

Tethys Petroleum Limited

Consolidated Financial Statements
For the years ended December 31, 2019 and 2018

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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:

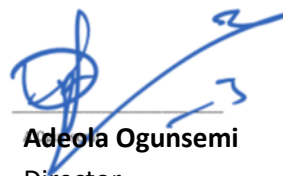
- the consolidated financial statements, prepared in accordance with International Financial Reporting Standard (“IFRSs”), give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- 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, 2019 that may cast significant doubt about Tethys Petroleum Limited’s ability to continue as a going concern.

For and on behalf of the Board



William Wells
Executive Chairman
May 7, 2020



Adeola Ogunsemi
Director
May 7, 2020

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

Opinion

Our opinion on the group financial statements is unmodified

We have audited the group financial statements of Tethys Petroleum Limited and its subsidiaries (the 'group') for the year ended 31 December 2019, which comprise the consolidated statement of financial position, consolidated statement of comprehensive income (loss), consolidated statement of changes in equity, consolidated statement of cash flows, and notes to the group financial statements 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 2019 and of the group's loss for the year then ended in accordance with IFRSs issued by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as issued by the International Auditing and Assurance Standards Board (IAASB) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the group 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 IESBA International Code of Ethics 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.

The impact of macro-economic uncertainties on our audit

Our audit of the group financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the group financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Covid-19 is amongst the most significant economic events currently faced by the world, and at the date of this report its effect is subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company associated with these particular events.

Emphasis of matter

We draw attention to the section of Note 19 entitled 'Exploration and Production Contract Work Programs' in the group financial statements, which describes the work programs for exploration and production contracts include a required level of "Investments" as defined in the 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-fulfilment. 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. Our opinion is not modified in respect of this matter.

Material uncertainty related to going concern

We draw attention to Note 1 'Going concern' in the group financial statements, which indicates that the group incurred a net loss of \$8.8 million during the year ended 31 December 2019 and, as of that date, the group's current liabilities exceeded its current assets by \$47.1 million and the group's accumulated deficit amounted to \$365.7 million. As stated in Note 1, these events or conditions, along with the other matters as set forth in Note 1, 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

Note 1 to the group financial statements indicates that there is a material uncertainty which may cast significant doubt on the group's ability to continue as a going concern.

The following risks were identified related to ability of the group to continue as a going concern:

- Subsequent to year-end the group renegotiated the payment terms with its lenders in 2020 and aligned the requirements of cash in the forecast accordingly;
- The group has made losses since inception and continues to do so for the foreseeable future based on current operations;
- The group's current liabilities exceed its current assets;
- Additional financing is required to fund planned capital expenditures to further develop oil properties, including drilling new shallow gas wells and one deep well; and
- Unless additional funding can be obtained, there are insufficient funds available to support operations for the foreseeable future.

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 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
- Challenging management on their fundraising efforts, availability of funding in the current environment, and identification of lenders/investors
- Reviewing agreements entered by the group during 2020 to restructure the loans, conversion of the loans and settlement agreement and assess their effect to going concern.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the group 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 group 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 these assets. \$71.0 million has been capitalised in property, plant and equipment for those assets in the production stage and \$32.0 million 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.

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 and identifying any significant changes between the current and prior period
- Challenging the appropriateness of management's 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
- Determining the competence and objectivity by third party experts regarding reserves
- Testing sensitivities relating to key inputs to the models
- Challenging management on their fundraising efforts, availability of financing required to fund planned capital expenditures to further develop oil properties
- 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 group financial statements and related disclosures are included in Notes 10 and 11.

Key observations

Our audit testing did not identify any material misstatements in respect of the recoverability of oil and gas property and exploration and evaluation assets.

Revenue recognition and contract accounting

A total of \$12.7 million of revenue was recognised for the sale of crude oil and natural gas, \$12.1 million and \$0.6 million for gas sales and oil sales respectively.

Revenue is recognised in the group financial statements at a point in time when the control of the gas and oil passes to the customer and physical delivery occurs.

We identified revenue recognition and contract accounting as a significant risk due to their financial significance, which was one of the most significant assessed risks of material misstatement.

Our audit work included, but was not restricted to:

- Performing 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 group financial statements and related disclosures are included in Note 6.

Key observations

Our audit testing did not identify any material misstatement in respect of revenue recognition and contract accounting.

Presentation and measurement of debt and accuracy of finance costs

A total liability of \$40.2 million was recognised as due at the year-end date.

