Tethys Petroleum Limited

Consolidated Financial Statements
For the years ended December 31, 2018 and 2017

Contents

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

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

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

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

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

We confirm that to the best of our knowledge:

- the consolidated financial statements, prepared in accordance with International Financial Reporting Standard ("IFRSs"), give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

- the Management Discussion & Analysis and the Annual Information Form include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We draw attention to the section entitled "Going concern" in note 1 to the Consolidated Financial Statements which describes the material uncertainties relating to the Company's adoption of the going concern basis in preparing the Financial Statements for the year ended December 31, 2018 that may cast significant doubt about Tethys Petroleum Limited's ability to continue as a going concern.

For and on behalf of the Board

W. Wells
Chairman
April 30, 2019

A. Ogunsemi
Director
April 30, 2019

Independent auditor's report to the members of Tethys Petroleum Limited

Opinion

Our opinion on the group financial statements is unmodified

We have audited the financial statements of Tethys Petroleum Limited for the year ended December 31, 2018 which comprise the consolidated statements of financial position, consolidated statements of comprehensive income (loss), consolidated statements of changes in equity, consolidated statements of cash flows, and the related notes including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

In our opinion, the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2018 and of the group's loss for the year then ended;
- have been properly prepared in accordance with IFRSs issued by the IASB;
- have been prepared in accordance with the requirements of the Cayman Islands Companies Law.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to Note 21 in the financial statements which describes the investment required in respect of exploration and production licenses. It is disclosed that failure to comply with contractual requirements could lead to the licenses being terminated. The level of the group's investments in the year ended 31 December 2018 could result in licenses being terminated, though the group has not received any notifications of actual or threatened termination of any its licences. Our opinion is not modified in respect of this matter.

Material uncertainty related to going concern

We draw attention to Note 1 in the financial statements, which indicates that the group reported a profit of $4.5 million for the year ended 31 December 2018, an accumulated deficit as at that date of $356.9 million, and negative working capital of $30.9 million. Note 1 also discloses other events and uncertainties which could have an impact on the group's ability to continue as a going concern. As stated in Note 1, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Material uncertainty related to going concern	
See the Group statement on going concern in Note 1 to the financial statements, which indicates that there is a material uncertainty relating to the Group's ability to continue as a going concern. The Board's going concern assessment includes the following factors: - The loans are currently past due at year end which could result in the lenders calling the loans in which the group would not be able repay; - There are currently outstanding supplier amounts including the Great Wall Drilling debt (as disclosed in note 16) that could result in suppliers securing an interest in un pledged property as a result of non-	Our audit work included, but was not restricted to: • Assessing the construction, integrity and accuracy of the model used for the purposes of cash flow forecasting. • Agreeing key inputs into the model, such as revenue and cost assumptions, to underlying budgets and forecasts approved by the Board. • Challenging the appropriateness of key judgements and key assumptions made in the Group's cash flow forecast model • Assessing the projected level of liquidity headroom in the Group's cash flow forecast model over the going concern period • Challenging the process that management has

payment. - The group has made losses since inception and continues to do so for the foreseeable future based on current operations; - The group is in an insolvent position as its current liabilities exceed its current assets and - Unless additional funding can be obtained, there are insufficient funds available to support operations for the foreseeable future. The Board is seeking additional funding from a current shareholder to enable the group to continue to operate. This additional funding had not been secured at the date of this report. This will be contingent on gaining shareholder approval for the definitive purchase agreement These events and conditions give rise to a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.	undertaken to conclude over the duration of the going concern period • Reading other information that includes projections beyond the assessed going concern period, and assessing whether the disclosures provided give rise to any event or condition outside of the going concern period that may cast significant doubt over the Group's ability to continue as a going concern • Recalculating the sensitivities prepared by management to assess their accuracy, challenge management's assessment of going concern and consider the appropriateness of management's sensitivity analysis • Challenging management on the sufficiency and appropriateness of the disclosures within the Board's going concern statement • Reviewing communications with the lenders to gain comfort that there is no indication that they intend to call the loans due soon. • Communicating with legal advisors employed by the group to understand in what respect they acted, the status of the litigation, and the probability of the group incurring liabilities as a result of this litigation. • Making inquiries of the group's in-house legal team to understand their awareness of ongoing or threatened litigation, their assessment of the group's exposure to litigation and the probability of the group incurring liabilities as a result of this litigation. • reviewing draft settlement agreements, the draft share purchase agreement and draft refinancing agreements to ensure that management is pro-actively working with creditors, shareholders and suppliers. • discussion with management of the status of negotiations with the shareholder, relating to the additional investment into the Group. Key observations A material uncertainty exists that may cast significant doubt over the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matters	**How the matter was addressed in the audit**
Recoverability of the oil and gas property, and exploration and evaluation assets The Group has oil and gas assets in both the production stage and exploration and evaluation stage. There is the risk that long term cash flows will not be sufficient to realise the value attributed to capitalised expenditure on	Our audit work included, but was not restricted to: • obtaining management's assessment of indicators of impairment for exploration and evaluation assets, examining production licenses and resource reports produced by geological experts. • checking the mathematical accuracy of management's impairment calculation; identifying

Key Audit Matters	How the matter was addressed in the audit
these assets. $71,183,000 has been capitalised in property, plant and equipment for those assets in the production stage and $29,423,000 has been recognised as intangible assets for those assets used in exploration and evaluation activity. Significant management judgement is involved with respect to whether there is an impairment of the assets. Impairment of the assets may result in the use of the going concern basis of preparation to be inappropriate. We therefore identified the recoverability of the oil and gas property and exploration and evaluation assets as a significant risk, which was one of the most significant assessed risks of material misstatement.	any significant changes between the current and prior period. • challenging the appropriateness of managements' key assumptions which included the oil and gas sales price, which was benchmarked against forecast oil and gas prices from an independent source. • confirming that the amount of oil and gas reserves included within the calculation was not in excess of the proved and probable amount estimated by a third party. • assessing management's calculation of mineral extraction taxes and comparing the calculation of tax due with the current requirements of the tax code in Kazakhstan. The group's accounting policy on recoverability of the oil and gas property, and exploration and evaluation assets, is shown in note 2 to the financial statements and related disclosures are included in notes 12 and 13. Key observations Our testing did not identify any material misstatements in respect of the recoverability of oil and gas property and exploration and evaluation assets.
Revenue and contract accounting A total of $10.3 million of revenue was recognised for the sale of crude oil and natural gas, $7.7 million and $2.6 million for gas sales and oil sales respectively. Revenue is recognised in the group financial statements when the risk of ownership passes to the customer and physical delivery occurs. Additionally, the group has adopted IFRS 15 in the year which involved significant management judgement and potentially restating prior year balances and updating accounting policies. We therefore identified revenue recognition and contract accounting as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • documenting the processes and key controls in place for recognising both oil and gas sales revenue. • the performance of revenue analytics across both the oil and gas revenue streams by month and by customer. • obtaining oil and natural gas sales contracts which were in place during the financial year, reviewing key components of the contracts and assessing whether revenue recognition complies with IFRS 15 – Revenue from contracts with customers. • tracing monthly gas revenue to third party supporting documentation to check the volume of gas extracted. • recalculating the fee receivable for gas revenue in accordance with the contract to determine whether revenue was accurately recorded. • tracing a sample of oil sales transactions to relevant supporting documentation to obtain assurance in respect of the occurrence of revenue and whether it had been recognised in accordance with the client's accounting policies. The Group's accounting policy on revenue recognition is shown in note 2 to the financial statements and related disclosures are included in note 7. Key observations Our testing did not identify any material misstatement in

Key Audit Matters	How the matter was addressed in the audit
	respect of revenue. We agreed with management's conclusion that the adoption of IFRS15 did not have a material impact on the consolidated financial statements.
Debt accuracy verification A total liability of $33.9 million was recognised as due at the year-end date, $5.3 million of which was disclosed as non-current, and $28.6 million as current. All interest-bearing loans within the Group financial statements are initially recognised at fair value, being the proceeds received net of issue costs associated with the borrowing. After initial recognition, they are subsequently measured at amortised cost using the effective interest method. The group is in breach of several of the loans payable, which would normally attract default finance costs rates. Due to the size of these loans, we have identified there is a risk that the interest and other charges have not been accurately calculated and disclosed. We have therefore identified debt as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • an examination of the loan agreements held to determine whether all loans have been correctly recognised and disclosed within the financial statements. • directly confirming the value of the loans due at the reporting date with the relevant lender. • Evaluating management's assessment of compliance with the related loan covenants. • a recalculation of the interest expense and interest amounts payable, using information extracted from the loan agreement, and current market base rates including default interest. The Group's accounting policy on borrowings is shown in note 2 to the financial statements and related disclosures are included in note 15. Key observations Our work identified that as a result of the default relating to the corporate loan financing as disclosed in note 15, interest would be accrued for daily on the unpaid amount of the loan, at a rate of 20% per annum, compounded at the end of each month. Management have adjusted the financial statements accordingly. The loan with Annuity and Life Reassurance Ltd was determined to have a compound instrument relating to a conversion option amendment which was made in the 2017 financial year. Management have performed a valuation of the share option and have appropriately adjusted the carrying value of the loan and conversion option. A number of the group's financial loans were overdue at the year-end date and are held as current liabilities, as disclosed in note 15.
Provisions The Group make provision for the future cost of decommissioning oil and gas production facilities discounted back to present value. The costs are expected to be incurred between 2019 and 2029. At the year-end a provision of $1.4 million was recognised. There are also significant contingencies disclosed within the financial statements which may impact the net present value of the asset retirement obligation. In addition, management have to assess whether provisions should be recognised in respect of ongoing	Our audit work included, but was not restricted to: • identification assessment of the key assumptions and inputs used within the calculation of the asset retirement obligation and assessment of them against local market and industry trends to determine whether the assumptions used are reasonable and can be sufficiently supported. • benchmarking of the discount rate used in the calculation of the asset retirement obligation against available market data.

