

Tethys Petroleum Limited

Condensed Consolidated Interim Financial Statements
(Unaudited)
March 31, 2020

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.

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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, 2020.

For and on behalf of the Board

W. Wells

Chairman

May 31, 2020

A. Ogunsemi

Director

May 31, 2020

Tethys Petroleum Limited

Condensed Consolidated Interim Statements of Financial Position (unaudited)

(in thousands of US dollars)

	Note	As at	
		March 31, 2020	December 31, 2019
Non-current assets			
Intangible assets		32,058	32,034
Property, plant and equipment		54,672	70,953
Restricted cash		65	76
Trade and other receivables		1,121	1,279
		87,916	104,342
Current assets			
Cash and cash equivalents		4,519	694
Trade and other receivables		3,727	3,234
Inventories		259	564
		8,505	4,492
Total assets		96,421	108,834
Non-current liabilities			
Financial liabilities - borrowings		6,100	-
Deferred tax		7,838	8,087
Provisions		1,721	1,689
		15,659	9,776
Current liabilities			
Financial liabilities - borrowings		18,242	40,196
Deferred revenue		6,060	-
Current taxation		1,050	1,041
Trade and other payables		9,611	10,367
		34,963	51,604
Total liabilities		50,622	61,380
Equity			
Share capital		8,696	6,832
Share premium		364,682	360,769
Other reserves		43,913	45,556
Accumulated deficit		(371,492)	(365,703)
Total equity		45,799	47,454
Total equity and liabilities		96,421	108,834
Going concern	1		
Subsequent events	6		

The notes on pages 6 to 12 form part of these condensed consolidated interim financial statements. The condensed consolidated interim financial statements were approved by the Board on May 31, 2020 and were signed on its behalf.

W. Wells
Chairman
May 31, 2020

A. Ogunsemi
Director
May 31, 2020

Tethys Petroleum Limited

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

	Note	Three months ended March 31	
		2020	2019
Sales and other revenues	3	3,501	4,656
Production expenses		(915)	(738)
Depreciation, depletion and amortisation		(1,141)	(1,250)
Impairment charges	5	(15,282)	-
Administrative expenses		(737)	(615)
Other gains and losses	6	8,303	193
Foreign exchange loss		(101)	(207)
Finance costs		(1,250)	(1,560)
		(11,123)	(4,177)
(Loss)/(profit) before tax from continuing operations		(7,622)	479
Taxation		190	264
(Loss)/profit from continuing operations and total comprehensive income		(7,432)	743
(Loss)/earnings per share:			
Basic and diluted - from continuing operations (\$)	4	(0.09)	0.01

No dividends were paid or are declared for the period (2019: none).

The notes on pages 6 to 12 form part of these condensed consolidated interim financial statements.

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Condensed Consolidated Interim Statements of Changes in Equity (unaudited)

(in thousands of US dollars)

	Attributable to shareholders				Total equity
	Share capital	Share premium	Accumulated deficit	Other reserves	
At January 1, 2019	6,832	360,769	(356,900)	45,556	56,257
Comprehensive income for the period	-	-	743	-	743
At March 31, 2019	6,832	360,769	(356,157)	45,556	57,000
At January 1, 2020	6,832	360,769	(365,703)	45,556	47,454
Comprehensive loss for the period	-	-	(7,432)	-	(7,432)
Compound instrument extinguished	-	-	1,643	(1,643)	-
Transactions with shareholders					
Shares issued	1,864	3,913	-	-	5,777
Total transactions with shareholders	1,864	3,913	-	-	5,777
At March 31, 2020	8,696	364,682	(371,492)	43,913	45,799

Other reserves include reserves arising on the issuance of options, warrants and compound instruments and are denoted together as “other reserves” on the consolidated statement of financial position. These reserves are non-distributable.

The notes on pages 6 to 12 form part of these condensed consolidated interim financial statements.