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 covenants 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 presentation and measurement of debt and accuracy of finance costs 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:

- Examining the loan agreements held to determine whether all loans have been correctly recognised and disclosed within the group financial statements
- Inspecting the loan agreements concluded after the reporting date to determine the correct disclosures within the group 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 to check correct disclosure classification of the liability
- Recalculation of the interest expense and accrued interest 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 group financial statements and related disclosures are included in Note 13.

Key observations

Our audit testing did not identify any material misstatement in respect of presentation and measurement of debt and accuracy of finance costs.

Provisions

The group makes 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 2022 and 2029. At the year-end, a provision of \$1.7 million was recognised.

There are also significant contingencies disclosed within the group 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 litigation against the group.

Our audit work included, but was not restricted to:

- Identifying the key assumptions and inputs used within management's calculation of the asset retirement obligation and assessing the key assumptions against local market and industry trends in order 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
- Communicating with legal advisors employed by the group to understand in what respect they acted, the status of litigation involving the group and the

Key Audit Matters

We therefore identified provisions as a significant risk, which was one of the most significant assessed risks of material misstatement.

How the matter was addressed in the audit

probability of the group incurring liabilities as a result of this litigation

- Making enquiries 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
- Evaluating the evidence collected in our subsequent events testing for consistency with the evidence substantiating provisions
- 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 group financial statements and related disclosures are included in Note 15 and Note 19.

Key observations

After management has adjusted for provisions as a result of subsequent events, our audit work did not identify any material misstatements in respect of provisions.

Based on our audit work, we concluded that management has appropriately reviewed provisions and taken into consideration subsequent events to appropriately reflect and account for provisions as at 31 December 2019.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, including Management's Discussion and Analysis, other than the consolidated financial statements and our auditor's report thereon. Our opinion on the group 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 group financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the group 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 group 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 group financial statements

As explained more fully in the responsibility statement of the directors set out on page 1, the directors are responsible for the preparation of the group financial statements that give a true and fair view in accordance with IFRSs as adopted by the IASB, and for such internal control as the directors determine is necessary to enable the preparation of group financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the group 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 have 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 group financial statements

Our objectives are to obtain reasonable assurance about whether the group 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 on 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 group financial statements.

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

- Identify and assess the risks of material misstatement of the group 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 group 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 group financial statements, including the disclosures, and whether the group 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 group 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 group 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.

The engagement partner on the audit resulting in this independent auditor's report is Christopher Raab.



Grant Thornton UK LLP
Chartered Accountants
London, United Kingdom

7 May 2020

Tethys Petroleum Limited

Consolidated Statements of Financial Position

As at December 31

(in thousands of US dollars)

| | Note | 2019 | 2018 |
|--------------------------------------|-------|----------------|----------------|
| Non-current assets | | | |
| Intangible assets | 10 | 32,034 | 29,423 |
| Property, plant and equipment | 11 | 70,953 | 71,183 |
| Restricted cash | | 76 | 3 |
| Trade and other receivables | 12 | 1,279 | 1,423 |
| | | 104,342 | 102,032 |
| Current assets | | | |
| Cash and cash equivalents | | 694 | 3,460 |
| Trade and other receivables | 12 | 3,234 | 2,932 |
| Inventories | | 564 | 307 |
| Restricted cash | | - | 1 |
| | | 4,492 | 6,700 |
| Total assets | | 108,834 | 108,732 |
| Non-current liabilities | | | |
| Financial liabilities - borrowings | 13 | - | 5,281 |
| Deferred tax | 8 | 8,087 | 8,214 |
| Provisions | 15 | 1,689 | 1,402 |
| | | 9,776 | 14,897 |
| Current liabilities | | | |
| Financial liabilities - borrowings | 13 | 40,196 | 28,604 |
| Current taxation | | 1,041 | 604 |
| Trade and other payables | 14 | 10,367 | 8,370 |
| | | 51,604 | 37,578 |
| Total liabilities | | 61,380 | 52,475 |
| Equity | | | |
| Share capital | 16 | 6,832 | 6,832 |
| Share premium | 16 | 360,769 | 360,769 |
| Other reserves | 16 | 45,556 | 45,556 |
| Accumulated deficit | | (365,703) | (356,900) |
| Total equity | | 47,454 | 56,257 |
| Total equity and liabilities | | 108,834 | 108,732 |
| Going concern | 1 | | |
| Commitments and contingencies | 19 | | |
| Subsequent events | 1, 20 | | |

The notes on pages 12 to 51 form part of these consolidated financial statements. The consolidated financial statements were approved by the Board on May 7, 2020 and were signed on its behalf.

