

# **Tethys Petroleum Limited**

Condensed Consolidated Interim Financial Statements  
(Unaudited)  
**March 31, 2017**

## **NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4.3 (3) (a), if an auditor has not performed a review of the financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The accompanying condensed consolidated interim financial statements of Tethys Petroleum Limited have been prepared by and are the responsibility of the Company's management and approved by the Board of Directors of the Company. The Company's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of financial statements by an entity's auditor.

## Contents

Responsibility Statement of the Directors in Respect of the Condensed Consolidated Interim Financial Statements	1
Condensed Consolidated Interim Financial Statements	2 – 5
Notes to Condensed Consolidated Interim Financial Statements	6 – 21

## **Responsibility Statement of the Directors in Respect of the Condensed Consolidated Interim Financial Statements**

We confirm on behalf of the Board that to the best of our knowledge, these condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting.

We draw attention to the section entitled “Going Concern” in Note 1 to the condensed consolidated interim financial statements which describes the material uncertainties relating to the Company’s adoption of the going concern basis in preparing the condensed consolidated interim financial Statements for the period ended March 31, 2017.

For and on behalf of the Board

**W. Wells**  
Chairman  
May 15, 2017

**A. Ogunsemi**  
Director  
May 15, 2017

# Tethys Petroleum Limited

## Condensed Consolidated Interim Statements of Financial Position (unaudited)

(in thousands of US dollars)

		As at	
	Note	March 31, 2017	December 31, 2016
<b>Non-current assets</b>			
Intangible assets	7	42,785	42,732
Property, plant and equipment	8	101,513	103,115
Restricted cash	9	2,249	2,238
Investment in joint arrangements		4	4
Trade and other receivables		1,645	1,237
Deferred tax	5	205	208
		<b>148,401</b>	<b>149,534</b>
<b>Current assets</b>			
Cash and cash equivalents		69	449
Trade and other receivables		6,717	6,532
Inventories		1,089	676
Restricted cash	9	22	2,713
		<b>7,897</b>	<b>10,370</b>
<b>Total assets</b>		<b>156,298</b>	<b>159,904</b>
<b>Non-current liabilities</b>			
Trade and other payables		23	44
Financial liabilities - borrowings	10	6,980	-
Deferred tax	5	11,123	11,913
Provisions		927	910
		<b>19,053</b>	<b>12,867</b>
<b>Current liabilities</b>			
Financial liabilities - borrowings	10	26,480	33,249
Current taxation	5	540	522
Trade and other payables		21,133	19,838
Provisions		198	200
		<b>48,351</b>	<b>53,809</b>
<b>Total liabilities</b>		<b>67,404</b>	<b>66,676</b>
<b>Equity</b>			
Share capital	11	5,081	5,081
Share premium	11	358,444	358,444
Other reserves		43,704	43,648
Accumulated deficit		(324,431)	(320,041)
Non-controlling interest		6,096	6,096
<b>Total equity</b>		<b>88,894</b>	<b>93,228</b>
<b>Total equity and liabilities</b>		<b>156,298</b>	<b>159,904</b>
Going concern	1		
Commitments and contingencies	14		

The notes on pages 6 to 21 form part of these condensed consolidated interim financial statements. The condensed consolidated interim financial statements were approved by the Board on May 15, 2017 and were signed on its behalf.

**W. Wells**  
Chairman  
May 15, 2017

**A. Ogunsemi**  
Director  
May 15, 2017

# Tethys Petroleum Limited

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

		Three months ended March 31	
	Note	2017	2016
Sales and other revenues	3	480	3,455
Sales expenses		-	(734)
Production expenses		(595)	(1,196)
Depreciation, depletion and amortisation		(2,567)	(2,856)
Administrative expenses		(1,174)	(1,787)
Restructuring costs		(118)	(755)
Share based payments	4	(56)	(82)
Profit on sale of fixed assets		-	10
Foreign exchange (loss)/gain		(18)	73
Fair value gain on derivative financial instruments		-	204
Finance costs		(1,103)	(1,930)
		(5,631)	(9,053)
<b>Loss before tax from continuing operations</b>		<b>(5,151)</b>	<b>(5,598)</b>
Taxation	5	761	(79)
<b>Loss from continuing operations and total comprehensive income</b>		<b>(4,390)</b>	<b>(5,677)</b>
<b>Loss and total comprehensive income attributable to:</b>			
Shareholders		(4,390)	(5,677)
Non-controlling interest		-	-
<b>Loss and total comprehensive income</b>		<b>(4,390)</b>	<b>(5,677)</b>
<b>Loss per share attributable to shareholders:</b>			
Basic and diluted - from continuing operations (USD)	6	(0.01)	(0.02)
Basic and diluted - from discontinued operations (USD)	6	-	-

No dividends were paid or are declared for the period (2016 – none).

The notes on pages 6 to 21 form part of these condensed consolidated interim financial statements.