Key Audit Matters	How the matter was addressed in the audit
litigation against the group. required We therefore identified provisions as a significant risk, which was one of the most significant assessed risks of material misstatement.	• communicating with legal advisors employed by the group to understand in what respect they acted, the status of litigation involving the group and the probability of the group incurring liabilities as a result of this litigation. • making enquiries of the group's in-house legal team's to understand their awareness of ongoing or threatened litigation, their assessment of the group's exposure to litigation and the probability of the group incurring liabilities as a result of this litigation. • evaluating whether ongoing litigation and claims should be recognised as provisions or disclosed as contingent liabilities. The Group's accounting policy on provisions is shown in note 2 to the financial statements and related disclosures are included in note 17. Key observations Our testing did not identify any material misstatement in respect of provisions recognised.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Company's Management's Discussion & Analysis document, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRSs), and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards of Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards of Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Grant Thornton UK LLP

Christopher Raab
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

30 April 2019

Tethys Petroleum Limited

Consolidated Statements of Financial Position

As at December 31
(in thousands of US dollars)

	Note	2018	2017 Restated[1]
Non-current assets			
Intangible assets	12	29,423	33,318
Property, plant and equipment	13	71,183	73,084
Restricted cash		3	5
Trade and other receivables	14	1,423	2,734
Deferred tax	10	-	75
		102,032	**109,216**
Current assets			
Cash and cash equivalents		3,460	77
Trade and other receivables	14	2,932	3,530
Inventories		307	626
Restricted cash		1	1
		6,700	**4,234**
Assets held for sale	13	-	3,473
Total assets		**108,732**	**116,923**
Non-current liabilities			
Financial liabilities - borrowings	15	5,281	4,252
Deferred tax	10	8,214	8,505
Provisions	17	1,402	980
		14,897	**13,737**
Current liabilities			
Financial liabilities - borrowings	15	28,604	27,336
Current taxation		604	582
Trade and other payables	16	8,370	27,665
		37,578	**55,583**
Total liabilities		**52,475**	**69,320**
Equity			
Share capital	18	6,832	5,081
Share premium	18	360,769	358,444
Other reserves	18	45,556	45,499
Accumulated deficit		(356,900)	(359,339)
Non-controlling interest		-	(2,082)
Total equity		**56,257**	**47,603**
Total equity and liabilities		**108,732**	**116,923**
Going concern	1		
Commitments and contingencies	21		
Subsequent events	22		

Note 1 - refer to note 2 and 5 to consolidated financial statements for details of the prior year restatement.

The notes on pages 12 to 55 form part of these consolidated financial statements. The consolidated financial statements were approved by the Board on April 30, 2019 and were signed on its behalf.

W. Wells
Chairman

A. Ogunsemi
Director

Tethys Petroleum Limited

Consolidated Statements of Comprehensive Income (Loss)

For the year ended December 31

(in thousands of US dollars, except per share amounts)

	Note	2018	2017 Restated[1]
Sales and other revenues	7	10,339	7,998
Production expenses		(3,667)	(4,571)
Depreciation, depletion and amortisation		(4,968)	(10,978)
Exploration and evaluation expenditure written off	12	(3,752)	(9,610)
Impairment of oil & gas assets	13	-	(15,259)
Administrative expenses	8	(2,322)	(5,233)
Restructuring costs		-	(83)
Share based payments	9	(57)	(208)
Gain/(loss) on assets held for sale	13	419	(4,827)
Other gains and losses		(883)	(275)
Foreign exchange gain/(loss)		165	(184)
Finance costs		(4,820)	(6,203)
		(19,885)	(57,431)
Loss before tax from continuing operations		**(9,546)**	**(49,433)**
Taxation	10	191	3,191
Loss for the year from continuing operations		**(9,355)**	**(46,242)**
Profit/(loss) for the year from discontinued operations net of tax		**13,876**	**(1,234)**
Profit/(loss) and total comprehensive loss for the year		**4,521**	**(47,476)**
Profit/(loss) and total comprehensive loss attributable to:			
Shareholders		2,439	(47,293)
Non-controlling interest		2,082	(183)
Profit/(loss) and total comprehensive profit/(loss) for the year		**4,521**	**(47,476)**
Earnings/(loss) per share attributable to shareholders:			
Basic and diluted - from continuing operations ($)	11	(0.17)	(0.91)
Basic and diluted - from discontinued operations ($)	11	0.21	(0.02)

Note 1 - refer to notes 2 and 5 to consolidated financial statements for details of the prior year restatement.

No dividends were paid or are declared for the year (2017: Nil).

The notes on pages 12 to 55 form part of these consolidated financial statements.

Tethys Petroleum Limited

Consolidated Statements of Changes in Equity

(in thousands of US dollars)

		Attributable to shareholders					
	Note	**Share capital**	**Share premium**	**Accumulated deficit Restated[1]**	**Other reserves Restated[1]**	**Non-controlling interest**	**Total equity Restated[1]**
At January 1, 2017	18	**5,081**	**358,444**	**(312,046)**	**43,648**	**(1,899)**	**93,228**
Comprehensive loss for the year		-	-	(47,293)	-	(183)	(47,476)
Compound instrument issued		-	-	-	1,643	-	1,643
Transactions with shareholders							
Share-based payments		-	-	-	208	-	208
Total transactions with shareholders		-	-	-	208	-	208
At December 31, 2017	18	**5,081**	**358,444**	**(359,339)**	**45,499**	**(2,082)**	**47,603**
Comprehensive profit for the year		-	-	2,439	-	2,082	4,521
Transactions with shareholders						-	-
Shares issued		1,751	2,325	-	-	-	4,076
Share-based payments		-	-	-	57	-	57
Total transactions with shareholders		1,751	2,325	-	57	-	4,133
At December 31, 2018	18	**6,832**	**360,769**	**(356,900)**	**45,556**	**-**	**56,257**

Note 1 - refer to notes 2 and 5 to consolidated financial statements for details of prior year restatement.

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 12 to 55 form part of these consolidated financial statements.

Tethys Petroleum Limited

Consolidated Statements of Cash Flows

For the year ended December 31
(in thousands of US dollars)

	Note	2018	2017 Restated[1]
Cash flow from operating activities			
Loss before tax from continuing operations		(9,546)	(49,433)
Profit/(loss) before tax from discontinued operations		13,876	(1,234)
Adjustments for:			
Share based payments	9	57	208
Net finance cost		4,820	6,203
Depreciation, depletion and amortisation	13	4,968	10,978
Unsuccessful exploration and evaluation expenditures	12	3,752	10,151
Impairment charges	13	-	15,259
(Gain)/loss on revaluation of assets held for sale	13	(419)	4,827
Other gains and losses		735	-
Foreign exchange loss on loans		45	108
Movement in provisions		-	(257)
Net change in non-cash working capital	20	(17,306)	4,528
Cash from operating activities		**982**	**1,338**
Corporation tax paid		(3)	(24)
Net cash from operating activities		**979**	**1,314**
Cash flow from investing activities			
Expenditure on exploration and evaluation assets		(10)	(734)
Expenditure on property, plant and equipment		(2,749)	(4,544)
Proceeds from sale of fixed assets		3,892	37
Movement in restricted cash		3	4,945
Movement in advances to construction contractors		27	83
Movement in value added tax receivable		162	120
Net change in non-cash working capital	20	(151)	4,562
Net cash from investing activities		**1,174**	**4,469**
Cash flow from financing activities			
Repayment of borrowings	15	(2,823)	(4,929)
Interest paid on borrowings		(438)	(815)
Proceeds from issuance of equity		4,076	-
Movement in other non-current liabilities		-	(110)
Net cash from/(used in) financing activities		**815**	**(5,854)**
Effects of exchange rate changes on cash and cash equivalents		415	(301)
Net increase/(decrease) in cash and cash equivalents		**3,383**	**(372)**
Cash and cash equivalents at beginning of the year		77	449
Cash and cash equivalents at end of the year		**3,460**	**77**

Note 1 - The company has elected to present a statement of cash flows that analyses cash flows for both continuing and discontinued operations; amounts related to discontinued operations are disclosed in note 5. 2017 amounts have been restated for operations discontinued in 2018. Refer also note 2 to the consolidated financial statements.

The notes on pages 12 to 55 form part of these consolidated financial statements.

1 General information and going concern

Tethys Petroleum Limited ("Tethys" or the "Company") 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 had its primary listing on the Toronto Stock Exchange ("TSX") until March 23, 2018 when it transferred to NEX, a subsidiary 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 year ended December 31, 2018. The Company reported a profit of $4.5 million for the year ended December 31, 2018 (2017: $47.5 million) and an accumulated deficit as at that date of $356.9 million (December 31, 2017: $359.3 million) and negative working capital of $30.9 million (December 31, 2017: negative $51.3 million). In addition, the Company reported cash flow from operating activities before tax of $1.0 million for the year ended December 31, 2018 (2017: $1.3 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 currently does not have sufficient funding to fund its obligations for the next twelve months should all lenders call in their debts at once. The Company is currently in default on loan obligations as disclosed further in note 15 and various commitments and contingencies as disclosed in note 21. The Company has been in discussions and negotiations with the related counterparties to restructure the repayments that are currently due. In order to continue as a going concern, the Company will need to agree adequate terms with counterparties to restructure repayments. There is material uncertainty about the outcome of these negotiations which casts significant doubt on the Company's ability to continue as a going concern.

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

- Complete the proposed change of control transaction with Jaka Partners FZC, as more particularly described in note 22;

- Maintain the improved oil and gas pricing received since September 2018 and work to improve prices further during 2019;

- Ensure continuity of gas production operations and optimise production volumes by completing the upgrade of the gas compression facility;

- Retain exploration & production contracts by fulfilling work program obligations including successfully drilling new oil wells in the Akkulka and Kul-bas contract areas; and

- Formalise repayment terms for overdue debts to lenders and suppliers.

In September and October 2018, the Company announced it had raised funds of approximately $4.1m from the issuance of shares to a new investor. Some of these proceeds have been used to upgrade gas compressor facilities and to tie in previously drilled gas wells to increase production and cash flow.

On March 19, 2019 the Company announced that it had signed a Definitive Agreement with the same investor for the acquisition of control the Company at a significant premium to the trading price of the Company's shares before the proposed transaction was first announced in December 2018. The Proposed Transaction is subject to a number of approvals, including shareholder, which are outside the Company's control although, if completed, it is anticipated that the new investor will provide the Company with the financial support required to continue to operate as a going concern. There is material uncertainty as to whether the definitive agreement will be approved resulting in additional funding being made available to the Company. This casts significant doubt on the ability of the Company to continue as 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 realise its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2 Summary of significant accounting policies

Basis of preparation

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

Statement of compliance

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

(tabular amounts in thousands of US dollars, except where otherwise noted)

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

Discontinued operation

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

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

The results of the Tajikistan segment have been disclosed as a discontinued operation and shown separately from the results of the Company's continuing operations. In accordance with the disclosure requirements for discontinued operations, the comparative figures in the consolidated statement of comprehensive income (loss) have been restated to be consistent with the current year presentation. Further details are given in note 5.

Adoption of new accounting standards

IFRS 16 – Leases ("IFRS 16") is effective for years beginning on or after January 1, 2019, however the Company has elected to adopt IFRS 16 effective January 1, 2018, concurrent with the adoption date of IFRS 9 – Financial Instruments ("IFRS 9"), and IFRS 15 – Revenue from Contracts with Customers ("IFRS 15"). These standards have been applied using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognises the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. Accordingly, comparative information in the Company's consolidated statements of financial position, consolidated statements of comprehensive income (loss), consolidated statements of changes in equity and consolidated cash flow statements are not restated.