The accompanying notes are an integral part of these audited consolidated annual financial statements.

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 | 2019 | 2018 |
|---|------|----------------|----------------|
| Sales and other revenues | 6 | 12,717 | 10,339 |
| Production expenses | | (2,877) | (3,667) |
| Depreciation, depletion and amortisation | | (4,446) | (4,968) |
| Exploration and evaluation expenditure written off | | - | (3,752) |
| Administrative expenses | 7 | (2,916) | (2,322) |
| Share based payments | | - | (57) |
| Gain on assets held for sale | | - | 419 |
| Other gains and losses | 20 | (4,109) | (883) |
| Foreign exchange (loss)/gain | | (453) | 165 |
| Finance costs | 13 | (6,401) | (4,820) |
| | | (21,202) | (19,885) |
| Loss before tax from continuing operations | | (8,485) | (9,546) |
| Taxation | 8 | (318) | 191 |
| Loss for the year from continuing operations | | (8,803) | (9,355) |
| Profit for the year from discontinued operations net of tax | | - | 13,876 |
| (Loss)/profit and total comprehensive (loss)/profit for the year | | (8,803) | 4,521 |
| (Loss)/profit and total comprehensive (loss)/profit attributable to: | | | |
| Shareholders | | (8,803) | 2,439 |
| Non-controlling interest | | - | 2,082 |
| (Loss)/profit and total comprehensive profit/(loss) for the year | | (8,803) | 4,521 |
| (Loss)/earnings per share attributable to shareholders: | | | |
| Basic and diluted - from continuing operations (\$) | 9 | (0.13) | (0.17) |
| Basic and diluted - from discontinued operations (\$) | 9 | - | 0.21 |

No dividends were paid or are declared for the year (2018: nil).

The notes on pages 12 to 51 form part of these consolidated financial statements.

The accompanying notes are an integral part of these audited consolidated annual financial statements.

Tethys Petroleum Limited

Consolidated Statements of Changes in Equity

(in thousands of US dollars)

| | Note | Attributable to shareholders | | | | Non-controlling interest | Total equity |
|---------------------------------------|------|------------------------------|----------------|---------------------|----------------|--------------------------|---------------|
| | | Share capital | Share premium | Accumulated deficit | Other reserves | | |
| At January 1, 2018 | 16 | 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 | 16 | 6,832 | 360,769 | (356,900) | 45,556 | - | 56,257 |
| Comprehensive loss for the year | | - | - | (8,803) | - | - | (8,803) |
| At December 31, 2019 | 16 | 6,832 | 360,769 | (365,703) | 45,556 | - | 47,454 |

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 51 form part of these consolidated financial statements.

The accompanying notes are an integral part of these audited consolidated annual financial statements.

Tethys Petroleum Limited

Consolidated Statements of Cash Flows

For the year ended December 31

(in thousands of US dollars)

| | Note | 2019 | 2018 |
|---|------|----------------|--------------|
| Cash flow from operating activities | | | |
| Loss after tax from continuing operations | | (8,803) | (9,355) |
| Profit after tax from discontinued operations | | - | 13,876 |
| Adjustments for: | | | |
| Share based payments | | - | 57 |
| Net finance cost | | 6,401 | 4,820 |
| Depreciation, depletion and amortisation | 11 | 4,446 | 4,968 |
| Unsuccessful exploration and evaluation expenditures | | - | 3,752 |
| Gain on assets held for sale | | - | (419) |
| Other gains and losses | | 4,109 | 735 |
| Foreign exchange loss on loans | | - | 45 |
| Taxation | | 318 | (191) |
| Net change in non-cash working capital | 18 | (1,448) | (17,144) |
| Cash from operating activities | | 5,023 | 1,144 |
| Corporation tax paid | | (8) | (3) |
| Net cash from operating activities | | 5,015 | 1,141 |
| Cash flow from investing activities | | | |
| Interest received | | 20 | - |
| Expenditure on exploration and evaluation assets | | (2,701) | (10) |
| Expenditure on property, plant and equipment | | (4,100) | (2,749) |
| Proceeds from sale of fixed assets | | - | 3,892 |
| Movement in restricted cash | | (72) | 3 |
| Movement in advances to construction contractors | | - | 27 |
| Net change in non-cash working capital | 18 | (1,213) | (151) |
| Net cash (used in)/from investing activities | | (8,066) | 1,012 |
| Cash flow from financing activities | | | |
| Repayment of borrowings | 13 | - | (2,823) |
| Interest paid on borrowings | | - | (438) |
| Proceeds from issuance of equity | | - | 4,076 |
| Net cash from financing activities | | - | 815 |
| Effects of exchange rate changes on cash and cash equivalents | | 285 | 415 |
| Net (decrease)/increase in cash and cash equivalents | | (2,766) | 3,383 |
| Cash and cash equivalents at beginning of the year | | 3,460 | 77 |
| Cash and cash equivalents at end of the year | | 694 | 3,460 |