# Tethys Petroleum Limited

## Condensed Consolidated Interim Statements of Changes in Equity (unaudited)

(in thousands of US dollars)

	Note	Attributable to shareholders					Non-controlling interest	Total equity
		Share capital	Share premium	Accumulated deficit	Option reserves	Warrant reserves		
<b>At January 1, 2016</b>	11	<b>33,696</b>	<b>321,803</b>	<b>(273,189)</b>	<b>26,565</b>	<b>16,601</b>	<b>6,094</b>	<b>131,570</b>
Comprehensive loss for the period		-	-	(5,677)	-	-	-	(5,677)
<b>Transactions with shareholders</b>								
Shares issued		3,744	-	-	-	-	-	3,744
Share-based payments		-	-	-	82	-	-	82
Total transactions with shareholders		3,744	-	-	82	-	-	3,826
<b>At March 31, 2016</b>	11	<b>37,440</b>	<b>321,803</b>	<b>(278,866)</b>	<b>26,647</b>	<b>16,601</b>	<b>6,094</b>	<b>129,719</b>
<b>At January 1, 2017</b>	11	<b>5,081</b>	<b>358,444</b>	<b>(320,041)</b>	<b>27,047</b>	<b>16,601</b>	<b>6,096</b>	<b>93,228</b>
Comprehensive loss for the period		-	-	(4,390)	-	-	-	(4,390)
<b>Transactions with shareholders</b>								
Share-based payments		-	-	-	56	-	-	56
Total transactions with shareholders		-	-	-	56	-	-	56
<b>At March 31, 2017</b>	11	<b>5,081</b>	<b>358,444</b>	<b>(324,431)</b>	<b>27,103</b>	<b>16,601</b>	<b>6,096</b>	<b>88,894</b>

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

The notes on pages 6 to 21 form part of these condensed consolidated interim financial statements.

# Tethys Petroleum Limited

## Condensed Consolidated Interim Statements of Cash Flows (unaudited)

(in thousands of US dollars)

	Three months ended March 31		
	Note	2017	2016
<b>Cash flow from operating activities</b>			
Loss before tax from continuing operations		(5,151)	(5,598)
Adjustments for:			
Share based payments		56	82
Net finance cost		1,103	1,930
Depreciation, depletion and amortisation		2,567	2,856
Fair value gain on derivative financial instruments		-	(203)
Net unrealised foreign exchange gain		16	(64)
Movement in provisions		(120)	(791)
Net change in working capital	13	189	(137)
<b>Cash used in operating activities</b>		<b>(1,340)</b>	<b>(1,925)</b>
Corporation tax paid		(8)	-
<b>Net cash used in operating activities</b>		<b>(1,348)</b>	<b>(1,925)</b>
Cash flow from investing activities:			
Expenditure on exploration and evaluation assets		(53)	(278)
Expenditure on property, plant and equipment		(946)	(116)
Movement in restricted cash		2,680	151
Movement in advances to construction contractors		(14)	4
Movement in value added tax receivable		301	222
Net change in working capital	13	(14)	(22)
<b>Net cash generated from/(used in) investing activities</b>		<b>1,954</b>	<b>(39)</b>
Cash flow from financing activities:			
Proceeds from issuance of borrowings, net of issue costs		-	2,000
Repayment of borrowings		(242)	(340)
Interest paid on borrowings		(620)	(1,169)
Movement in other non-current liabilities		(21)	(47)
<b>Net cash (used in)/generated from financing activities</b>		<b>(883)</b>	<b>444</b>
Effects of exchange rate changes on cash and cash equivalents		(103)	(619)
<b>Net decrease in cash and cash equivalents</b>		<b>(380)</b>	<b>(2,139)</b>
Cash and cash equivalents at beginning of the period		449	3,272
<b>Cash and cash equivalents at end of the period</b>		<b>69</b>	<b>1,133</b>

The notes on pages 6 to 21 form part of these condensed consolidated interim financial statements.

# Tethys Petroleum Limited

Notes to Condensed Consolidated Interim Financial Statements (unaudited)

(in thousands of US dollars)

## 1 General information and going concern

Tethys Petroleum Limited is incorporated in the Cayman Islands and the address of the Company's registered office is 89 Nexus Way, Camana Bay, Grand Cayman, Cayman Islands. Tethys is an oil and gas company operating within the Republic of Kazakhstan, Republic of Tajikistan and Georgia. Tethys' principal activity is the acquisition of and exploration and development of crude oil and natural gas fields.

The Company has its primary listing on the Toronto Stock Exchange ("TSX") and had a standard listing on the London Stock Exchange ("LSE") until May 2, 2017 when it cancelled its UK listing. The Company is also listed on the Kazakhstan Stock Exchange ("KASE").

### *Going concern*

The Management and the Board has considered the Company's current activities, funding position and projected funding requirements for the period of at least twelve months from the date of approval of the condensed consolidated interim financial statements in determining the ability of the Company to adopt the going concern basis in preparing the condensed consolidated interim financial statements for the three months ended March 31, 2017. The Company currently does not have sufficient funding to fund its obligations for the next twelve months.

Although these condensed consolidated interim financial statements have been prepared on a going concern basis in accordance with IFRS, which contemplates the realisation of assets and settlement of liabilities in the normal course of business as they come due, events and uncertainties which are discussed below raise significant doubt about the Company's ability to continue as a going concern, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

The Company reported a loss of USD4.4 million for the period ended March 31, 2017 (year ended December 31, 2016: USD46.9 million) and an accumulated deficit as at that date of USD324.4 million (December 31, 2016: USD320.0 million) and negative working capital of USD40.5 million (December 31, 2016: negative USD43.4 million). In addition, the Company reported negative cash flow from operating activities before tax of USD1.3 million for the period ended March 31, 2017 (year ended December 31, 2016: USD4.3 million).