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Condensed Consolidated Interim Statements of Cash Flows (unaudited)

(in thousands of US dollars)

	Three months ended March 31	
	2020	2019
Cash flow from operating activities		
(Loss)/profit after tax from continuing operations	(7,432)	743
Adjustments for:		
Net finance cost	1,250	1,560
Depreciation, depletion and amortisation	1,141	1,250
Impairment charges	15,282	-
Other gains and losses	(8,303)	(193)
Taxation	(190)	(264)
Net change in working capital	5,578	(4,033)
Cash from/(used in) operating activities	7,326	(937)
Tax paid	(50)	-
Net cash from/(used in) operating activities	7,276	(937)
Cash flow from investing activities:		
Expenditure on exploration and evaluation assets	(24)	(2)
Expenditure on property, plant and equipment	(141)	(453)
Movement in restricted cash	11	1
Movement in value added tax receivable	-	(6)
Net change in working capital	(116)	(46)
Net cash used in investing activities	(270)	(506)
Cash flow from financing activities:		
Repayment of borrowings	(3,000)	-
Net cash used in financing activities	(3,000)	-
Effects of exchange rate changes	(181)	362
Net increase/(decrease) in cash and cash equivalents	3,825	(1,081)
Cash and cash equivalents at beginning of the period	694	3,460
Cash and cash equivalents at end of the period	4,519	2,379

The notes on pages 6 to 12 form part of these condensed consolidated interim financial statements.

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Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)
(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 190 Elgin Avenue, George Town, Grand Cayman, KY1-9005, Cayman Islands. Tethys is an oil and gas company operating within the Republic of Kazakhstan. 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 NEX Board of the Toronto Venture Exchange. 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 consolidated financial statements in determining the ability of the Company to adopt the going concern basis in preparing the consolidated financial statements for the three months ended March 31, 2020. The Company reported a loss of \$7.4 million for the three months ended March 31, 2020 (2019 year: \$8.8 million loss) and an accumulated deficit as at that date of \$371.5 million (December 31, 2019: \$365.7 million) and negative working capital of \$26.5 million (December 31, 2019: negative \$47.1 million). In addition, the Company reported cash flow from operating activities before tax of \$7.3 million for the three months ended March 31, 2020 (2019 year: \$5.0 million).

Due to facts and circumstances described further below, there are material uncertainties that cast significant doubt on the Company's ability to continue as a going concern.

The Company's financial position materially improved when the Company's loan obligations were all restructured, repaid and/or converted into Tethys ordinary shares in January 2020 and a settlement agreement was signed with Olisol Petroleum Limited ("Olisol") and DSFK Special Finance Company LLP ("DSFK") in February 2020 to resolve all disputed matters with those parties. On April 16, 2020 the Company announced that it had completed the issuance of a \$4.8 million convertible debenture and received the proceeds which will be used to make the settlement payment to DSFK, reduce debt and for general working capital purposes. Further details of these transactions are provided in note 20 of the Company's 2019 consolidated financial statements – *Subsequent events*.

Nevertheless, the Company does not have sufficient funding to fund its obligations for the next twelve months and will need to raise funds to meet any shortfall and to fund its planned capital expenditure program. The Company also has various commitments and contingencies as disclosed in note 19 of the 2019 consolidated financial statements. These circumstances indicate the existence of a material uncertainty which cast significant doubt on the Company's ability to continue as a going concern.

Possible adverse effects from the Covid-19 pandemic could include lower oil & gas prices received by the Company due to lower demand for oil & gas, customers not paying for oil & gas delivered, planned oil & gas development activities becoming uneconomic due to lower prices, difficulty in obtaining future financing, failure of suppliers who are no longer be able to supply goods and services and employees becoming unavailable due to sickness or quarantine

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

(in thousands of US dollars)

measures. However, the Company's oil & gas operations are in a remote region of Kazakhstan where no cases of Covid-19 have been reported and the Company is taking precautions to prevent personnel from becoming infected and to identify infections at any early stage should they occur. At the time of writing, the Company has not suffered any significant adverse effect from Covid-19 and, at this time, it is not possible to determine what effect, if any, Covid-19 will have on the Company's operations over the next twelve months.

In order to support the Company's short term liquidity position and improve the Company's financial situation, we will need to:

- Implement the transactions required by the settlement agreement with Olisol and DSFK signed in February 2020, as described in note 20 of the 2019 consolidated financial statements;
- Finish testing of the newly drilled KBD-02 ("Klymene") 2,750m exploration well and, if successful, commence oil production;
- Drill new oil & gas wells to increase production levels and revenues; and
- Secure funding required to meet 2020 capital expenditure plans to the extent that these cannot be funded from existing cash generation. The Company has begun discussions with banks regarding the provision of funding.

