and Economic History from the Loughborough University (England), and is a Member of the Institute of Chartered Accountants of England & Wales.



## Abbreviations

In this report, the following abbreviations and terms were used:

### Oil

bbl	barrel
bbls	barrels
bbl/day	barrels per day
mdbl	thousand barrels
mnbbl	million barrels
boe	barrels of oil equivalent
mnboe	million barrels of oil equivalent

### Natural gas

mcm	thousand cubic meters
mcm/day	thousand cubic meters per day
mncm	million cubic meters
bcm	billion cubic meters
bcm/year	billion cubic meters per year

### Other

US\$	US dollar
US\$mn	million dollars
US\$bn	billion dollars
CAD	Canadian dollar
km	kilometer
km <sup>2</sup>	square kilometer

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