The Company also has various commitments and contingencies as described in note 14. These include commitments and contingencies in relation to production assets, shares and subsoil use contracts of Tethys subsidiary Tethys Aral Gas LLP ("TAG") pending the outcome of a commercial claim which the Company considers to be without merit or substance.

In order to support the Company's short term liquidity position and get the Company on a sustainable financial footing, management's focus in the short term is to:

- Resolve the Company's current issues in Kazakhstan, including disputes with Eurasia Gas Group LLP, Olisol Petroleum Limited and Olisol Investments Limited (together "Olisol");

# Tethys Petroleum Limited

Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)

(in thousands of US dollars)

- Work with the Company's shareholder in Kazakhstan to market the Company's oil and gas for better pricing and obtain funding from a Kazakh bank to restructure loans and fund operations;
- Complete the process of restructuring the Company's loans which are falling due in 2017;
- Seek drilling company partners, or other investors, to fund drilling in the Company's licence areas in Kazakhstan on a deferred payment or contingent production sharing basis. This would include shallow and deep gas targets, Akkulka enhanced oil recovery and the Klymene exploration well on the Kul-bas licence;
- Continue to evaluate farm-out or other value realisation opportunities with respect to Tajikistan and Georgia;
- Continue to review and implement further restructuring and cost optimisation across the business;
- Maintain and increase shallow gas production in the near-term and drill for deep gas in the medium-term with the objective to supply gas to China through the newly built pipeline, once operational and additional funding is secured.

Three of the Company's loans falling due in 2017 have been restructured in 2016 and discussions are ongoing with the other lenders.

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

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

The Company's ability to continue as a going concern is dependent upon its ability to secure and deliver the above-described additional funding required to meet capital expenditure programs including its contractual obligations, its ability to renew and maintain access to debt facilities, equity issuances, manage risks associated with depressed oil prices and potential Tenge devaluation and ability to generate positive cash flows from operations. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported revenues, expenses and balance sheet classifications that would be necessary if the Company was unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

# Tethys Petroleum Limited

Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)  
(in thousands of US dollars)

## 2 Basis of preparation and accounting policies

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

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” as applicable to interim financial reporting and do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual consolidated financial statements reported for the year ended December 31, 2016.

The condensed consolidated interim financial statements are presented in United States Dollars (“USD”).

### *New accounting policies*

There were no new and revised standards adopted by the Company during the financial period ended March 31, 2017 that had an impact on the condensed consolidated interim financial statements.

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

There are no significant new or amended standards that have been early adopted by the Company.

## 3 Segmental Reporting

### *Geographical segments*

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

The Board of Directors consider the business from predominantly a geographical perspective and the Company currently operates in three geographical markets: Kazakhstan, Tajikistan and Georgia.

In Kazakhstan, the Company is producing oil and gas from the Kyzylai and Akkulka fields and is undertaking exploration and evaluation activity in the Kul-bas field. In Tajikistan and Georgia, the Company is currently undertaking exploration and evaluation activity.

The Company also operates a corporate segment which acquired several drilling rigs and related oil and gas equipment which are utilised in Kazakhstan according to operational requirements and which has provided loan funding for development activities in Kazakhstan.

# Tethys Petroleum Limited

## Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)

(in thousands of US dollars)

The following is an analysis of the Company's revenue, results and assets by reportable segment for the three months ended March 31, 2017 are as follows:

	Kazakhstan	Tajikistan	Georgia	Corporate	Total
Gas sales	-	-	-	-	-
Oil sales	477	-	-	-	477
Other income	3	-	-	-	3
Other operating income	-	-	-	27	27
<b>Segment revenue and other income</b>	<b>480</b>	<b>-</b>	<b>-</b>	<b>27</b>	<b>507</b>
Inter-segment revenue	-	-	-	(27)	(27)
<b>Segment revenue and other income from external customers</b>	<b>480</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>480</b>
<b>Loss before taxation</b>	<b>(2,625)</b>	<b>(13)</b>	<b>-</b>	<b>(2,513)</b>	<b>(5,151)</b>
Taxation	781	-	-	(20)	761
<b>Loss for the period</b>	<b>(1,844)</b>	<b>(13)</b>	<b>-</b>	<b>(2,533)</b>	<b>(4,390)</b>
Total assets <sup>1</sup>	130,105	8	13,281	118,585	156,298
Total liabilities <sup>1</sup>	129,315	12,685	1	31,084	67,404
Cash expenditure on exploration & evaluation assets, property, plant and equipment	43	-	50	906	999
Depreciation, depletion & amortization	1,932	-	-	635	2,567

Note 1 – Total is after elimination of inter-segment items of USD105,681,000.

No borrowing costs were capitalised during the period.