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 its planned capital expenditure program including its contractual obligations, 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 realise its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

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, 2019.

The condensed consolidated interim financial statements are presented in United States Dollars ("\$").

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

New accounting policies

There were no new and revised standards adopted by the Company during the three months ended March 31, 2020 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 two geographical markets: Kazakhstan and Rest of World (or Corporate).

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. The Company also operates a corporate segment which provides loan funding for development activities in Kazakhstan.

The following is an analysis of the Company's revenue, results and assets by reportable segment for the three months ended March 31, 2020:

	Kazakhstan	Corporate	Total ¹
Gas sales	3,501	-	3,501
Oil sales	-	-	-
Segment revenue and other income	3,501	-	3,501
(Loss)/profit before taxation	(14,488)	6,866	(7,622)
Taxation	200	(10)	190
(Loss)/profit for the period	(14,288)	6,856	(7,432)
Total assets	96,080	106,912	96,421
Total liabilities	131,801	25,392	50,622
Expenditure on exploration & evaluation assets, property, plant and equipment	165	-	165
Depreciation, depletion & amortization	1,141	-	1,141

Note 1 – Total is after elimination of inter-segment items of \$106,571,000.

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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, 2019:

	Kazakhstan	Corporate	Total ¹
Gas sales	4,174	-	4,174
Oil sales	482	-	482
Segment revenue and other income	4,656	-	4,656
Profit/(loss) before taxation	2,016	(1,537)	479
Taxation	264	-	264
Profit/(loss) for the period	2,280	(1,537)	743
Total assets	110,559	106,299	110,817
Total liabilities	123,696	36,162	53,817
Expenditure on exploration & evaluation assets, property, plant and equipment	455	-	455
Depreciation, depletion & amortization	1,250	-	1,250

Note 1 – Total is after elimination of inter-segment items of \$106,041,000.

4 (Loss)/earnings per share

Continuing operations	Units	Three months ended March 31	
		2020	2019
Loss/(profit) for the purpose of basic and diluted (loss)/earnings attributable to ordinary shareholders	\$'000	(7,432)	743
Weighted average shares	000s	81,837	68,324
Per share amount	\$	(0.09)	0.01

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit 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.

5 Oil and gas properties – Impairment

Brent and Kazakhstan domestic spot and future oil prices fell significantly during the period ended March 31, 2020 due to world-wide over-supply and low demand for oil as a result of the Covid-19 pandemic. As of March 31, 2020, the Company identified this decline in oil prices as an impairment indicator and performed an assessment for impairment on the carrying value of its Akkulka Oil assets. The recoverable amount was determined using the higher of Fair Value Less Cost of Disposal ("FVLCD") or Value in Use. As a result, the Company impaired \$15,282,000 of its oil assets in relation to the Akkulka Oil Cash Generating Unit ("CGU")

Based on the impairment test performed by management, the recoverable amount of the Akkulka Oil was lower than its carrying value. The FVLCD was calculated using a discounted cash flow model based on the proved plus probable reserves using forecast oil and gas prices and an after-tax discount rate of 13%. The cash flow model used is considered a level 3 fair value technique based on the unobservable inputs used. An increase of 1% to the discount rate would

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

(in thousands of US dollars)

have increased the impairment by \$2.3 million, while a 1% decrease to the discount rate would have decreased the impairment by \$2.5 million.

FVLCD calculation assumes the following forecast oil and gas sales prices in \$/bbl. The Company has assumed that all oil produced will be sold on the Kazakhstan domestic market. The domestic oil price forecast for 2020 is based on actual prices received by the Company in 2019 adjusted downward for the reduction in Brent oil price forecasts for 2020 and future years' forecasts of domestic prices are linked to Brent oil prices forecasts published by a reputable consultancy.

Year	Brent oil bbl	Domestic oil bbl
2020	\$30.00	\$14.96
2021	\$40.00	\$18.85
2022	\$50.00	\$22.81
2023	\$51.00	\$22.89
2024	\$52.02	\$23.18
2025	\$53.06	\$23.54
2026	\$54.12	\$23.90
2027	\$55.20	\$24.25

Thereafter price escalation at 1.5% p.a.