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.

The notes on pages 12 to 51 form part of these consolidated financial statements.

The accompanying notes are an integral part of these audited consolidated annual financial statements.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2019

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

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 has its primary listing on the NEX Board of the Toronto Venture Exchange (“TSX”). The Company is also listed on the Kazakhstan Stock Exchange (“KASE”).

References below to the Company refer to Tethys Petroleum Limited singly, or collectively with the undertakings included in the consolidation, as the context implies.

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, 2019. The Company reported a loss of \$8.8 million for the year ended December 31, 2019 (2018: \$4.5 million profit) and an accumulated deficit as at that date of \$365.7 million (December 31, 2018: \$356.9 million) and negative working capital of \$47.1 million (December 31, 2018: negative \$30.9 million). In addition, the Company reported cash flow from operating activities before tax of \$5.0 million for the year ended December 31, 2019 (2018: \$1.0 million).

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

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

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

Possible adverse effects from the Covid-19 pandemic could include lower oil & gas prices received by the Company due to lower demand for oil & gas, customers not paying for oil & gas delivered, planned oil & gas

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development activities becoming uneconomic due to lower prices, difficulty in obtaining future financing, failure of suppliers who are no longer be able to supply goods and services and employees becoming unavailable due to sickness or quarantine measures. However, the Company's oil & gas operations are in a remote region of Kazakhstan where no cases of Covid-19 have been reported and the Company is taking precautions to prevent personnel from becoming infected and to identify infections at any early stage should they occur. At the time of writing, the Company has not suffered any significant adverse effect from Covid-19 and, at this time, it is not possible to determine what effect, if any, Covid-19 will have on the Company's operations over the next twelve months.

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

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

The Company's ability to continue as a going concern is dependent upon its ability to secure and deliver the above-described additional funding required to meet its planned capital expenditure program including its contractual obligations, and ability to generate positive cash flows from operations. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported revenues, expenses and balance sheet classifications that would be necessary if the Company was unable to realise its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2 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.

Certain limited reclassifications of prior year amounts have been made to conform with the current year presentation. The Consolidated Statements of Cash Flows now begins with Loss after tax from continuing operations rather than Loss before tax from continuing operations and movements in value added tax receivable have been included within Cash flow from operating activities rather than Cash flow from investing activities.

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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.

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 in 2018 have been disclosed as a discontinued operation and shown separately from the results of the Company’s continuing operations.

New standards adopted by the Company

IFRS 16 – Leases (“IFRS 16”) is effective for years beginning on or after January 1, 2019, however the Company elected to adopt IFRS 16 effective January 1, 2018. 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. Any new leases entered into will be evaluated and accounted for under the requirements of IFRS 16.

New interpretations and amended standards adopted by the Company

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

- (i) The annual improvements process addresses issues in the 2015-2017 reporting cycles include changes to IFRS 3 – Business combinations, IFRS 11 – Joint arrangements, IAS 12 – Income taxes, and IAS 23 – Borrowing costs. This improvement is effective for periods beginning on or after January 1, 2019. The adoption of these improvements did not have a material impact on the consolidated financial statements.

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- (ii) IFRIC 23 – Uncertainty over income tax treatments (“IFRIC 23”), has been amended to clarify how the recognition and measurement requirements of IAS 12 – Income taxes, are applied where there is uncertainty over income tax treatments. The amendment to IFRIC 23 is effective for years beginning on or after January 1, 2019. The adoption of this amendment did not have a material impact on its consolidated financial statements.

New standards and interpretations issued but not yet adopted

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

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. The Company assessed the impact of this amendment and has determined that more business acquisitions will likely qualify for assets purchases rather than business combinations on its consolidated financial statements in the future.