The following is an analysis of the Company's revenue, results and assets by reportable segment for the three months ended March 31, 2016 are as follows:

	Kazakhstan	Tajikistan	Georgia	Other and corporate	Total
Gas sales	2,934	-	-	-	2,934
Oil sales	517	-	-	-	517
Other income	2	-	-	2	4
Other operating income	-	-	-	191	191
<b>Segment revenue and other income</b>	<b>3,453</b>	<b>-</b>	<b>-</b>	<b>193</b>	<b>3,646</b>
Inter-segment revenue	-	-	-	(191)	(191)
<b>Segment revenue and other income from external customers</b>	<b>3,453</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>3,455</b>
<b>Loss before taxation</b>	<b>(1,299)</b>	<b>-</b>	<b>9</b>	<b>(4,308)</b>	<b>(5,598)</b>
Taxation	(45)	-	-	(34)	(79)
<b>Loss for the period</b>	<b>(1,344)</b>	<b>-</b>	<b>9</b>	<b>(4,342)</b>	<b>(5,677)</b>
Total assets <sup>1</sup>	138,728	22,808	13,091	123,835	189,103
Total liabilities <sup>1</sup>	127,751	10,143	-	30,849	59,384
Cash expenditure on exploration & evaluation assets, property, plant and equipment	189	49	156	-	394
Depreciation, depletion & amortization	2,230	-	-	626	2,856

Note 1 – Total is after elimination of inter-segment items of USD109,359,000.

Borrowing costs of USD10,000 and USD36,000 incurred in the Corporate segment were capitalised in the Kazakhstan and Tajikistan segments respectively during the period.

# Tethys Petroleum Limited

Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)  
(in thousands of US dollars)

## 4 Share based payments

### Share options

Full details of the share options and stock incentive plan are outlined in the Company's annual consolidated financial statements for the year ended December 31, 2016. The options under the plan vest in three tranches over either two or three years. These options are equity settled share based payment transactions.

In respect of share options a charge for the value of services of USD56,000 (2015: USD82,000) was recorded for the period. No amounts were capitalised in the current or prior periods.

The following tables summarise the stock option activity for the periods ended March 31, 2017 and March 31, 2016.

	Three months ended March 31			
	2017		2016	
	Number of options	Weighted average exercise price (\$)	Number of options	Weighted average exercise price (\$)
Outstanding at January 1	19,354,500	0.31	11,025,500	0.31
Granted	-	n/a	14,307,500	0.04
Forfeited	(708,750)	0.12	(1,080,000)	0.22
Expired	(1,383,375)	0.31	(261,000)	0.90
Outstanding at March 31	17,262,375	0.09	23,992,000	0.14
Exercisable at March 31	7,281,125	0.15	5,292,833	0.38

### Warrants classified as derivative financial instruments

The Company has issued warrants which are classified as derivative financial instruments.

### Warrants issued in connection with loans

The following table summarises the warrant activity for the periods ended March 31, 2017 and March 31, 2016.

	Three months ended March 31			
	2017		2016	
	Number of warrants	Weighted average exercise price (\$)	Number of warrants	Weighted average exercise price (\$)
Outstanding at January 1	194,390,000	2.500	2,090,000	2.500
Outstanding at March 31	194,390,000	0.058	2,090,000	2.500
Exercisable at March 31	194,390,000	0.058	2,090,000	2.500

There are no performance conditions attached to the warrants and all the granted warrants were immediately vested. Each warrant is exercisable into one share. Warrants are equity settled share based payment transactions. In estimating expected volatility, the Company considers the historical volatility of its own share price over the most recent period that is commensurate with the expected warrant term.

# Tethys Petroleum Limited

Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)  
(in thousands of US dollars)

## 5 Taxation

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

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

	Three months ended March 31	
	2017	2016
Loss before income taxes from continuing operations	(5,151)	(5,598)
Income tax rate	20%	20%
Expected income tax recovery	<b>1,030</b>	<b>1,120</b>
Decrease resulting from:		
Non-deductible expenses net of functional currency foreign exchange impact	(94)	(65)
Revisions in tax estimates and foreign exchange impact on tax pools	2,107	(467)
Impact of effective tax rates in other foreign jurisdictions	(952)	(808)
Losses and tax assets not utilised/recognised	(1,330)	141
	<b>761</b>	<b>(79)</b>
Current tax expense	(17)	(31)
Deferred tax expense	778	(48)
<b>Total</b>	<b>761</b>	<b>(79)</b>

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

	As at	
	March 31, 2017	December 31, 2016
Tax losses	205	208
<b>Deferred tax asset</b>	<b>205</b>	<b>208</b>
Capital assets	10,527	11,845
Other	596	68
<b>Deferred tax liability</b>	<b>11,123</b>	<b>11,913</b>

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

# Tethys Petroleum Limited

Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)  
(in thousands of US dollars)

## 6 Loss per share

Continuing operations	Units	Three months ended March 31	
		2017	2016
Loss for the purpose of basic and diluted loss attributable to ordinary shareholders	\$'000	(4,390)	(5,677)
Weighted average shares	000s	508,136	341,075
Per share amount	\$	(0.01)	(0.02)

Basic loss per share is calculated by dividing the loss attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year. Diluted per share information is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Potential ordinary shares, comprising share options and warrants, are currently anti-dilutive and therefore there is no difference between basic and diluted earnings per share.