Changes in significant accounting policies from adoption of new accounting standards

Policies applicable for the year ending December 31, 2017	**Policies effective January 1, 2018**
Revenue Recognition	
Product revenues associated with the sales of crude oil and natural gas are recognised when the risk of ownership passes to the customer and physical delivery occurs, the price is fixed and	The Company enters into contracts with customers to sell oil and gas. There is one performance obligation in each contract and the selling price prescribed in the contract is allocated to that

collection is reasonably assured. Sales terms are generally freight on board ("FOB") shipping point, in which case the sales are recorded at the time of shipment, because this is when title and risk of loss are transferred. All payments received before delivery are recorded as deferred revenue and are recognised as revenue when delivery occurs, assuming all other criteria are met.	performance obligation. The Company recognises revenue when it transfers control of a product to a customer, at a point in time or over time. The Company does not have contracts where the period between the transfer of the promised goods or services to the customer and payments by the customer exceeds one year. As such, no adjustments are made to the transaction prices for the time value of money.
The adoption of IFRS15 did not have a material impact on these consolidated financial statements. None of the financial statement line items were affected in the current reporting period by the application of the standard.	
Leases - lessee	
A finance lease is a lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee. Assets acquired under finance leases are recorded in the balance sheet as property, plant and equipment at the lower of their fair value and the present value of the minimum lease payments and depreciated over the shorter of their estimated useful life or their lease terms. The corresponding rental obligations are included in other long-term liabilities as finance lease liabilities. Interest incurred on finance leases is charged to the consolidated statements of operations on an accrual basis.	For all leases a right-of-use asset and corresponding liability are recognised at the date of which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated statements of operations over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.
All other leases are operating leases, and the rental of these is charged to the consolidated statements of operations as incurred over the lease term.	Lease payments on short term leases with lease terms of less than twelve months or leases on which the underlying asset is of low value are accounted for as expenses in the consolidated statements of operations. Liabilities arising from a lease are initially measured on a present value basis. Right-of-use assets are measured at initial carrying value of the liability less depreciation and impairment.

The adoption of IFRS16 did not have a material impact on these consolidated financial statements because the Company does not have any lease agreements with terms of more than twelve months.

Non-derivative financial instruments – recognition and measurement

Financial assets

Financial assets include cash and cash equivalents and trade and other receivables. The Company determines the classification of its financial assets at initial recognition. Financial assets are recognised initially at fair value, normally being the transaction price plus directly attributable transaction costs. The Company does not have any investments and has no financial assets that are classified as fair value through profit and loss or fair value through other comprehensive income.

All financial assets are accounted for using amortised cost. These assets are recorded at their initial carrying value which best reflects fair value and then subsequently measured at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in the consolidated statements of operations when the financial assets are derecognised or impaired, as well as through the use of the effective interest method. This category of financial assets includes cash and cash equivalents and trade and other receivables.

Cash and cash equivalents comprise cash on hand and short-term deposit, highly liquid investments that are readily convertible to known amounts of cash which are subject to insignificant risk of changes in value and maturity of three months or less from the date of acquisition.

A provision for impairment of trade receivables is established when there is objective evidence that the Company may not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments

For trade receivables, the simplified approach is applied to the Company's respective business units, which requires the use of the lifetime expected loss provisions for expected credit losses. To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics and the days past due.

(more than 30 days past the due date) are considered indicators that the trade receivable may be impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated statements of operations. When a trade receivable is uncollectible, it is written off

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated statements of operations. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

against the allowance account for trade receivables.	

Financial liabilities

The Company determines the classification of its financial liabilities at initial recognition. Financial liabilities are classified as amortised costs. All financial liabilities are initially recognised at fair value. For interest-bearing loans and borrowings this is the fair value of the proceeds received net of issue costs associated with the borrowing. After initial recognition, financial liabilities are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised in the consolidated statements of operations. These include amounts borrowed under credit facilities, trade payables and accrued charges, long-term debt and the convertible debentures.

Compound financial instruments

Compound financial instruments are separated into liability and equity components. The liability component is recognised initially at the fair value of a similar liability that does not have an equity conversion option and the equity component is recognised as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component net of any deferred taxes. Any transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of the compound financial instrument is measured at amortised cost and is accreted to the original principal balance using the effective interest method. The equity component is not remeasured subsequent to initial recognition. The equity component and the accreted liability component are reclassified to share capital upon conversion and any balance in the equity component of the compound financial instrument that remains after the settlement of the liability is transferred to contributed surplus.

Derivative financial instruments

Derivative financial instruments are accounted for as fair value through profit and loss. The derivative financial instrument is initially recorded at its fair value. These instruments are then subsequently measured at fair value at each reporting date with changes in value being recognised in profit and loss.

The adoption of IFRS9 did not have a material impact on these consolidated financial statements. The company does not engage in hedge accounting and does not have any complex accounting treatments.

(tabular amounts in thousands of US dollars, except where otherwise noted)

The Company has the following financial assets and financial liabilities classified as amortised cost:

	Note	2018	2017 Restated[1]
Financial assets			
Trade and other receivables	14	1,490	2,004
		1,490	**2,004**
Financial liabilities			
Financial liabilities - borrowings	15	33,885	30,920
Trade and other payables	16	8,370	27,665
		42,255	**58,585**

Note 1 - refer to notes 2 and 5 to consolidated financial statements for details of the prior year restatement.

Impact of the adoption of IFRS9, 15 and 16.

There was no impact of the adoption of IFRS 9, 15 and 16 on the consolidated statement of financial position as at January 1, 2018.

Financial instruments

The Company carries the following categories of financial assets subject to expected credit losses model under IFRS 9:

- Trade receivables

The Company has revised its impairment methodology under IFRS 9 for the above noted class of assets and applied the simplified approach on all trade receivables which requires the use of the lifetime expected loss provisions for expected credit losses.

There was no impact to the classification of the Company's financial assets from the adoption of IFRS 9.

New interpretations and amended standards adopted by the Company

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

- IFRS 2 – Share-based payments ("IFRS 2"), has been amended to address (i) certain issues related to the accounting for cash settled awards, and (ii) the accounting for equity settled awards that include a "net settlement" feature in respect of employee withholding taxes. IFRS 2 is effective for annual periods beginning on or after January 1, 2018. The adoption of this interpretation did not have a material impact on its consolidated financial statements.

- IFRIC 22 – Foreign currency transactions and advance consideration ("IFRIC 22"), provides guidance on how to determine the date of the transaction when an entity either pays or receives consideration in advance for foreign currency-denominated contracts. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018. The adoption of this interpretation did not have a material impact on its consolidated financial statements.

- IAS 28 – Investments in associates and joint ventures ("IAS 28"), has been amended to clarify that an entity applies IFRS 9, including its impairment requirements, to long-term interests in associate or joint venture to which the equity method is not applied. The amendment to IAS 28 is effective for years beginning on or after January 1, 2018. The Company has determined that the adoption of this interpretation did not have a material impact on its consolidated financial statements.

- The annual improvements process addresses issues in the 2014-2016 reporting cycles include changes to IFRS 1 – First time adoption of IFRS, IFRS 7 – Financial instruments: Disclosures, IAS 19 – Employee benefits, IFRS 10 – Consolidated financial statements and IAS 28 – Investment in associates and joint ventures. This improvement is effective for periods beginning on or after January 1, 2018. The adoption of these improvements did not have a material impact on the consolidated financial statements.

New standards and interpretations issued but not yet adopted

The following accounting interpretations and standards were issued during the year:

- IAS 19 – Employee benefits ("IAS 19"), has been amended to (i) require current service cost and net interest for the period after the re-measurement to be determined using the assumptions used for the re-measurement, and (ii) clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The amendment to IAS 19 is effective for the years beginning on or after January 1, 2019.

- IFRS 3 – Business Combinations ("IFRS 3"), has been amended to revise the definition of a business to include an input and a substantive process that together significantly contribute to the ability to create outputs. The amendment to IFRS 3 is effective for the years beginning on or after January 1, 2020.

- IAS 1 – Presentation of financial statements ("IAS 1") and IAS 8 – Accounting policies, changes in accounting estimates and errors ("IAS 8"), have been amended to (i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; (ii) clarify the explanation of the definition of material; and iii) incorporate guidance in IAS 1 regarding immaterial information. The amendments to IAS 1 and IAS 8 are effective for the years beginning on or after January 1, 2020.

These new standards are not expected to have any material impact on the financial statements when adopted.

Restatement of comparative amounts

Comparative amounts have been restated as follows:

(i) *Finance costs* for the year ended December 31, 2017 and *Financial liabilities – borrowings* at that date have been increased by $668,000 to correct for an error in the calculation of accrued interest on one of the of the Company's loans;

(ii) *Finance costs* for the year ended December 31, 2017 have been increased by $308,000, *Financial liabilities – borrowings* at that date have been reduced by $1,335,000 and *Other reserves* have been increased by $1,643,000 to correct an error in the valuation of the compound instrument in connection with the amendment to the terms of the ALR loan on January 27, 2017;

(iii) *Loss on assets held for sale* has been increased by $1,006,000 and *Property, Plant and equipment* has been reduced by the same amount to correct for an error in re-classification of assets from *Property, plant and equipment* to *Assets held for sale* at the December 31, 2017 reporting date.

The total impact of these adjustments was to increase the total comprehensive loss for the year ended December 31, 2017 by $1,982,000 and to reduce total equity at that date by the same amount.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. All subsidiaries, as listed in note 19, have been consolidated into the Company's consolidated financial statements.

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

Loss of control

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

Business combinations

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

Joint arrangements

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

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

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

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

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

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-makers have been identified as the Board of Directors.

Foreign currency translation

Items included in the financial statements of each of the Company's entities are measured in United States dollars ($) which is the currency of the primary economic environment in which the entities operate ("the functional currency"). These consolidated financial statements are presented in $, which is the Company's functional currency.

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

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

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

Oil and gas exploration and evaluation expenditure

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

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

Farm-out arrangements

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

Test production and the appraisal and development phase

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

Oil and gas properties in the production phase

Oil and gas properties within Property, plant and equipment are stated at cost, less accumulated depletion and accumulated impairment losses.

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

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

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

Other property, plant and equipment

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

Vehicles	Straight line	4 years
Computer equipment	Straight line	3 years
Office equipment	Straight line	5 years

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

Non-current assets held for sale

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

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

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

Impairment of non-financial assets

Exploration and evaluation costs are tested for impairment when reclassified to oil and gas properties or whenever facts and circumstances indicate potential impairment. An impairment loss is recognised for the amount by which the exploration and evaluation expenditure's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the exploration and evaluation expenditure's fair value less costs to sell and their value in use.