Restatement of comparative amounts

Comparative amounts in note 16 have been restated to correct an error in the disclosure of the number of share options exercisable at December 31, 2018. The Company previously disclosed that 1,362,188 share options were exercisable at December 31, 2018. The restated amount is 85,000 share options. This is a result of a performance condition not having been met previously.

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 17, 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.

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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.

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

Revenue from contracts with customers

The Company is in the business of producing and selling oil and natural gas. Revenue from contracts with customers is recognised when control of the oil or natural gas is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for the oil and natural gas. The Company has concluded that it is the principal in its revenue arrangements because it controls the oil and natural gas before transferring them to the customer. Contracts with customers have one performance obligation to deliver oil or natural gas at prices stated at the contracts, with no variable considerations.

Revenue from sale of natural gas is recognised at the point in time when control of the asset is transferred to the customer, when it is delivered via the Company's gas pipeline at the meter point with the State-owned gas trunk-line. The normal credit term is 30 days after the end of the calendar month of supply.

Revenue from sale of crude oil and gas condensate is recognised at the point in time when control of the asset is transferred to the customer, when it is delivered to the well-site. Credit terms can vary from payment in advance of delivery to 30 days after the date of delivery.

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.

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 capitalised 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

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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).

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

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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.

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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.

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.

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Financial instruments

Financial instruments are measured on initial recognition at fair value, plus, in the case of financial instruments other than those classified as fair value through profit or loss ("FVPL"), directly attributable transaction costs. Financial instruments are recognized when the Company becomes a party to the contracts that give rise to them and are classified as amortized cost, fair value through profit or loss or fair value through other comprehensive income, as appropriate. The Company considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract if the host contract is not measured at fair value through profit or loss and when the economic characteristics and risks are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Financial assets at FVPL

Financial assets at FVPL include financial assets held for trading and financial assets not designated upon initial recognition as amortized cost or fair value through other comprehensive income ("FVOCI"). A financial asset is classified in this category principally for the purpose of selling in the short term, or if so designated by management. Transaction costs are expensed as incurred. On initial recognition, a financial asset that otherwise meets the requirements to be measured at amortized cost or FVOCI may be irrevocably designated as FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. Financial assets measured at FVPL are measured at fair value with changes in fair value recognized in the consolidated statements of operations. Warrant investments are classified as FVPL.

Financial assets at FVOCI

On initial recognition of an equity investment that is not held for trading, an irrevocable election is available to measure the investment at fair value upon initial recognition plus directly attributable transaction costs and at each period end, changes in fair value are recognized in other comprehensive income ("OCI") with no reclassification to the consolidated statements of earnings. The election is available on an investment-by-investment basis. Investments in equity securities, where the Company cannot exert significant influence, are designated as financial assets at FVOCI.

Financial assets at amortized cost

A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, and is not designated as FVPL. Financial assets classified as amortized cost are measured subsequent to initial recognition at amortized cost using the effective interest method. Cash, restricted cash, trade receivables and certain other assets are classified as and measured at amortized cost.

Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition.

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Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in net earnings when the liabilities are derecognized as well as through the amortization process. Borrowing liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date. Accounts payable and accrued liabilities and finance leases are classified as and measured at amortized cost.

Derivative instruments

Derivative instruments, including embedded derivatives, are measured at fair value on initial recognition and at each subsequent reporting period. Any gains or losses arising from changes in fair value on derivatives are recorded in net earnings.

Fair values

The fair value of quoted investments is determined by reference to market prices at the close of business on the statement of financial position date. Where there is no active market, fair value is determined using valuation techniques. These include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cashflow analysis; and, pricing models.

Financial instruments that are measured at fair value subsequent to initial recognition are grouped into a hierarchy based on the degree to which the fair value is observable as follows:

Level 1 fair value measurements are quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Impairment of financial assets

A loss allowance for expected credit losses is recognized in OCI for financial assets measured at amortized cost. At each balance sheet date, on a forward-looking basis, the Company assesses the expected credit losses associated with its financial assets carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The impairment model does not apply to investments in equity instruments. The expected credit losses are required to be measured through a loss allowance at an amount equal to the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date) or full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument). A loss allowance for full lifetime expected credit

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losses is required for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition.