## 7 Intangible assets

Exploration and evaluation assets	Kazakhstan	Georgia	Tajikistan	Total
<b>January 1, 2016</b>	29,297	12,905	22,000	64,202
Additions	205	325	3,627	4,157
Exploration and evaluation expenditure written off	-	-	(25,627)	(25,627)
<b>December 31, 2016</b>	<b>29,502</b>	<b>13,230</b>	-	<b>42,732</b>
Additions	3	50	-	53
<b>March 31, 2017</b>	<b>29,505</b>	<b>13,280</b>	-	<b>42,785</b>

## 8 Property, plant and equipment

	Oil and gas properties			Oil and gas equipment			Other fixed assets <sup>1</sup>			Total net book amount
	Cost	Amortisation	Total	Cost	Depreciation	Total	Cost	Depreciation	Total	
<b>January 1, 2016</b>	<b>168,182</b>	<b>(68,237)</b>	<b>99,945</b>	<b>25,343</b>	<b>(12,554)</b>	<b>12,789</b>	<b>5,095</b>	<b>(4,432)</b>	<b>663</b>	<b>113,397</b>
Additions	872	-	872	-	-	-	57	-	57	929
Disposals	-	-	-	-	-	-	(846)	782	(64)	(64)
Amortisation and depletion	-	(6,838)	(6,838)	-	(2,773)	(2,773)	-	(360)	(360)	(9,971)
Impairment charges	(1,176)	-	(1,176)	-	-	-	-	-	-	(1,176)
<b>December 31, 2016</b>	<b>167,878</b>	<b>(75,075)</b>	<b>92,803</b>	<b>25,343</b>	<b>(15,327)</b>	<b>10,016</b>	<b>4,306</b>	<b>(4,010)</b>	<b>296</b>	<b>103,115</b>
Additions	56	-	56	906	-	906	(53)	56	4	966
Amortisation and depletion	-	(1,790)	(1,790)	-	(716)	(716)	-	(61)	(61)	(2,567)
<b>March 31, 2017</b>	<b>167,934</b>	<b>(76,865)</b>	<b>91,069</b>	<b>26,249</b>	<b>(16,043)</b>	<b>10,206</b>	<b>4,253</b>	<b>(4,015)</b>	<b>238</b>	<b>101,513</b>

Note 1 – Consists of vehicles, computers and office equipment.

## 9 Restricted cash

Non-current amounts consist of interest bearing deposits held in Kazakhstan that have been placed to satisfy local Kazakh requirements in respect of asset retirement obligations. Current restricted cash comprises monies placed on temporary deposit as security against corporate credit cards and a deposit with the Ministry of Finance in Dubai as fixed term deposits with banks.

# Tethys Petroleum Limited

Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)  
(in thousands of US dollars)

## 10 Financial liabilities

	Contractual interest rate per annum	Effective interest rate per annum	Maturity date	March 31, 2017	December 31, 2016
<b>Current</b>					
Rig loans	12.0%	14.8%	2018	1,697	3,724
Kazakh loan KZT	22.0%	23.6%	2019	3,048	2,823
Kazakh loan USD	11.0%	12.3%	2017	893	1,010
Corporate loans					
- USD6 million loan financing	10.5%	24.4%	2017	7,214	7,301
- AGR Energy No.1	9.0%	20.5%	2017	7,630	7,429
Financing facilities - ALR	9.0%	10.6%	2017	-	5,089
Olisol loan	9.0%	9.0%	Note 1	5,998	5,873
				<b>26,480</b>	<b>33,249</b>
<b>Non -current</b>					
Rig loans	12.0%	14.8%	2018	1,740	-
Corporate loans - Financing facilities - ALR	9.0%	10.6%	2017	5,240	-
				<b>6,980</b>	<b>-</b>
<b>Total</b>				<b>33,460</b>	<b>33,249</b>

Note 1 - Subject to litigation as described below.

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

### Rig loans

On February 13, 2014, the Company entered into a loan agreement to borrow up to USD12 million. The loan is secured by the shares of the borrower, a wholly owned subsidiary of the Company, which in turn owns two drilling rigs and other equipment. Loans with a face value of USD4.7 million and GBP2.1 million were borrowed under the agreement.

During the financial period, the Company agreed amendments to the loan agreement which had various maturity dates between February and June 2017 i.e. three years after the receipt of each lender's tranche.

The lenders have agreed to an extension of the maturity dates by 18 months. They will continue to receive the same equal monthly payments as before, incorporating interest and capital, together with a single balloon repayment of the remaining amount due at the new maturity dates.

### Kazakh loan

On June 29, 2012, the Company announced that it had secured a loan facility from a Kazakh bank to fund capital expenditures in Kazakhstan (the "bank loan facility").

The bank loan facility was arranged by Eurasia Gas Group LLP ("EGG"), with the Company's consent, and is a bank loan to EGG, the Company's previous oil buyer and customer of the AOT, whereby EGG drew down on the bank loan facility with the approval of the Company and funds

# Tethys Petroleum Limited

Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)

(in thousands of US dollars)

were transferred to the Company's subsidiary, TAG. The bank loan facility had an initial term of up to four years, since extended to February 2019.

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

A total of 1.9 billion KZT (USD12.9 million) of funds were advanced to the Company under the loan agreement, with the outstanding balance of the loan at March 31, 2017 as shown in the table above.

On April 29, 2016, the maturity date was extended to February 2019 and the interest rate was increased to 22%.

Certain oil and gas property assets have been pledged by TAG to the bank as security for funds advanced.

On September 7, 2016, the Company received an additional USD1.0m drawdown denominated in USD. The interest on this advance is 11% and the maturity date is July 2017 with principal payments due monthly.

As a consequence of the legal disputes between the Company and EGG described below under "Olisol loan" and also in note 14 the Company is in discussions with the Kazakh bank to restructure the loan.