Values of oil and gas properties and other property, plant and equipment are reviewed for impairment when indicators of such impairment exist. If any indication of impairment exists an estimate of the asset's recoverable amount is calculated. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the consolidated statement of comprehensive income (loss) so as to reduce the carrying amount to its recoverable amount (i.e. the higher of fair value less costs to sell and value in use).

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

Asset retirement obligation ("ARO")

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

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

Inventories

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

Taxation including deferred taxation

The tax expense represents current tax and deferred tax.

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

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

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

Share–based payments

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

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

Provisions

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

Borrowing costs

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

Restricted cash

Restricted cash comprises interest bearing deposits held in Kazakhstan that have been placed to satisfy local Kazakh requirements in respect of asset retirement obligations. They are carried at fair value with gains or losses taken to the consolidated statement of comprehensive income.

3 Financial Risk Management

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

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

a) Financial risk factors

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to financial instruments fails to meet its contractual obligations. Credit risk arises from the Company's loans receivable from jointly controlled entities, cash and cash equivalents and accounts receivable balances. With respect to the Company's financial assets, the maximum exposure to credit risk due to default of the counter party is equal to the carrying value of these instruments. The maximum exposure to credit risk as at the reporting date is:

(tabular amounts in thousands of US dollars, except where otherwise noted)

	2018	2017
Trade receivables	1,490	2,004
Other receivables	240	292
Loan receivable from joint venture (fully impaired in these financial statements)	3,087	2,907
Cash and cash equivalents	3,460	77
Restricted cash	4	6
	8,281	**5,286**

At December 31, 2018, the trade receivable amounted to $1,490,000 (2017: $2,004,000). Of this, $62,000 of the trade receivables were overdue past 30 days (2017: $1,689,000). The Company seeks to minimise credit risk from trade receivable by dealing with known counter-parties and invoicing and collecting payment on a monthly basis.

Deposits at financial institutions are not covered by bank guarantees. Whilst deposits are held with reputable banks of good standing in the Cayman Islands, Belgium and Kazakhstan, there is nevertheless a risk of credit loss should one of the banks fail and default on its obligations. The Company seeks to minimise credit risk from deposits at financial institutions by utilising financial institutions with acceptable financial standing and where spreading deposits across more than one financial institution when balances reach certain levels.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. This risk relates to the Company’s ability to generate or obtain sufficient cash or cash equivalents to satisfy these financial obligations as they become due. Since inception, the Company has incurred significant consolidated losses from operations and negative cash flows from operating activities, and has an accumulated deficit at December 31, 2018. Refer also to note 1 - Going concern.

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

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

As at December 31, 2018	Carrying amount	Contractual cash flows	Less than 1 year	1-3 years	4-5 years	Thereafter
Non-derivative financial liabilities:						
Trade and other payables	8,370	8,370	8,370	-	-	-
Financial liabilities - borrowings (note 15)	33,885	35,283	28,604	6,679	-	-
Provisions	1,402	1,402	102	-	323	977
Total	**43,657**	**45,055**	**37,076**	**6,679**	**323**	**977**

Refer also to note 1 Going Concern. If the Company is unable to continue as a going concern and was placed into insolvency the maturity of the liabilities shown in the table above may be accelerated.

There can be no assurance that debt or equity financing will be available or sufficient to meet the Company's requirements or if debt or equity financing is available, that it will be on terms acceptable to the Company (see note 1 – Going concern). The inability of the Company to access sufficient capital for its operations could have a material adverse impact on the Company's financial condition, results of operations and prospects.

Refer to note 22 – Subsequent events, for post balance sheet date events affecting financial liabilities.

Market risk

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

Commodity price risk

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

Natural gas prices are subject to wide fluctuations. Any material decline in natural gas spot prices could result in a reduction of Tethys' future net production revenues and impact on the commercial viability of the Company's existing and future oil and gas discoveries. It may become uneconomic to produce from some wells as a result of lower prices, which could result in a reduction in volumes and the value of Tethys' gas reserves, if the Company elected not to produce from certain wells at lower prices. For example, a 20% net price reduction from the December 31, 2018 sales price, would result in a reduction of $2.3 million in gas revenues based on the 2018 gas sales volume of 110,000 Mcm.

Any material decline in oil prices could result in a reduction of the Company's oil revenues in Kazakhstan. For example, a 20% net price reduction from the December 31, 2018 sales price, would result in a reduction of $1.2 million in oil revenues based on the 2018 oil sales volume of 184,000 bbls.

All of these factors could result in a material decrease in the Company's net production revenue causing a reduction in its acquisition and development activities. There were no commodity price financial derivatives outstanding as at December 31, 2018 and 2017.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will be affected by changes in market interest rates. Existing long term loans have been agreed at fixed interest rates and consequently are not exposed to changes in market interest rates and the Company accepts the opportunity cost of favourable changes in market interest rates and does not seek to mitigate this risk.

The Company has insignificant exposure to interest rate risk on cash and cash equivalents. Interest earned on cash and cash equivalents for the year ended December 31, 2018 was $41 (2017: $1,637).

(tabular amounts in thousands of US dollars, except where otherwise noted)

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

As at December 31, 2018	Fixed rate financial instruments	Variable rate financial instruments	Total
Restricted cash	3	1	4
Cash and cash equivalents	-	3,460	3,460
Financial liabilities - borrowings	(33,885)	-	(33,885)
Total	**(33,882)**	**3,461**	**(30,421)**

As at December 31, 2017	Fixed rate financial instruments	Variable rate financial instruments	Total Restated[1]
Restricted cash	5	1	6
Cash and cash equivalents	-	77	77
Financial liabilities - borrowings	(31,558)	-	(31,558)
Total	**(31,553)**	**78**	**(31,475)**

Note 1 - refer to note 1 to consolidated financial statements.

Foreign exchange risk

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

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

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

In $'000 equivalent as at December 31, 2018	KZT[1]
Cash and cash equivalents	527
Trade and other receivables	3,215
Trade and other payables	(7,954)
Net exposure	**(4,212)**

In $'000 equivalent as at December 31, 2017	GBP[1]	KZT[1]
Cash and cash equivalents	5	44
Trade and other receivables	3	3,687
Trade and other payables	(98)	(11,394)
Financial liabilities –borrowings	(1,171)	-

(tabular amounts in thousands of US dollars, except where otherwise noted)

Net exposure	**(1,261)**	**(7,663)**

Note 1 – GBP- British Sterling Pound, KZT – Kazakhstani Tenge

The following table details the Company's sensitivity to a 10% weakening in $ against the respective foreign currencies, which represents management's assessment of a reasonably possible change in foreign exchange rates. A 10% strengthening in $ against the respective foreign currencies would have a smaller impact.

Effect to profit or (loss) before tax in $'000	2018	2017
GBP	-	(126)
KZT	(421)	(766)
Total	**(421)**	**(892)**

b) Capital risk management

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

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

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

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

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

	2018	2017 Restated[1]
Total financial liabilities - borrowings (note 15)	33,885	31,588
Less: cash and cash equivalents	(3,460)	(77)
Net debt	**30,425**	**31,511**
Total equity	56,257	47,603
Total capital	**86,682**	**79,114**

Note 1 - refer to note 1 to consolidated financial statements.

If the Company is in a net debt position, the Company will assess whether the projected cash flow is sufficient to service this debt and support ongoing operations. Consideration will be given to reducing the total debt or raising funds through an alternative route such as the issuing of equity. Refer also to note 1 – Going concern.

4 Critical judgments and accounting estimates

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

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

Critical accounting estimates and assumptions

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

Recoverability of asset carrying values

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

If there are low oil prices or natural gas prices during an extended period, the Company may need to recognise significant impairment charges. The assessment for impairment entails comparing the carrying value of the cash-generating unit with its recoverable amount, that is, the higher of fair value less cost of disposal ("FVLCD") or value-in-use ("VIU"). Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters such as future commodity prices, the effects of inflation on operating expenses, discount rates, production profiles and the outlook for regional market supply-and-demand conditions for crude oil, natural gas and refined products.

Oil and gas reserves

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

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

Asset retirement obligation

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

Income taxes

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

Other significant areas of judgment

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

Going concern

The Board has considered the Company's current activities, funding position and projected funding requirements for the period of at least twelve months from the date of approval of the consolidated financial statements, in determining the ability of the Company to adopt the going concern basis in preparing the consolidated financial statements for the year ended December 31, 2018. The assessment of the Company's ability to execute its strategy to meet its future funding requirements involves judgment. Refer to note 1 for further details.

CGU Identification

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

Functional currency

The Company has foreign operations, principally in Kazakhstan. Significant judgment is required in determining the functional currency of those operations with consideration given to the currency of the primary economic environment in which it operates. This includes assessing inter alia the currency that mainly influences sales prices for goods and services, the currency of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services and the currency that mainly influences labour, material and other costs of providing goods. A number of secondary factors are also taken into account. The function currency of the Company and foreign operations is the United States dollars ($).

De-recognition of Assets and Liabilities on Loss of Control of Subsidiaries

Where subsidiaries have been struck off or dissolved and the Company loses control of those subsidiaries their assets and liabilities and the related non-controlling interest are de-recognised in the consolidated financial statements. It is possible that where a subsidiary is terminated in this way that, for a period of years after the strike-off, creditors, shareholders or other claimants can revive the struck-off company by applying to the courts to obtain satisfaction of their claims. A creditor could attempt to hold Tethys Petroleum Limited for a subsidiaries obligations and request a court lift or pierce the corporate veil. Significant judgment is required to assess whether the Company has lost control of a subsidiary and should de-consolidate its assets and liabilities and whether there are any facts or circumstances, for example the existence of any guarantees, that result in the Company being responsible for the obligations of its subsidiaries.

Under-fulfilment of Work Program Commitments

The Company has annual work program commitments under its exploration and production contracts where non-compliance or under-fulfilment of financial obligations carries the risk of penalties and in some instances cancellation of the contract and forfeiture of licences. The Company has not met all of its obligations under some of its exploration and production contracts in more than one year leading to the imposition of penalties but has not had any of its contracts cancelled. Significant judgment is required in determining whether the likelihood of exploration and production contracts being retained and/or extended at the end of contract terms in instances where not all obligations have been fulfilled and whether there has been any impairment to the related oil & gas assets.

5 Discontinued operation and loss of control

On December 30, 2017 the Company announced that its subsidiary, Kulob Petroleum Limited ("Kulob"), had been notified of the final arbitration award in respect of Kulob's interest in the Bokhtar Production Sharing Contract ("Participating Interest") and Joint Operating Agreement and Shareholders' Agreement ("JOA") with Total E&P Tajikistan B.V. (“Total”) and CNPC Central Asia B.V. (“CNPC”) pertaining to oil and gas exploration and production rights in Tajikistan.