Derecognition of financial assets and liabilities

A financial asset is derecognized when either the rights to receive cash flows from the asset have expired or the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party. If neither the rights to receive cash flows from the asset have expired nor the Company has transferred its rights to receive cash flows from the asset, the Company will assess whether it has relinquished control of the asset or not. If the Company does not control the asset then derecognition is appropriate. A financial liability is derecognized when the associated obligation is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in net earnings.

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.

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The maximum exposure to credit risk as at the reporting date is:

| | 2019 | 2018 |
|---|--------------|--------------|
| Trade receivables , gross | 1,826 | 1,639 |
| Trade receivable, allowance for credit losses | (149) | (149) |
| Other receivables | 247 | 240 |
| Loan receivable from joint venture, gross | 3,267 | 3,087 |
| Loan receivable from joint venture, allowance for credit losses | (3,267) | (3,087) |
| Cash and cash equivalents | 694 | 3,460 |
| Restricted cash | 76 | 4 |
| | 2,694 | 5,194 |

At December 31, 2019, the trade receivables amounted to \$1,826,000 (2018: \$1,639,000). Of this, \$745,000 of the trade receivables were overdue past 30 days (2018: \$211,000). As part of the settlement agreement described in note 20, the previous oil customer has agreed to pay its outstanding debt of \$596,000. An allowance for credit losses has been made for the remaining amount outstanding of \$149,000. The Company seeks to minimise credit risk from trade receivables 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. The Company reported a loss of \$8.8 million for the year ended December 31, 2019 (2018: \$4.5 million profit) and an accumulated deficit as at that date of \$365.7 million (December 31, 2018: \$356.9 million) and negative working capital of \$47.1 million (December 31, 2018: negative \$30.9 million). In addition, the Company reported cash flow from operating activities before tax of \$5.0 million for the year ended December 31, 2019 (2018: \$1.0 million), refer to note 1 - *Going concern* for further details.

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.

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

| As at December 31, 2019 | Carrying amount | Contractual cash flows | Less than 1 year | 1-3 years | 4-5 years | Thereafter |
|--|-----------------|------------------------|------------------|------------|-----------|--------------|
| Non-derivative financial liabilities: | | | | | | |
| Trade and other payables | 6,603 | 6,603 | 6,603 | - | - | - |
| Financial liabilities - borrowings (note 13) | 40,196 | 40,196 | 40,196 | - | - | - |
| Provisions | 1,689 | 2,426 | 161 | 438 | - | 1,827 |
| Total | 48,488 | 49,225 | 46,960 | 438 | - | 1,827 |

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 20 - *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 2019 average sales price, would result in a reduction of \$2.5 million in gas revenues based on the 2019 gas sales volume of 115,000 Mcm.

The Company ceased oil production in March 2019 as the AKD-01 well reached the end of its producing life and so is not currently exposed to oil price risk.

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, 2019 and 2018.

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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, 2019 was \$20,000 (2018: \$41).

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

| | Fixed rate financial instruments | Variable rate financial instruments | Total |
|------------------------------------|--|---|-----------------|
| As at December 31, 2019 | | | |
| Restricted cash | - | 76 | 76 |
| Cash and cash equivalents | - | 694 | 694 |
| Financial liabilities - borrowings | (40,196) | - | (40,196) |
| Total | (40,196) | 770 | (39,426) |
| | | | |
| | Fixed rate financial instruments | Variable rate financial instruments | Total |
| As at December 31, 2018 | | | |
| 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) |

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.

If the Company holds significant surplus funds these are usually held in \$ to minimise foreign exchange risk. 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.

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

| In \$'000 equivalent | 2019 | 2018 |
|-----------------------------|----------------|----------------|
| Cash and cash equivalents | 524 | 527 |
| Trade and other receivables | 3,935 | 3,215 |
| Trade and other payables | (9,927) | (7,954) |
| Net exposure | (5,468) | (4,212) |

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 | 2019 | 2018 |
|---|-------|-------|
| KZT | (547) | (421) |

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.

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| | 2019 | 2018 |
|--|---------------|---------------|
| Total financial liabilities - borrowings (note 13) | 40,196 | 33,885 |
| Less: cash and cash equivalents | (694) | (3,460) |
| Net debt | 39,502 | 30,425 |
| Total equity | 47,454 | 56,257 |
| Total capital | 86,956 | 86,682 |

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.

The Company's borrowings were restructured and/or converted into Tethys ordinary shares in January 2020, refer to note 20 for further details.

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

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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

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consolidated financial statements for the year ended December 31, 2019. 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 responsible for a subsidiary's 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.