## *Corporate - USD6.0 million loan financing*

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

In connection with the loan financing, the Company issued the lender with 35,600,000 warrants over the Company's shares with a price of CAD0.19. The Company valued these warrants at initial recognition at USD2.1 million. The warrants were surrendered during 2015 for the surrender value of USD2.1 million which was added to the principal amount and was repayable on the two-year maturity date.

On March 12, 2016, certain terms of the loan were amended including a change in the interest rate from 8.0% to 10.5% per annum payable every three months. The loan fell due on January 30, 2017 and the Company has been in discussions with the lender regarding the terms of a proposed two year extension to the loan maturity date.

## *Financing facilities with Annuity and Life Reassurance Ltd ("ALR")*

The Company entered into two agreements in 2015 with ALR, a company controlled by Pope Asset Management, the Company's largest shareholder:

a) *Corporate – USD3.5 million loan financing:*

# Tethys Petroleum Limited

Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)

(in thousands of US dollars)

On March 10, 2015, the Company obtained a USD3.5 million unsecured loan facility from ALR. The principal was due at the end of two years with interest payments due every 6 months at 8% per annum. In connection with the loan financing, the Company issued the lender with 23,333,333 warrants over the Company's shares with a price of CAD0.19 which expired during the period.

## *b) Unsecured convertible loan facility from ALR*

On June 1, 2015, the Company issued USD1,760,978 aggregate principal amount of convertible debentures to ALR (the "ALR Debentures"). The ALR Debentures mature were due to mature June 30, 2017 and paid interest every six months at 9% per annum.

On January 27, 2017 shareholders approved amendments to the two loan agreements between the Company and ALR which had been entered into on December 20, 2016. The main changes to the loan agreements were to:

- (i) extend the maturity dates to January 27, 2020;
- (ii) provide that the loans are convertible in whole, or in part, at ALR's option at any time prior to the extended maturity date at a conversion price of USD0.031;
- (iii) add a covenant that, other than a loan with a bank, the Company may not enter into any new secured loan or amend an existing loan to provide security, unless ALR consents to such loan or is provided with equivalent security; and
- (iv) amend the interest rate payable to provide that if the loans are converted, semi-annual interest shall accrue at a rate of 4% per annum payable only at the time of conversion through the issuance of ordinary shares at the USD0.031 conversion price, however, if any part of the loans are not converted, but rather repaid at maturity, the interest rate shall be 9%.

## *Unsecured convertible loan facility from AGR Energy Limited No. 1*

On May 15, 2015, the Company issued USD7.5 million aggregate principal amount of convertible debentures (the "AGR Debentures") to AGR Energy Limited No. 1. The AGR Debentures are convertible into ordinary shares, subject to customary adjustment provisions, at a conversion price of USD0.10 per share for an aggregate of up to 75,000,000 ordinary shares. The conversion option has been accounted for as an embedded derivative and was valued by the Company at initial recognition at USD180,000.

The AGR Debentures mature on June 30, 2017 and pay interest every six months at the interest rate shown in the table above.

## *Olisol loan*

On November 19, 2015, the Company announced that it had entered into an interim convertible financing facility of up to USD15 million (the "Interim Financing Facility") with Olisol. The Interim Financing Facility was convertible into Tethys ordinary shares at CDN0.17 per share. The Interim Financing Facility had a maturity date of August 31, 2016 and bears interest at a rate of 9% per annum.

On March 2, 2016, the Company announced that it had signed an amendment to the Interim Financing Facility (the "Facility Agreement Amendment") under which Olisol agreed, subject to certain approvals, to convert all but USD1 million of the outstanding amount of principal and

# Tethys Petroleum Limited

Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)

(in thousands of US dollars)

accrued interest under the Interim Financing Facility (approximately USD6.25 million) into ordinary shares at a price of USD0.10 per share.

On March 21, 2016, Olisol converted USD3.7 million of the outstanding amount into 37,440,042 shares. On April 15, 2016, Olisol converted a further USD2.6 million of the outstanding amount into 25,604,419 shares.

On April 28, 2016, the Company and Olisol signed the Amended and Restated Investment Agreement. Olisol was obliged under the legally binding terms of the Amended and Restated Investment Agreement to continue to provide Tethys with amounts reasonably requested by Tethys to fund working capital requirements during the period ending on the latest of (i) the completion of the TAG Loan and (ii) the occurrence of the Closing Date. Olisol undertook to work with Tethys and a Kazakh bank to obtain a bank loan of not less than USD10 million for TAG ("TAG Loan") and to date Olisol has not been able to complete the TAG Loan.

Olisol did not perform its financing obligations under the Amended and Restated Investment Agreement by the October 27, 2016 Closing Date and has sought to terminate the Amended and Restated Investment Agreement and demand repayment of its loan. The Company does not agree that the loan is repayable and on January 26, 2016 the Company commenced legal action against Olisol, EGG and certain of their respective principals in the Court of Queen's Bench of Alberta. The legal action was to seek, among other things, damages arising from failure to meet contractual obligations under the Amended and Restated Investment Agreement on October 27, 2016 and damages arising from unlawful interference with Tethys' business activities, including issuing erroneous press release information about Tethys as alleged. Tethys intends to enforce its rights and legitimate interests to the fullest extent permitted by law, to protect its investors, assets, investments, management and employees.