(tabular amounts in thousands of US dollars, except where otherwise noted)

The Arbitral Tribunal of the ICC declared and/or ordered that Total and CNPC are entitled under the JOA to require Kulob to withdraw from the JOA and assign its Participating Interest to them and Kulob should do so.

In view of the circumstances described above, the results of the Tajikistan segment have been disclosed as a discontinued operation and shown separately from the results of the Company's continuing operations. In accordance with the disclosure requirements for discontinued operations, the comparative figures in the consolidated statement of comprehensive income (loss) have been restated to be consistent with the current year presentation.

On May 31, 2018, Tethys Tajikistan Limited and Kulob were struck off by the Cayman Islands Registry of Companies. As a consequence, the Company has lost control over those subsidiaries and derecognised their assets and liabilities and the related non-controlling interest. The resulting gain has been recognised in profit or loss.

The result from discontinued operation can be summarised as follows:

Result from discontinued operation	**2018**	**2017**
Revenue	-	-
Exploration and evaluation expenditure written off	-	(541)
Administrative expenses	15	(40)
Other gains and losses	-	(653)
Gain on loss of control	13,861	-
Profit/(loss) before tax	13,876	(1,234)
Tax	-	-
Loss after tax	**13,876**	**(1,234)**

Net cash flows from the discontinued operation were nil in 2018 (2017: $25,000 cash used in operating activities). Total assets and total liabilities of the discontinued operation at December 31, 2017 are shown in note 6.

6 Segmental Reporting

Geographical segments

The following is an analysis of the Company's revenue, results and assets by reportable segment:

2018	**Kazakhstan**	**Georgia**	**Corporate**	**Continuing operations**	**Tajikistan**[1]	**Total**[2]
Gas sales	7,740	-	-	7,740	-	7,740
Oil sales	2,584	-	-	2,584	-	2,584
Other income	15	-	-	15	-	15
Other operating income	-	-		-	-	-
Segment revenue and other income	**10,339**	**-**	**-**	**10,339**	**-**	**10,339**
Inter-segment revenue	-	-		-	-	-
Segment revenue and other income from external customers	**-**	**-**	**-**	**10,339**	**-**	**10,339**

(tabular amounts in thousands of US dollars, except where otherwise noted)

Loss before taxation	**281**	**(3,752)**	**(6,075)**	**(9,546)**	**13,876**	**4,330**
Taxation	287	-	(96)	191	-	191
Loss for the year	**568**	**(3,752)**	**(6,171)**	**(9,355)**	**13,876**	**4,521**
Total assets[2]	108,432	-	105,689	214,121	-	108,732
Total liabilities[2]	122,990	-	34,875	157,865	-	52,505
Expenditure on exploration & evaluation assets, property, plant and equipment	2,759	-	-	2,759	-	2,759
Depreciation, depletion & amortisation	4,962	-	6	4,968	-	4,968

Note 1 – Discontinued operation in 2018 (note 5).

Note 2 – Total is after elimination of inter-segment items of $105,389,000.

In Kazakhstan sales were made to three customers representing greater than 10% of total segment revenue. Gas sales from January 1, 2018 to August 31, 2018 were made to one customer representing 32% of segment revenue and to another customer from September 1, 2018 to December 31, 2018 representing 43% of segment revenue. No borrowing costs or amortisation of assets were capitalised during the year.

2017	Kazakhstan	Georgia	Corporate	Continuing operations	Tajikistan[1]	Total[2] Restated[3]
Gas sales	4,762	-	-	4,762	-	4,762
Oil sales	3,170	-	-	3,170	-	3,170
Other income	66	-	-	66	-	66
Other operating income	-	-	109	109	-	109
Segment revenue and other income	**7,998**	**-**	**109**	**8,107**	**-**	**8,107**
Inter-segment revenue	-	-	(109)	(109)	-	(109)
Segment revenue and other income from external customers	**7,998**	**-**	**-**	**7,998**	**-**	**7,998**
Loss before taxation	(24,850)	(9,610)	(14,973)	(49,433)	(1,234)	(50,667)
Taxation	3,291	-	(100)	3,191	-	3,191
Loss for the year	**(21,559)**	**(9,610)**	**(15,073)**	**(46,242)**	**(1,234)**	**(47,476)**
Total assets[2]	106,474	3,801	110,444	220,719	8	116,923
Total liabilities[2]	125,565	-	33,675	159,240	13,884	69,320
Expenditure on exploration & evaluation assets, property, plant and equipment	3,648	181	912	5,278	537	
Depreciation, depletion & amortisation	8,667	-	2,311	10,978	-	

Note 1 – Discontinued operation in 2018 (note 5).

Note 2 – Total is after elimination of inter-segment items of $103,804,000.

Note 3 – Refer to note 1 to consolidated financial statements.

In Kazakhstan sales were made to two customers representing greater than 10% of total segment revenue. All gas sales were made to one customer representing 60% of segment revenue and all oil sales were made to one customer representing 40% of segment revenue. No borrowing costs or amortisation of assets were capitalised during the year.

7 Sales and other operating revenues

	2018	2017

Kazakhstan:		
Gas sales	7,740	4,762
Oil sales	2,584	3,170
Other revenue	15	66
Revenue from continuing operations	**10,339**	**7,998**

(tabular amounts in thousands of US dollars, except where otherwise noted)

8 Administrative expenses

Administrative expense by nature	2018	2017 Restated[1]
Staff expenses	1,904	2,275
Non-executive director fees	212	203
Professional fees	286	1,389
Other taxes and fees	(274)	231
Other administrative expenses	194	1,135
Total	**2,322**	**5,233**

Note 1 - 2017 figures have been restated to exclude operations discontinued during 2018, refer to note 5.

9 Share-based payments

The Company adopted a stock incentive plan referred to as the “2007 Long Term Stock Incentive Plan” pursuant to which the Company may grant stock options to any director, employee or consultant of the Company, (collectively, “Service Providers”). No awards under the plan have been made since March 2016 and the Company does not intend to make further awards for the foreseeable future. 2017 amounts in the tables in this note have been restated to take account of the 10 for 1 share consolidation which took place on November 28, 2018 so as to show them on a comparable basis.

The following table lists the options outstanding at December 31, 2018 by exercise price:

Exercise price		Outstanding		Exercisable	
Local	$ equivalent	No of options	Weighted average remaining term (in years)	No of options	Weighted average remaining term (in years)
GBP1.50	1.90	85,000	1.06	85,000	1.06
GBP0.25	0.32	1,277,188	2.91	1,277,188	2.91
Total		**1,362,188**	**2.79**	**1,362,188**	**2.79**

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

	2018		2017	
	Number of options	Weighted average exercise price ($)	Number of options	Weighted average exercise price ($)
Outstanding at January 1	1,371,188	0.50	1,935,450	1.10
Granted	-	-	-	-
Forfeited	-	-	(217,875)	1.20
Expired	(9,000)	6.00	(346,387)	3.60
Outstanding at December 31	1,362,188	0.42	1,371,188	0.50
Exercisable at December 31	1,362,188	0.42	917,125	0.50

(tabular amounts in thousands of US dollars, except where otherwise noted)

Warrants issued

The following table summarises the warrant activity for the years ended December 31, 2018 and December 31, 2017.

	2018		2017	
	Number of warrants	Weighted average exercise price ($)	Number of warrants	Weighted average exercise price ($)
Outstanding at January 1	19,230,000	0.31	19,439,000	0.58
Granted	-	-	-	-
Exercised	(4,807,500)	0.31	-	-
Expired	-	-	(209,000)	25.00
Outstanding at December 31	14,422,500	0.31	19,230,000	0.31
Exercisable at December 31	14,422,500	0.31	19,230,000	0.31

Of the warrants outstanding and exercisable at the end of the year, 9,615,000 are held by a company controlled by one of the Company's directors (2017: 9,615,000).

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.

The following table lists the warrants outstanding at December 31, 2018 by exercise price.

Exercise price ($)	Warrants outstanding	Weighted average remaining term (in years)	Warrants exercisable	Weighted average remaining term (in years)
0.31	14,422,500	0.91	14,422,500	0.91

10 Taxation

Tethys is domiciled in the Cayman Islands which has no corporate 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:

	2018	2017 Restated[1]
Loss before income taxes from continuing operations	(9,546)	(49,433)
Income tax rate	20%	20%
Expected income tax recovery	**1,909**	**9,887**
Decrease resulting from:		
Non-deductible expenses net of functional currency foreign exchange impact	(184)	(790)
Revisions in tax estimates and foreign exchange impact on tax pools	(4,304)	(732)
Impact of effective tax rates in other foreign jurisdictions	(1,316)	(4,951)
Losses and tax assets not utilised/recognised	4,086	(223)
	191	**3,191**

(tabular amounts in thousands of US dollars, except where otherwise noted)

Current tax expense	(26)	(55)
Deferred tax expense	217	3,246
Total	**191**	**3,191**

Note1 – refer to notes 1 and 5 to consolidated financial statements.

The temporary differences comprising the deferred income tax asset/(liability) are as follows:

	2018	2017
Tax losses	-	75
Deferred tax asset	**-**	**75**
Capital assets	7,430	7,878
Other	784	627
Deferred tax liability	**8,214**	**8,505**

The movement in deferred income tax asset/(liability) in each year was as follows :

	2018	2017
Deferred tax asset at January 1	75	208
Recognised in profit or loss	(75)	(133)
Deferred tax asset at December 31	**-**	**75**
Deferred tax liability at January 1	8,505	11,913
Recognised in profit or loss	(292)	(3,379)
Tax paid	(3)	(24)
Other	4	(5)
Deferred tax liability	**8,214**	**8,505**

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

	2018	2017
Capital assets	33,991	37,226
Tax losses	23,782	27,574
Other	789	301
Total	**58,562**	**65,101**

Earnings retained by subsidiaries amounted to $nil (2017: $11.0 million). No provision has been made for withholding and other taxes that would become payable on the distribution of these earnings as it is not expected that they will be remitted in the foreseeable future.

11 Earnings/(loss) per share

	Units	2018	2017 Restated[1]
Continuing operations:			
Loss for the purpose of basic and diluted loss attributable to ordinary shareholders	$'000	(9,355)	(46,242)
Weighted average shares	000s	55,393	50,814
Per share amount	$	(0.17)	(0.91)
Discontinued operations:			
Profit/(loss) for the purpose of basic and diluted loss attributable to ordinary shareholders	$'000	11,794	(1,051)
Weighted average shares	000s	55,393	50,814
Per share amount	$	0.21	(0.02)

	2018	2017 Restated[1]
Profit/(loss) for the purpose of basic and diluted loss attributable to ordinary shareholders:		
– continuing operations	(9,355)	(46,242)
– discontinued operations	11,794	(1,051)
Non-controlling interest	2,082	(183)
Profit/(loss) and total comprehensive profit/(loss) for the year	**4,521**	**(47,476)**

Note1 – refer to notes 1 and 5 to consolidated financial statements.