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5 Segmental Reporting

Geographical segments

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

| 2019 | Kazakhstan | Corporate | Total ¹ |
|---|----------------|----------------|--------------------|
| Gas sales | 12,137 | - | 12,137 |
| Oil sales | 580 | - | 580 |
| Segment revenue and other income | 12,717 | - | 12,717 |
| Inter-segment revenue | - | - | - |
| Segment revenue and other income from external customers | 12,717 | - | 12,717 |
| Loss before taxation | (1,083) | (7,402) | (8,485) |
| Taxation | (285) | (33) | (318) |
| Loss for the year | (1,368) | (7,435) | (8,803) |
| Total assets ¹ | 108,656 | 109,957 | 108,834 |
| Total liabilities ¹ | 129,921 | 41,238 | 61,380 |
| Expenditure on exploration & evaluation assets, property, plant and equipment | 6,801 | - | 6,801 |
| Depreciation, depletion & amortisation | 4,533 | - | 4,533 |
| Finance costs | - | 6,401 | 6,401 |

Note 1 – Total is after elimination of inter-segment items of \$109,779,000.

In 2019, gas sales were made to one customer in Kazakhstan representing 95% of segment revenue. at December 31, 2019 an amount of \$1,081,000 was due from this customer which was received in full subsequent to the year end. No borrowing costs or amortisation of assets were capitalised during the year.

| 2018 | Kazakhstan | Georgia ¹ | Corporate | Continuing operations | Tajikistan ² | Total ³ |
|---|---------------|----------------------|----------------|-----------------------|-------------------------|--------------------|
| Gas sales | 7,740 | - | - | 7,740 | - | 7,740 |
| Oil sales | 2,584 | - | - | 2,584 | - | 2,584 |
| Other income | 15 | - | - | 15 | - | 15 |
| 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 |
| Profit/(loss) before taxation | 281 | (3,752) | (6,075) | (9,546) | 13,876 | 4,330 |
| Taxation | 287 | - | (96) | 191 | - | 191 |
| Profit/(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 |
| Finance costs | - | - | 4,820 | 4,820 | - | 4,820 |

Note 1 – Exploration assets in Georgia were written down to nil in 2018.

Note 2 – Discontinued operation in 2018 (note 5).

Note 3 – Total is after elimination of inter-segment items of \$105,389,000.

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

6 Sales and other operating revenues

| | 2019 | 2018 |
|---|---------------|---------------|
| <i>Kazakhstan:</i> | | |
| Gas sales | 12,137 | 7,740 |
| Oil sales | 580 | 2,584 |
| Other revenue | - | 15 |
| Revenue from continuing operations | 12,717 | 10,339 |

7 Administrative expenses

| Administrative expense by nature | 2019 | 2018 |
|--|--------------|--------------|
| Staff expenses | 1,271 | 1,904 |
| Non-executive director fees | 220 | 212 |
| Professional fees | 690 | 286 |
| Other taxes and fees | 26 | (274) |
| Other administrative expenses ¹ | 709 | 194 |
| Total | 2,916 | 2,322 |

Note 1 – includes travel, office, regulatory, insurance, vehicle, investor relations, socio-economic program contributions and bank charges.

8 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:

| | 2019 | 2018 |
|--|--------------|--------------|
| Loss before income taxes from continuing operations | 8,485 | 9,546 |
| Income tax rate | 20% | 20% |
| Expected income tax recovery | 1,697 | 1,909 |
| Decrease resulting from: | | |
| Non-deductible expenses net of functional currency foreign exchange impact | (1,156) | (184) |
| Revisions in tax estimates and foreign exchange impact on tax pools | 574 | (4,304) |
| Impact of effective tax rates in other foreign jurisdictions | (528) | (1,316) |
| Losses and tax assets not utilised/recognised | (905) | 4,086 |
| | (318) | 191 |
| Current tax expense | (437) | (26) |
| Deferred tax credit | 119 | 217 |
| Total | (318) | 191 |

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

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

| | 2019 | 2018 |
|-------------------------------|--------------|--------------|
| Capital assets | 7,059 | 7,430 |
| Other | 1,028 | 784 |
| Deferred tax liability | 8,087 | 8,214 |

Deferred tax liability includes a withholding tax liability of \$1,236,000 (2018: \$1,005,000) that would become payable on the remittance of loan interest payable by subsidiaries.