## 11 Share capital

### Share capital and share premium

	March 31, 2017	December 31, 2016
<b>Authorised</b>		
Ordinary shares with a par value of \$0.01 each	1,450,000,000	1,450,000,000
Preference shares with a par value of \$0.01 each	50,000,000	50,000,000

<b>Ordinary equity share capital</b>				
<b>Allotted and fully paid</b>	<b>Date</b>	<b>Number</b>	<b>Share Capital</b>	<b>Share Premium</b>
<b>At January 1, 2016</b>		<b>336,960,387</b>	<b>33,696</b>	<b>321,803</b>
Debt conversion by Olisol	March 21, 2016	37,440,042	3,744	-
Debt conversion by Olisol	April 15, 2016	25,604,419	2,560	-
Par value reduction	August 31, 2016	-	(36,000)	36,000
Private placement	November 29, 2016	87,903,396	879	521
Debt conversion by ALR	December 20, 2016	20,227,854	202	120
<b>At December 31, 2016</b>		<b>508,136,098</b>	<b>5,081</b>	<b>358,444</b>
<b>At March 31, 2017</b>		<b>508,136,098</b>	<b>5,081</b>	<b>358,444</b>

# Tethys Petroleum Limited

Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)  
(in thousands of US dollars)

## 12 Related party transactions

Transactions between the Company's subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. There are no other related party transactions requiring disclosure.

## 13 Change in working capital

	Three months ended March 31	
	2017	2016
<b>Condensed Statement of Financial Position:</b>		
Trade and other receivables	(184)	(2,498)
Inventories	(413)	7
Trade and other payables	1,273	2,019
Change in working capital	676	(472)
Non-cash transactions	(501)	313
<b>Net changes in working capital</b>	<b>175</b>	<b>(159)</b>
<b>Condensed Statement of Cash Flows:</b>		
Operating activities	189	(137)
Investing activities	(14)	(22)
<b>Net changes in working capital</b>	<b>175</b>	<b>(159)</b>

## 14 Commitment and contingencies

### *Litigation, claims and assessments*

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

### *Contingent liability - Claim against the Company by EGG*

On October 27, 2016, the Company announced that on October 26, 2016 the Company was notified of a claim lodged by EGG in the Almaty City Court against the Company's subsidiary TAG. EGG is seeking an award equivalent to USD2.6 million at current exchange rates for the alleged failure by TAG to deliver certain minimum volumes of crude oil to EGG. EGG is a company whose principal is also a principal of Olisol. EGG's claim followed TAG's formal notification to EGG requiring it to settle long overdue unpaid oil sales debts of USD1.3 million within 10 days or TAG would take Court action against EGG to recover those debts.

# Tethys Petroleum Limited

Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)

(in thousands of US dollars)

The Company's view is that EGG's claim is without merit or substance as TAG has no contractual obligation to deliver minimum volumes of crude oil to EGG, nor is there any penalty clause in contracts entered into between TAG and EGG for failure to deliver minimum volumes of crude oil. The Company is also of the view that EGG did not follow correct legal process which requires it to notify the Company at least 30 days prior to filing a claim with the Court.

On February 1, 2017, the Company announced that the Almaty City Court found in favour of TAG in rejecting the appeal of EGG against the previous court ruling of December 26, 2016, which also found in favour of TAG.

As a result of EGG's claim against TAG, restrictions have been in place over TAG's bank accounts pending the hearing of EGG's appeal. Following the rejection of EGG's appeal, TAG applied to the court to have these restrictions removed which the court approved and were implemented. A few days later EGG submitted an amended claim to the Court which resulted in new restrictions being imposed on most of TAG's bank accounts which remain in place at the date of this report.

## *Kazakhstan*

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

## *General background*

Work programmes for exploration and production contracts agreed with the Kazakh State include a required level of "Investments" as defined in the contracts. "Investments" includes capital expenditure, operating expenses, social sphere, sub-soil monitoring and specialist training costs. It is this required level of Investments that forms the principal financial obligation of the Company in respect of its work programme commitments and against which the Company is mainly measured by the relevant Kazakh State authorities along with production volumes in the production contracts.

Failure by the Company to meet the required level of Investments could put the Company's licences at risk of forfeiture or give rise to penalties for non-fulfillment. The Company has accrued in 2016 for penalties of USD592,000 relating to the under fulfillment of financial commitments under the agreed Kazakh work programmes. The Company has been working with the authorities to have these withdrawn or reduced due to mitigating circumstances. Under Kazakh regulations two or more contractual violations, e.g. significant non-fulfillment of financial obligations which are not remedied by a sub-soil user or waived by the authorities, gives the Kazakh authorities the right to unilaterally terminate a sub-soil user's licence. In the event of a contractual violation the Company actively engages with the authorities in order to agree to a remedy or waiver to mitigate the risk of termination. At the date of this report the Company had not received any notifications

# Tethys Petroleum Limited

Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)

(in thousands of US dollars)

from the authorities that they were intending to cancel or suspend any of the Company's sub-soil licences.

In addition, an assumed level of other costs forms part of the overall work programme (insurance, liquidation fund, indirect costs and taxes). Taken together with the Investments amount described above these form the Company's "Financial obligations, total" as defined in the contracts and as set out in the table above.