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 dilutive shares, comprising convertible loans, share options and warrants, are currently anti-dilutive as they are out of the money and therefore there is no difference between basic and diluted earnings per share. The number of potential dilutive shares excluded from the calculation is 34,146,294 (2017: 38,962,793). 2017 amounts have been restated for the 10 for 1 share consolidation which took place on November 28, 2018 to be comparable with the 2018 figures.

12 Intangible assets

Exploration and evaluation assets	**Kazakhstan**	**Georgia**	**Tajikistan**	**Total**
January 1, 2017	**29,502**	**13,230**	**-**	**42,732**
Additions	15	181	537	733
Exploration and evaluation expenditure written off – continuing	-	(9,610)	-	(9,610)
Exploration and evaluation expenditure written off - discontinued	-	-	(537)	(537)
December 31, 2017	**29,517**	**3,801**	**-**	**33,318**
Additions	21	-	-	21
Reversals of accrued costs	(115)	(49)	-	(164)
Exploration and evaluation expenditure written off	-	(3,752)	-	(3,752)
December 31, 2018	**29,423**	**-**	**-**	**29,423**

The useful lives of the above intangible assets are indefinite and such assets are not amortised.

No borrowing costs were capitalised within exploration and evaluation assets during the year (2017: nil).

(tabular amounts in thousands of US dollars, except where otherwise noted)

No staff costs and share-based payment expense were capitalised in the year (2017: nil).

The Company is not planning to commit significant funding to Georgia in 2019 and is considering its options with regard its interest. Accordingly, the carrying value of the capitalised exploration and evaluation expenditure was written off during the year since the recoverable amount has been assessed as nil resulting in the decision to impair the exploration assets in full.

13 Property, plant and equipment and assets held for sale

13.1 Property, plant and equipment

	Oil and gas properties			Oil and gas equipment			Other fixed assets[1]			Total net book amount Restated[2]
	Cost	Amortisation	Total	Cost	Depreciation	Total	Cost	Depreciation	Total	
January 1, 2017	**167,878**	**(75,075)**	**92,803**	**25,343**	**(15,327)**	**10,016**	**4,306**	**(4,010)**	**296**	**103,115**
Additions	3,629	-	3,629	906	-	906	10	-	10	4,545
Disposals	(2)	2	-	-	-	-	(332)	318	(14)	(14)
Transfer to Assets Held for Sale	-	-		(26,249)	17,924	(8,325)	-	-	-	(8,325)
Depletion and depreciation	-	(8,206)	(8,206)	-	(2,597)	(2,597)	-	(175)	(175)	(10,978)
Impairment charges	(15,259)	-	(15,259)	-	-	-	-	-	-	(15,259)
December 31, 2017	**156,246**	**(83,279)**	**72,967**	**-**	**-**	**-**	**3,984**	**(3,867)**	**117**	**73,084**
Additions	2,887	-	2,887	-	-	-	190	-	190	3,077
Disposals	-	-	-	-	-	-	(3,004)	2,994	(10)	(10)
Depletion and depreciation	-	(4,851)	(4,851)	-	-	-	-	(117)	(117)	(4,968)
December 31, 2018	**159,133**	**(88,130)**	**71,003**	**-**	**-**	**-**	**1,170**	**(990)**	**180**	**71,183**

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

Note 2 – Refer to note 2 and 5 to consolidated financial statements for details of prior year restatement.

No borrowing costs were capitalised to oil and gas properties in the current year (2017: nil).

No staff costs and share-based payment expense were capitalised in the year (2017: nil).

"Oil and gas properties" assets with a net book value amounting to $856,000 are pledged by Tethys Aral Gas LLP ("TAG") as security for a bank loan to Eurasia Gas Group LLP.

13.2 Assets held for sale

During the year the Company completed the sale of two drilling rigs and related equipment which were classified as Assets held for sale at December 31, 2017. At that date the value of the assets was re-measured to the lower of carrying amount and fair value, less costs to sell, of $3,473,000 resulting in a loss of $4,827,000 (as restated). A gain of $419,000 has been recognised in the current year based on total proceeds received of $3,892,000.

(tabular amounts in thousands of US dollars, except where otherwise noted)

14 Trade and other receivables and joint arrangements

14.1 Trade and other receivables

	2018	2017
Non-current		
VAT recoverable after more one year	944	2,153
Advances to construction contractors and other receivables	479	581
	1,423	**2,734**
Current		
Trade receivables	1,490	2,004
Prepayments	425	549
Other receivables	240	292
VAT and other taxes	777	685
	2,932	**3,530**

Current trade and other receivables are unsecured and non-interest bearing. Normal payment terms for the Company are 30 days. As at December 31, 2018, $206,000 of trade receivables were overdue past 30 days (2017: $1,689,000) of which $145,000 has been fully provided for and the remainder was received in January 2019. The other classes within trade and other receivables do not contain impaired assets.

Irrecoverable VAT of $676,000 was written off during the year and is shown in the consolidated statements of comprehensive income (loss) within 'Other gains and losses'.

14.2 Joint arrangements

Aral Oil Terminal (Kazakhstan)

On February 16 2011, the Company signed a joint venture agreement with Olisol Investments Limited ("Olisol") to construct and operate a rail oil loading terminal in Kazakhstan through a separate jointly controlled legal entity, Aral Oil Terminal LLP ("AOT"). The Company has a 50% interest in the AOT. The Company has classified the arrangement as a joint venture and it is accounted for using the equity method of accounting. At December 31, 2018, the carrying value of the Company's investment in the joint venture was $ nil (2017: nil) and the carrying value of loans made to the joint venture was also $ nil (2017: nil) after full impairment in 2015 of $3.1 million, comprising $1.8 million principal amount and $1.3 million accrued interest. The joint venture's assets have been pledged as security for a bank loan facility which is currently in default. The Company has not received any financial information from the AOT since 2016 due to its ongoing dispute with Olisol, see note 15 *Olisol loan*.

(tabular amounts in thousands of US dollars, except where otherwise noted)

15 Financial liabilities

Borrowings

	Interest rate per annum	Maturity date	2018	2017 Restated[2]
Current				
Rig loans	12.%-16%	2018	-	3,031
Corporate loan financing	10.5%-20%	2017	11,565	9,485
AGR Energy Limited No.1 loan	9%-18%	2017	10,150	8,439
Olisol loan	9%	Note 1	6,889	6,381
			28,604	**27,336**
Non-current				
ALR loans	4-9%	2020	5,281	4,252
			33,885	**31,588**

Note 1 - Subject to litigation as described below.

Note 2 – Refer to note 2 to consolidated financial statements for details of the prior year restatement.

The fair value of financial liabilities held at amortised cost approximates the carrying value. None of the loan agreements contains financial covenants.

Rig loans

On February 13, 2014, the Company entered into a loan agreement to borrow up to $12 million. The loan was secured by the shares of the borrower, a wholly owned subsidiary of the Company, which in turn owned two drilling rigs and other equipment. Loans with a face value of $4.7 and GBP2.1 million were borrowed under the agreement.

The rig loans were fully repaid in May 2018 following sale of the drilling rigs and equipment.

Corporate loan financing

On January 16, 2015, the Company announced that it had secured a new $6.0 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 warrants over the Company’s shares which were surrendered during 2015 for $2.1 million which was added to the principal amount.

On March 12, 2016, certain terms of the loan were amended including a change in the interest rate to 10.5% per annum payable every three months. The loan fell due on January 30, 2017 and the Company has had discussions with the lender regarding the terms of a proposed extension to the loan maturity date although at the date of this report these have not been finalised. From the due date interest has been accrued at the default interest rate under the loan agreement of 20% compounded monthly.

ALR loans

On March 10, 2015, the Company secured a new $3.5 million unsecured loan facility from Annuity and Life Reassurance Ltd ("ALR"), a company controlled by Pope Asset Management, the Company's largest shareholder and on June 1, 2015, the Company issued $1,760,978 aggregate principal amount of convertible debentures to ALR.

On January 27, 2017 the Company's 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 $0.031;
(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 $0.031 conversion price, however, if any part of the loans are not converted, but rather repaid at maturity, the interest rate shall be 9%.

The loan with ALR has been treated as a compound instrument in accordance with IAS 32 – *Financial instruments: Presentation.* The conversion option has been treated on initial recognition as a component of equity measured at its fair value of $1,643,000 and shown within *Other reserves*. The fair value of the loan at the date the loan terms were amended has been reduced by the fair value of the conversion option and the difference between this carrying value and the amount payable at the maturity date has been amortised over the loan term using the effective interest rate. Key assumptions used in arriving at the fair value of the equity component were volatility of 90% and a risk-free rate of 0.93%. Refer also to note 1, *Restatement of comparative amounts*.

Unsecured convertible loan facility from AGR Energy No.1

On May 15, 2015, the Company issued $7.5 million aggregate principal amount of convertible debentures to AGR Energy Limited No. 1. The debentures were convertible into ordinary shares at a conversion price of $0.10 per share for an aggregate of up to 75,000,000 ordinary shares. AGR Energy Limited No. 1 assigned its rights under the loan agreement to another party in 2016. Interest under the loan agreement is 9% per annum payable six monthly and the maturity date was June 30, 2017. The Company has had negotiations with the lender regarding the terms of a proposed restructuring of the debentures although at the date of this report these have not been finalised. From the due date interest has been accrued at the default interest rate under the loan agreement of 18%.

Olisol loan

On November 19, 2015, the Company announced that it had entered into an interim convertible financing facility of up to $15 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.

(tabular amounts in thousands of US dollars, except where otherwise noted)

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 $1 million of the outstanding amount of principal and accrued interest under the Interim Financing Facility (approximately $6.25 million) into ordinary shares at a price of $0.10 per share. On March 21, 2016, Olisol converted $3.7 million of the outstanding amount into 37,440,042 shares. On April 15, 2016, Olisol converted a further $2.6 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 $10 million for TAG (the "TAG Loan"), however, Olisol did not 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 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, 2017 the Company commenced legal action against Olisol, Eurasia Gas Group LLP (“EGG”) and 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.

EGG and the principals of EGG and Olisol did not submit a defence and were noted in default by the court. The next steps would be the Company to establish the full amount of its claim for damages and then seek a damages award from the court. The Company anticipates its claim will exceed the amount owing under the Olisol loan. At the date of this report the action has not been withdrawn but is in abeyance while the Company considers its options.

