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SECONDARY LISTING OF AN INDEPENDENT OIL AND GAS COMPANY ON THE HONG KONG STOCK EXCHANGE – TETHYS' EXPERIENCE

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The Spirit of Tethys

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IN THIS PRESENTATION ALL FINANCIAL FIGURES ARE IN US\$ UNLESS OTHERWISE STATED



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Who is Tethys Petroleum?

- Oil & Gas Exploration & Production Company
- Listed on main board of Toronto Stock Exchange (TSX) in Canada (symbol "TPL"). Secondary listing on the Kazakh Stock exchange (KASE) in Almaty
- Fully compliant with TSX rules and good corporate governance
- Experienced and internationally respected board of directors
- Focus on Central Asia
- Kazakhstan
 - Oil and gas production and exploration
- Tajikistan
 - Large exploration area with huge potential for gas and oil
- Uzbekistan
 - Oil production and seeking exploration and further production projects
- **FASTEST GROWING INDEPENDENT OIL & GAS COMPANY IN CENTRAL ASIA**



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Tethys Petroleum – Central Asian Projects



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Characteristics of Independent E&P Companies

- Often start-ups with limited cash flow and profit history
- Significant technical risks
- Uncertain outcomes of E&P activities
 - Exploration activities often have statistically low chances of success
- High capital costs early in project life
- No guarantee of success
- However – one big success could create massive shareholder returns!



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Characteristics of Emerging Markets

- Often newly independent countries with limited experience of FDI
- Often unclear or confusing legislation
- Pioneer companies (who get the best areas and fiscal terms) are often trailblazers and take commercial risk for upside reward
- Licensing structure and governmental reporting system may not be well developed
- Fiscal and contract risk maybe difficult to reduce
- BUT – these areas can offer the best projects with the best returns and the biggest upside for investors



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Tethys Projects

- Kazakhstan
 - Reasonably well developed oil and gas legislation but not well drafted in parts
 - Increasing bureaucracy and need to conform to new regulations
 - Good upside potential – e.g. PetroKazakhstan
- Tajikistan
 - First Production Sharing Contract in Republic
 - Large area under contract
 - Largest investor in the E&P business
- Uzbekistan
 - Tethys only western E&P company operating in the Republic



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TSX



- World's largest exchange for oil and gas E&P companies
- Well regulated with world class rules for reserve determination etc.
- Internationally popular for E&P investors
- Knowledge of oil and gas both in the Exchange and with the regulator
- Knowledgeable institutional investors but many very domestically focused



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Why did Tethys look at a HKEx Secondary Listing?

- Proximity to China
 - Borders Central Asia
 - Market for some Tethys products and potentially for more in the future
 - Supply of equipment from China to Tethys' projects
 - Potential for Chinese partners
- Broader investor base with understanding of Asia
- Hong Kong is a very entrepreneurial place – potential for other deals if listed there



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Tethys' experience

- Began discussions on possible secondary listing with HKEx in October 2007
- Prepared 400+ page prospectus (English version only)
- Many issues to address – some virtually impossible
- Waivers to apply for to prevent conflict with TSX rules – no real secondary listing regime
- Audited accounts needed to be redone as Tethys had moved to IFRS (as the TSX required)
- Massive amounts of due diligence despite the fact that Tethys is a fully listed TSX main board company with an unblemished reporting record
- Requirement to appoint additional officers and advisors in Hong Kong – extra costs and logistics
- Lack of clarity and conflicting messages on how the listing could be “Secondary” – Tethys happy with Primary Listing on TSX
- Withdrew application in February 2010 after much time, cost and hard work



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Why didn't it happen?

- Lack of understanding of oil and gas exploration and production risk
- Lack of knowledge and understanding of emerging market risk
- Non-disclosure based regime – merit based and not “buyer beware” – “public protection”
 - Potential investors not assumed to read prospectus and understand what they are investing in
 - HKEx were beginning to appreciate issues and behind the possible listing
- Tethys built up significant East Asian investor base who were happy to invest through the TSX
- Exhaustion – too much management time being wasted



What next for Hong Kong?

- If Hong Kong wants to attract independent oil and gas companies then:
 - Need to work with disclosure based system
 - Need to establish simple secondary listing rules
 - Accept the rules of the home exchange
 - Have a special ticker for secondary companies
 - Need better rules for oil and gas companies
 - Recent redraft of Section 18 didn't take into account professionals' comments
 - Need to better understand exploration risk and emerging market risk
- The HKEx are moving forwards to address these issues. There are improvements being discussed but these need to be fully aired and advice taken otherwise their objective will not be achieved



Conclusions

- HKEx is a good exchange
- Hong Kong is a very good market
- Will become a major resource exchange in future
- Currently too many issues on risk, oil & gas understanding, emerging market understanding
- Things are moving albeit slowly
- Needs to open up and be more receptive to other ideas
- Keep a watching eye – too early right now
- One day – things will change – hopefully soon!



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