The work programme commitments Kazakhstan businesses can be summarised as follows:

	Expiry date	Kazakhstan Work Programme Commitments		
		Program 2017	Spend to date 2017	Program 2018 & later
<b>Akkulka Production Contract (Gas)</b>	2018			
Financial obligations, total		5,500	304	3,860
Investments		2,242	112	1,788
<b>Kyzyloi Production Contract (Gas)</b>	2029			
Financial obligations, total		6,734	287	4,649
Investments		6,182	140	4,015
<b>Akkulka Exploration Contract (Oil)</b>	2019			
Financial obligations, total		6,793	826	5,019
Investments		5,462	463	3,495
<b>Kul-Bas Exploration Contract</b>	2017			
Financial obligations, total		3,588	9	3,264
Investments		3,400	-	3,079
<b>Financial obligations, total</b>		<b>22,615</b>	<b>1,426</b>	<b>16,792</b>
<b>Investments, total</b>		<b>17,286</b>	<b>715</b>	<b>12,377</b>

Apart from the Company's work programme commitments, other amounts may become payable to the Kazakh State in certain circumstances. These are described below.

## *Akkulka Production Contract*

On December 23, 2009, the Company and the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan signed the Akkulka Production Contract giving the Company exclusive rights to produce gas from the Akkulka Block for a period of nine years. Contingent upon commencement of commercial production on the Akkulka contractual territory, an amount of USD3,500,000 was due to the Kazakh State as a reimbursement of historical costs previously incurred in relation to the contractual territory. For that part of the contractual territory from which production commenced in 2010, staged payments over a period of nine years totalling approximately USD933,997 are to be paid in equal quarterly instalments from the commencement of production until full reimbursement. To March 31, 2017, the Company had reimbursed the Kazakh State USD728,088 in respect of the Akkulka Field.

## *Kul-Bas Exploration and Production Contract*

The Kazakhstan Government is to be compensated for the historical costs related to the contractual territory in the amount of USD3,275,780. To date, the Company has paid two amounts of USD49,137 each in relation to this balance. If and when commercial production commences, USD80,666 is due in quarterly instalments until the remaining historical costs of USD3,177,506 have been paid in full.

## *Tajikistan*

# Tethys Petroleum Limited

Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)

(in thousands of US dollars)

The Company has an effective 28.33% interest (33.33% interest via its 85% owned subsidiary) in the Bokhtar Production Sharing Contract with partners Total and CNPC (the “Partners”) each having a 33.33% interest. Under the terms of the farm-out agreement entered into on September 18, 2013 with the Partners the Company was required to contribute 11.11% or USD9.0 million of the first USD80.0 million of the initial work programme. As at March 31, 2017, the Company and the Partners had contributed in excess of USD100.0 million to the Bokhtar Operating Company of which the Company’s share was USD16.3 million. Apart from cash call request the Company has not been provided with information by the joint operating company since August 2015 as a result of being in default of cash calls in the amount of USD12.7 million.

The Company’s indirectly held subsidiary, Kulob Petroleum Limited, (“KPL”) the contracting partner in the Bokhtar Production Sharing Contract, has been informed by legal counsel representing the Partners, that on May 19, 2016, the Partners had filed for arbitration proceedings at the International Court of Arbitration seeking to enforce KPL’s withdrawal from the project and assignment of its interest to the Partners, as well as payment of outstanding cash calls of USD9 million (and continuing) plus an award of costs. KPL submitted its answer to the request for arbitration to the court setting out its arguments against the Partners’ claim and its counter-claim. Arbitration hearings are scheduled to commence in November 2017 There is no guarantee in place of KPL’s obligations by the Company or any other group company.

Total informed the Company in May 2016 that it has been required to pay the equivalent of USD5.0 million to the tax authorities in Tajikistan in relation to the farm-out of the Company’s interest to Total in 2013. Total claims the Company should indemnify it for these taxes under the terms of the farm-out agreement. The Company does not agree with Total’s interpretation of the farm-out agreement or that it is liable to indemnify Total for these taxes. No similar claim has been received from CNPC although the terms of the farm-out with CNPC were the same for Total and CNPC.

## *Georgia*

The Company has a 49% interest in three blocks in Eastern Georgia (XIA, XIN and XIM) and is responsible for funding its percentage interest share in the work programmes.

On January 16, 2017 the Company was notified that it will not be required to complete the previously agreed work programme commitment to conduct 50 km of 2D seismic acquisition in Block XIN by June 30, 2017 which would have cost Tethys approximately USD700,000. Instead of the previously agreed commitment the agency will evaluate whether the partners should instead conduct 50 km of 2D seismic acquisition over an alternative prospective area. The deadline for any such work has not yet been determined.

## *Uzbekistan*

Following the Company’s withdrawal from Uzbekistan in December 2013 the tax authorities claimed additional taxes payable from the Company amounting to USD2.1 million. The Company believes the claim is without foundation or merit and disputed it. Also, following withdrawal from the country, the Company was unable to recover payment for oil previously delivered to the Fergana refinery with an estimated value of USD1.6 million.

# Tethys Petroleum Limited

Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)  
(in thousands of US dollars)

## 15 Operating leases

*Leases as a lessee:*

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

	March 31, 2017	December 31, 2016
Less than 1 year	76	230
1 – 3 years	-	135
Greater than 3 years	-	-

## 16 Subsequent events

*Gas sales contract*

In May 2017 the Company's wholly owned Kazakh subsidiary Tethys Aral Gas LLP agreed a sales contract for the gas produced and held in storage and payment due under the contract has been received.