16 Trade and other payables

	2018	2017
Current		
Trade payables	3,716	4,541
Accruals	2,051	18,783
Other creditors	2,603	4,341
	8,370	**27,665**

Trade payables are non-interest bearing and are normally settled on contractual terms which typically range from due on presentation of invoice to 30 days. Due to the Company’s uneven receipts for oil and gas payments in 2017 and 2018 supplier payments were made on average later than the contractual payment terms. Trade payables at December 31, 2018 includes $2,923,000 owing to Great Wall, a Kazakhstan drilling company, for drilling gas wells in 2017. Due to a lack of funds the debts remains unpaid and Great Wall has commenced legal action against the Company to recover the amounts due which could adversely affect the Company's operations although the Company is in a dialogue with Great Wall to make payments of the full amount due over a mutually agreeable timeframe. Accruals in the prior year mainly comprise cash calls outstanding to the Bokhtar Operating Company BV joint venture in Tajikistan, refer to notes 5 and 21 for further details.

(tabular amounts in thousands of US dollars, except where otherwise noted)

17 Asset retirement obligations

	2018	2017
Balance, beginning of year	980	910
Additions	326	-
Unwinding of discount due to passage of time	96	70
Balance, end of year	**1,402**	**980**

The Company makes provision for the future cost of decommissioning oil and gas production facilities and pipelines on a discounted basis. These costs are expected to be incurred between 2019 and 2029 and on average have been estimated to cost $32,000 per well (2017: $25,000). The provision has been estimated using existing technology at current prices, escalated at 5.4% (2017: 5.4%) and discounted at 7.4% (2017: 7.4%). The economic life and the timing of the asset retirement obligation are dependent on Government legislation, commodity prices and the future production profiles of the projects. In addition, the estimated cash outflows are subject to inflationary and/or deflationary pressures in the cost of third party service provision. The undiscounted amount of liability at December 31, 2018 is $2,296,000 (2017: $1,617,000).

18 Capital and reserves

Share capital and share premium

	Number of shares
Authorised as at December 31, 2017:	
Ordinary shares with a par value of $0.10 each	145,000,000
Preference shares with a par value of $0.01 each	50,000,000
Authorised as at December 31, 2018:	
Ordinary shares with a par value of $0.10 each	145,000,000
Preference shares with a par value of $0.01 each	50,000,000

(tabular amounts in thousands of US dollars, except where otherwise noted)

Ordinary equity share capital Allotted and fully paid	**Date**	**Number**	**Share Capital**	**Share Premium**
At January 1, 2018 and December 31, 2018				
At January 1, 2018		**50,813,610**	**5,081**	**358,444**
Private placements	September 6, 2018	6,351,701	635	465
Warrants exercised	September 21, 2018	6,351,701	635	851
Warrants exercised	October 31, 2018	4,807,500	481	1,009
At December 31, 2018		**68,324,512**	**6,832**	**360,769**

On November 28, 2018 shareholders approved a 10 for 1 share consolidation resulting in an increase in the par value of the Company's shares from $0.01 per share to $0.10 per share. Amounts shown in the tables above have been restated and are shown on a post-consolidated basis.

As at December 31, 2018, a total of 4,037,432 (2017: 4,037,432) ordinary shares were reserved under the Company's Long Term Stock Incentive Plan. The number of options outstanding as at December 31, 2018 is 1,362,188 all of which were exercisable and the number of warrants outstanding is 14,422,500 all of which were exercisable. Loan facilities are in place which were convertible into a total of up to 18,631,606 ordinary shares. Details of the options and warrants are given in note 9.

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

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

There are currently no preference shares outstanding (2017: None).

Other reserves

Other reserves comprise of option reserves and warrant reserves as set out in the Statement of Changes in Equity. The option and warrant reserves relate to stock options issued to employees under the Long Term Incentive Plan and issuance of warrants, details of which are disclosed in note 9.

(tabular amounts in thousands of US dollars, except where otherwise noted)

19 Related party transactions

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

	Percentage	Nature of business	Country of registration	Country of operation
Subsidiaries				
Tethys Kazakhstan SA	100%	Holding company	Belgium	Belgium
Transcontinental Oil Transportation SPRL	100%	Holding company	Belgium	Belgium
Imperial Oilfield Services Limited	100%	Inactive	Cayman Islands	Cayman Islands
South Caucasus Petroleum Corporation	100%	Holding company	Cayman Islands	Georgia
Lisi Petroleum Limited	100%	Inactive	Cayman Islands	Georgia
Saguramo Petroleum Limited	100%	Inactive	Cayman Islands	Georgia
Tethyda Limited	100%	Group financing	Cyprus	Cyprus
Tethys Services Georgia limited	100%	Inactive	Georgia	Georgia
DMS Services LLP	100%	Service company	Kazakhstan	Kazakhstan
Tethys Aral Gas LLP	100%	Oil & gas E&P	Kazakhstan	Kazakhstan
Kul-Bas LLP	100%	Exploration	Kazakhstan	Kazakhstan
Tethys Services Kazakhstan LLP	100%	Service company	Kazakhstan	Kazakhstan
Asia Oilfield Equipment BV	100%	Inactive	Netherlands	Kazakhstan
Tethys Services Limited	100%	Service company	England & Wales	England
Jointly controlled entities				
Aral Oil Terminal	50.00%	Oil terminal operations	Kazakhstan	Kazakhstan

Transactions between the Company's subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Pope Asset Management and Annuity and Life Reassurance Ltd

Pope Asset Management ("PAM"), together with Annuity and Life Reassurance Ltd ("ALR") and other PAM affiliates own or controls 14.8% of the Company's shares as a result of which they considered to be related parties of the Company. The Company has received two loans from ALR, further details of which are disclosed in note 15.

Remuneration of key management personnel

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

	2018	2017
Salaries and short-term employee benefits	567	729
Share-based payments	10	28
Termination payments	-	-
Total	**577**	**757**

(tabular amounts in thousands of US dollars, except where otherwise noted)

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

20 Notes to the Consolidated Statements of Cash Flow

20.1 Changes in working capital

	2018	2017
Trade and other receivables	598	1,505
Inventories	319	50
Trade and other payables	(19,295)	7,783
Change in working capital	(18,378)	9,338
Non-cash transactions	921	(248)
Net changes in working capital	**(17,457)**	**9,090**

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

	2018	2017
Operating activities	(17,306)	4,528
Investing activities	(151)	4,562
Balance	**(17,457)**	**9,090**

20.2 Reconciliation of movements of financial liabilities to cash flows arising from financial activities

	Financial liabilities			Equity	
	Non-current borrowings	**Current borrowings**	**Non-current trade & other payables**	**Net interest**	**Total Restated[1]**
January 1, 2017	**-**	**33,249**	**44**	**-**	**33,293**
Interest paid	-	-	-	(815)	(815)
Repayment of current borrowings	-	(4,929)	-	-	(4,929)
Net cash used in financial activities	**-**	**(4,929)**	**-**	**(815)**	**(5,744)**
Reclassification	5,129	(5,129)	(44)		(44)
Compound instrument issued	(1,643)	-	-	-	(1,643)
Effect of changes in exchange rates	-	223	-	-	223
Interest expense	766	3,922	-	-	4,688
Equity related changes	-	-	-	815	815
December 31, 2017	**4,252**	**27,336**	**-**	**-**	**31.588**
Interest paid	-	-	-	(438)	(438)
Repayment of current borrowings	-	(2,823)	-	-	(2,823)
Net cash used in financial activities	**-**	**(2,823)**	**-**	**(438)**	**(3,261)**
Reclassification	-	-	-	-	-
Effect of changes in exchange rates	-	48	-	-	48
Interest expense	1,029	4,043	-	-	5,072
Equity related changes	-	-	-	438	438
December 31, 2018	**5,281**	**28,604**	**-**	**-**	**33,885**

21 Commitments 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.

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 programs for exploration and production contracts 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 program commitments and against which the Company is mainly measured 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. Two or more contractual violations, e.g. significant non-fulfillment of financial obligations which are not remedied by a sub-soil user or waived, could lead to a sub-soil user's licence being terminated. At the date of this report the Company had not received any notifications of actual or threatened termination of any of the Company's sub-soil licences.

In addition, an assumed level of other costs forms part of the overall work program (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 below. The work program commitments in Kazakhstan can be summarised as follows:

(tabular amounts in thousands of US dollars, except where otherwise noted)

	Kazakhstan Work Program Commitments			
	Expiry date	Program 2018	Spend to date 2018	Program 2019 & later
Akkulka Production Contract (Gas)	2026			
Financial obligations, total		3,163	2,560	18,975
Investments		1,465	2,045	9,319
Kyzyloi Production Contract (Gas)	2029			
Financial obligations, total		3,809	2,704	30,794
Investments		3,289	2,351	5,311
Akkulka Exploration Contract (Oil)	2022			
Financial obligations, total		3,261	3,236	18,847
Investments		2,262	2,467	16,619
Kul-Bas Exploration Contract	2019			
Financial obligations, total		3,079	112	3,442
Investments		2,918	53	3,311
Total				
Financial obligations, total		**13,311**	**8,612**	**72,058**
Investments (subset of Financial obligations)		**9,935**	**6,916**	**34,560**

The amounts shown in the table above under 'Spend to date' have been incurred in 2018 and, as noted above, include a mixture of capital expenditure, operating expenses, social sphere payments, sub-soil monitoring and specialist training costs, insurance costs, liquidation fund payments, indirect costs and taxes as specified in the respective exploration and production contracts. Such amounts have been recognised in these financial statements in either the consolidated statement of comprehensive income (loss), consolidated statement of financial position or consolidated statement of cash flows in accordance with the Company's respective accounting policies. Amounts shown in the table above under 'Program 2019 & later' have generally not been incurred as they are in the nature of future contractual commitments and so have not been recognised in these financial statements.

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

Akkulka Exploration License and Contract and Akkulka Production Contract

On December 23, 2009, the Company and the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan (now the Ministry of Energy) signed the Akkulka Production Contract giving the Company exclusive rights to produce gas from the Akkulka Block for a period of nine years. For that part of the contractual territory from which production commenced in 2010, staged payments of historical costs were paid by the Company over a period of nine years totalling approximately $933,997.

For the larger Akkulka Exploration License and Contract Area (which includes the Akkulka Production Contract area) a further $2,698,532 would become payable in the event the Company moves from its current pilot production license for the production of oil to a full production contract.

Kul-Bas Exploration and Production Contract

The Company is required to pay for historical costs related to the Kul-Bas Exploration and Production Contract of up to $3,275,780. To date, the Company has paid two amounts of $49,137 towards this total. If and when commercial production commences, $80,666 is due in quarterly instalments until the remaining historical costs of $3,177,506 have been paid in full.