6 Other gains and losses

Loan Restructuring

On January 6, 2020, the Company announced that it had agreed with one of its lenders (Khan Energy (Cayman) SPV Limited) to restructure a loan with current outstanding balance of \$14.1 million, the key terms of which are described below:

- (1) The lender provided a waiver of all past defaults;
- (2) The maturity date was extended from January 31, 2017 to December 31, 2021;
- (3) Repayment of \$1,000,000 due contingent upon certain future events;
- (4) A discount of \$500,000 will be applied to the outstanding balance upon payment of the \$1,000,000;
- (5) The Company shall be required to use 15% of any gas sales receipts (net of VAT) received by its subsidiary companies, subject to a minimum of \$200,000 per month, to repay a portion of the outstanding balance;
- (6) The interest rate has changed from 20% to 10.5%, payable monthly;
- (7) An early payment discount will apply if Tethys makes any repayments exceeding those described above on or before June 30, 2020 such that the outstanding balance will be reduced by two times the amount of the repayment i.e. an effective discount of up to 50% of the outstanding balance; and
- (8) A discount of \$2,000,000 will apply to the outstanding balance upon full repayment of the loan on or prior to the maturity, less the amount of any early payment discount already received.

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

Second Loan Restructuring

On January 17, 2020, the Company announced that it had signed a loan amendment agreement (“Amendment Agreement”) with one of its lenders to restructure the loan originally made to the Company by AGR Energy Limited No. 1 (the “Loan”) with current outstanding balance of approximately \$12.1 million, the key terms of which are described below:

- (1) The lender has provided a waiver of all past defaults;
- (2) The maturity date has been extended from June 30, 2017 to June 30, 2021;
- (3) The outstanding loan balance has been reduced from \$12.1 million to \$9.0 million;
- (4) The Loan which bore a default interest rate of 18% will no longer bear interest; and
- (5) Twelve monthly repayments of \$750,000 will be due commencing July 31, 2020.

The loan restructurings described above represent a substantial modification of the terms of the existing financial liabilities and so have been accounted for as an extinguishment of the original financial liabilities and the recognition of new financial liabilities at their estimated fair values.

The difference between the carrying amount of the financial liabilities extinguished and the new liabilities assumed, have been recognised in profit or loss as *Other gains and losses*.

7 Subsequent events

Gas Sales Prepayment

On April 16, 2020, the Company announced that its Kazakhstan subsidiary TethysAralGas LLP (“TAG”) had received a prepayment of approximately \$7.6 million from its gas customer. TAG will continue to invoice its gas customer monthly in the normal way and the price of gas sold will be determined each month in accordance with the terms of the existing gas sales contract.

Completion of Debenture

On February 8, 2020 the Company announced that it had reached a legally binding settlement agreement with Olisol Petroleum Limited and certain of its affiliated companies and their principals (together “Olisol”) and DSFK Special Finance Company LLP (“DSFK”) pursuant to which Tethys planned to issue a convertible debenture (the “Debenture”) to Gemini IT Consultants DMCC (“Gemini”).

On April 16, 2020 the Company announced that it has completed the issuance of the Debenture in the amount of \$4.8 million and received the proceeds. The Debenture has a three year term, interest and principal due at maturity, interest rate of 9% payable if held to maturity or 4% if converted prior to maturity. The Debenture is convertible at Gemini’s option any time up to the maturity date at \$0.31 per Tethys ordinary share.

Repayment of Corporate Loan

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

(in thousands of US dollars)

On January 6, 2020 the Company announced that it had agreed with one of its lenders, Khan Energy (Cayman) SPV Limited, to restructure a loan (the “Khan Energy Loan”) with outstanding balance at that date of approximately \$14.1 million.

Tethys announced on April 16, 2020 that it had fully repaid the restructured Khan Energy Loan by remitting approximately \$7.7 million.

TSX Venture Exchange Application

Tethys received conditional approval from the TSX Venture Exchange (“TSXV”) to graduate from the NEX Board to the TSXV as a Tier 2 Oil & Gas Issuer. Graduation to the TSXV is conditional on completion of the Debenture and the previously announced shares for debt transaction with Olisol. Now that the Debenture has been completed the Company plans to complete in short order the shares for debt transaction with Olisol and will then request the TSXV to promote Tethys to the TSXV.