Pledge of TAG Assets to Special Financial Company DSFK LLP

On April 20, 2018 the Company announced that TAG had received notification from Special Financial Company DSFK LLP ("DSFK") relating to a loan originally provided to Eurasia Gas Group LLP ("EGG") by Bank RBK JSC ("RBK") in 2012. Also in 2012, TAG pledged certain of its oil and gas assets as collateral for the RBK loan to EGG including gas pipelines, booster compressor stations and oil gathering facility. EGG was TAG's former oil customer and advanced certain funds to TAG. In December 2017, RBK's loan to EGG was assigned to DSFK. DSFK has written to EGG to demand repayment of the loan because of EGG's failure to make certain scheduled repayments. DSFK has written separately to TAG regarding EGG's default and subsequent failure to repay the loan and informed TAG that it would take all measures to collect the debt, including but not limited to court collateral collection on the pledged assets.

On January 4, 2019 the Almaty Prosecutor's Office received a court ruling in its favour from an Almaty, Kazakhstan, District Court in connection with DSFK's recovery actions. In addition to TAG, the court found against EGG and its principals as well as the Aral Oil Terminal in which the Company has a 50% interest (Olisol owns the other 50%). The court gave leave to the parties to appeal the decision.

The TAG assets pledged to DSFK have a book value of around $800,000 and are not readily saleable or realisable into cash, being pipelines and other immovable oil and gas infrastructure assets in a remote region of Kazakhstan. They are worth very little except in connection with the oil and gas production activities which are conducted by TAG under three exploration and production contracts with the Kazakh Government. These contracts are separate from the physical assets pledged to DSFK and the exploration and production contracts are not transferrable by TAG.

The Company has been working with representatives of its new shareholder in Kazakhstan, Jaka Partners FZC as well as with Olisol, EGG and DSFK to come to a compromise arrangement and is cautiously optimistic that one will be reached. A draft settlement agreement has been prepared as part of the proposed acquisition of control transaction with Jaka Partners FZC whereby Tethys would issue 18 million ordinary shares to Olisol in repayment of Olisol's working capital loan. The Tethys shares owned by Olisol are pledged as security for the EGG's outstanding loans due to DSFK and these new shares would also be pledged. Until a settlement is reached there is a risk that DSFK could proceed to foreclose on TAG's assets which would likely have a material adverse effect on the Company's operations.

Tajikistan

In May 2016, the Company's subsidiary Kulob Petroleum Limited ("Kulob") was notified by Total E&P Tajikistan B.V. ("Total") that it had been required to pay the equivalent of $5.0 million to the tax authorities in Tajikistan in relation to the farm-out of part of the Company's interest to Total in 2013. Total was seeking to have the Kulob indemnify it for these taxes under the terms of the farm-out agreement. Kulob disagreed 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.

On December 30, 2017 the Company announced that Kulob had been notified of the final arbitration award in respect of Kulob's interest in the Bokhtar Production Sharing Contract ("Participating Interest") and Joint Operating Agreement and Shareholders' Agreement ("JOA") with Total and CNPC Central Asia B.V. (“CNPC”) pertaining to oil and gas exploration and production rights in Tajikistan.

The Arbitral Tribunal of the ICC (the "Tribunal") has declared and/or ordered that:

- Kulob breached its obligations under the JOA by not paying its share of cash calls since August 2015;
- Total and CNPC are entitled under the JOA to require Kulob to withdraw from the JOA and assign its Participating Interest to them at no cost and Kulob should do so; and
- Kulob should pay Total and CNPC an amount of damages equivalent to the unpaid cash calls plus costs and interest which in the aggregate amounts to approximately $13.9 million. A net loss of $655,000 was recognised in the 2017 consolidated financial statements arising from the Tribunal ruling.

The Company does not expect the decisions of the Tribunal to have a significant effect on the results, cash flows or financial position of the Company since Tethys Petroleum Limited was not a party to the arbitration, does not believe it is responsible for the obligations of Kulob and has not provided any guarantees on behalf of Kulob. Total and CNPC have asserted that the Company should be responsible for Kulob’s liabilities however the Company disagrees.

On May 31, 2018, Tethys Tajikistan Limited and Kulob were struck off by the Cayman Islands Registry of Companies. As a consequence, the Company has lost control over those subsidiaries and derecognised their assets and liabilities. Termination in this way leaves the risk that, for a period of up to ten years after the strike-off, creditors, shareholders or other claimants can revive the struck-off company. They can do this by applying to the courts to obtain satisfaction of their claims, however, Kulob has no assets with which to satisfy any creditors’ claims. A creditor could attempt to hold Tethys Petroleum Limited for Kulob’s obligations, however, the Cayman courts’ approach has been that it is only in exceptional circumstances where the principle of the separate legal personality of a company is to be ignored and the court will lift or pierce the corporate veil.

22 Subsequent events

Definitive Agreement for Acquisition of Control

On March 29, 2019 the Company announced that it had signed signed a binding arrangement agreement (the "Definitive Agreement") with respect to a potential acquisition by Jaka Partners FSC (“Acquiror”) of Tethys’ outstanding ordinary shares ("Ordinary Shares") it does not already own pursuant to a scheme of arrangement under the Companies Law (2018 Revision) of the Cayman Islands (the "Companies Law"), and applicable Canadian securities laws. Such proposed acquisition is referred to hereafter as the "Proposed Transaction".

1. Proposed Transaction Structure

The Proposed Transaction will be carried out by way of a scheme of arrangement under the Companies Law, and effected pursuant to the Definitive Agreement, the terms and conditions of which are summarised below. The Proposed Transaction shall also be subject to the approval of the holders of the Ordinary Shares, including both approval by such shareholders representing more than 75% of the Ordinary Shares voting in person or by proxy at a special meeting as well as by a majority of those shareholders, excluding shares held by Acquiror or any of its affiliates or joint actors in accordance with Multilateral Instrument 61-101 (“MI 61-101”). Approvals from the Grand Court of the Cayman Islands and the NEX board of the TSX Venture Exchange (the "NEX") will also be required.

2. Consideration

Acquiror proposes to acquire up to 70% of the Ordinary Shares that it does not already own and to offer shareholders the opportunity to exchange up to 30% of the Ordinary Shares that the Acquiror does not already own for preferred shares ("Preferred Shares") on a one-for-one basis. Each shareholder who approves the Proposed Transaction could elect to:

(a) receive cash consideration of $0.60 per ordinary share in exchange for up to 70% of its Ordinary Shares and to also receive Preferred Shares in exchange for up to 30% of its Ordinary Shares;

(b) receive cash consideration of $0.60 per ordinary share exchange for up to 70% of its Ordinary Shares and retain the remaining Ordinary Shares;

(c) receive Preferred Shares in exchange for up to 30% of its Ordinary Shares and retain the remaining Ordinary Shares; or

(d) retain all of its Ordinary Shares.

To the extent that the scheme of arrangement is approved and a shareholder does not make any election as to its preferred form of consideration, it shall be deemed to have elected to retain all of its Ordinary Shares.

The Preferred Shares shall be non-voting and non-convertible, and shall be automatically redeemed by Tethys on the date that is three (3) years from the closing of the Proposed Transaction at a redemption price of $1.80 per Preferred Share (the "Redemption Amount"). To the extent that Tethys is unable to fund all or part of the payment of the Redemption Amount, Tethys will have an option to require Acquiror to provide funding for such payment by purchasing new ordinary shares in Tethys under a share purchase warrant or similar security (the "Warrant"). Pursuant to the Definitive Agreement, Acquiror's obligations under the Warrant will be guaranteed by an affiliated company of Jaka, Inform Systems LLP.

Convertible securities (including options, warrants and convertible debt) shall remain outstanding post-closing and any such securities that are exercised or converted into Ordinary Shares prior to the record date of the special meeting shall entitle the holder to vote at such meeting.

The consideration offered per Ordinary Share of $0.60 per share and $1.80 per Preferred Shares represents premiums of approximately 320% and 960%, respectively to the Cdn$0.25 price of the Ordinary Shares on the NEX on December 19, 2018, the date before the Proposed Transaction was first announced.

3. Stock Market Listing

Upon completion of the Proposed Transaction, Tethys would seek to maintain a listing of its Ordinary Shares on the NEX, or other recognised securities exchange, and apply for a listing of the Preferred Shares. Listing will be subject to satisfaction of the rules of the NEX or other applicable exchange.

4. Management and the Board

As part of the Proposed Transaction, Acquiror will propose new directors as replacements for Mr. Mattias Sjoborg and Mr. William P. Wells. Acquiror shall ensure that following the completion of the Proposed Transaction, Tethys' board of directors, which would consist of at least three (3) members and will comply with all Canadian securities laws, including the rules of the NEX, applicable to public companies. In addition, upon completion of the Proposed Transaction, Mr. Sjoborg will resign from his position as Chief Executive Officer of Tethys. Annuity and Life Reassurance Ltd ("Annuity"), a company controlled by Mr. Wells, shall have a right to appoint a board observer and the right to inspect Tethys' corporate books, records and premises, for a period of three (3) years following the closing of the Proposed Transaction.

5. Definitive Agreement

The Definitive Agreement includes conditions precedent, representations and warranties, "fiduciary outs", covenants and provisions dealing with the mechanics of completing the Proposed Transaction.

The Definitive Agreement also contains certain minority protections such as restricting Tethys from issuing shares in excess of 18,000,000 shares and not pledging, selling, encumbering or disposing any of Tethys' assets for an agreed period of time.

The Definitive Agreement also contains a proposed settlement agreement which, subject to shareholder approval, Tethys will seek to enter into with Olisol Petroleum Ltd, Olisol Investments Ltd, Eurasia Gas Group LLP, DSFK Special Finance Company LLP and certain of their principals.

6. Approval of the Proposed Transaction

As noted above, the Proposed Transaction will require the approval of the Grand Court of the Cayman Islands, NEX and shareholders at a special meeting which will be convened for this purpose. It is anticipated that it will take at least two months to complete the Proposed Transaction.

As Acquiror owns in excess of 10% of the Ordinary Shares, it is a related party and the Proposed Transaction would be a related party transaction under MI 61-101. The Proposed Transaction is exempt from the valuation requirements of MI 61-101 as the Ordinary Shares are not listed on certain recognised exchanges though is subject to the requirement to obtain majority of the minority shareholder approval as described above.

Since becoming a Shareholder, the Acquiror has assisted the Company in addressing legacy issues and improving its business in a number of ways including, but not limited to, contributing to cost optimisation initiatives and assisting the Company with negotiating a new gas sale contract, resulting in a significantly higher gas price received by the Company for the gas it produces. Completing the Proposed Transaction will better align the Acquiror's interests with the Company's. The Company anticipates that following the effective Date, the Acquiror will increase the level of its contribution and the financial resources it makes available to the Company's business.

Pledge of TAG Assets to Special Financial Company DSFK LLP

On January 4, 2019 the Almaty Prosecutor's Office received a court ruling in its favour from an Almaty, Kazakhstan, District Court in connection with DSFK's recovery actions. Refer to note 21 for details.