The movement in deferred income tax liability in each year was as follows:

| | 2019 | 2018 |
|--|--------------|--------------|
| Deferred tax asset at January 1 | - | 75 |
| Recognised in profit or loss | - | (75) |
| Deferred tax asset at December 31 | - | - |
| Deferred tax liability at January 1 | 8,214 | 8,505 |
| Recognised in profit or loss | (119) | (292) |
| Tax paid | (8) | (3) |
| Other | - | 4 |
| Deferred tax liability | 8,087 | 8,214 |

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:

| | 2019 | 2018 |
|----------------|---------------|---------------|
| Capital assets | 39,518 | 33,991 |
| Tax losses | 20,540 | 23,782 |
| Other | 1,141 | 789 |
| Total | 61,199 | 58,562 |

9 Earnings/(loss) per share

| | Units | 2019 | 2018 |
|--|--------|---------|---------|
| Continuing operations: | | | |
| Loss for the purpose of basic and diluted loss attributable to ordinary shareholders | \$'000 | (8,803) | (9,355) |
| Weighted average shares | 000s | 68,324 | 55,393 |
| Per share amount | \$ | (0.13) | (0.17) |
| Discontinued operations: | | | |
| Profit for the purpose of basic and diluted profit attributable to ordinary shareholders | \$'000 | - | 11,794 |
| Weighted average shares | 000s | 68,324 | 55,393 |
| Per share amount | \$ | - | 0.21 |

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| | 2019 | 2018 |
|--|----------------|--------------|
| (Loss)/profit for the purpose of basic and diluted loss attributable to ordinary shareholders: | | |
| – continuing operations | (8,803) | (9,355) |
| – discontinued operations | - | 11,794 |
| – Non-controlling interest | - | 2,082 |
| (Loss)/profit and total comprehensive (loss)/profit for the year | (8,803) | 4,521 |

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 the Company is loss making and therefore there is no difference between basic and diluted earnings per share. The number of potential dilutive shares excluded from the calculation is 19,993,794 (2018: 34,146,294).

10 Intangible assets

| Exploration and evaluation assets | Kazakhstan | Georgia | Total |
|--|---------------|----------|---------------|
| January 1, 2018 | 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) |
| January 1, 2019 | 29,423 | - | 29,423 |
| Additions | 2,611 | - | 2,611 |
| December 31, 2019 | 32,034 | - | 32,034 |

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

11 Property, plant and equipment

| | Oil and gas properties | | | Other fixed assets ¹ | | | Total net book amount |
|----------------------------|------------------------|-----------------|---------------|---------------------------------|----------------|-----------|-----------------------|
| | Cost | Amortisation | Total | Cost | Depreciation | Total | |
| January 1, 2018 | 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) |
| January 1, 2019 | 159,133 | (88,130) | 71,003 | 1,170 | (990) | 180 | 71,183 |
| Additions | 4,197 | - | 4,197 | 36 | - | 36 | 4,233 |
| Depletion and depreciation | - | (4,314) | (4,314) | - | (149) | (149) | (4,463) |
| December 31, 2019 | 163,330 | (92,444) | 70,886 | 1,206 | (1,139) | 67 | 70,953 |

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

“Oil and gas properties” assets with a net book value amounting to \$366,000 (2018: \$856,000) are pledged by Tethys Aral Gas LLP (“TAG”) as security for a bank loan to Eurasia Gas Group LLP. Refer to note 20 for details of planned release of these pledges.

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Oil and gas properties – impairment assessment

As of December 31, 2019, the Company performed an assessment for impairment on the carrying value of its oil and gas assets. The recoverable amount was determined using the higher of Fair Value Less Cost of Disposal (“FVLCD”) or Value in Use.

Based on the impairment tests performed by management, the recoverable amount of all Cash Generating Units (“CGUs”) exceeded their carrying values and consequently there was no impairment as of December 31, 2019. However, a reasonably possible change in key assumptions could have given rise to an impairment of the Company’s Akkulka Oil CGU. The FVLCD was calculated using a discounted cash flow model based on the proved plus probable reserves by the Company’s independent reserve evaluator, Gustavson Associates, using forecast oil and gas prices as at December 31, 2019 and an after-tax discount rate of 13% for all CGUs. The cash flow model used is considered a Level 3 fair value technique based on the unobservable inputs used. An increase of 1% to the discount rate to 14% would have eliminated the headroom for the Akkulka Oil CGU whereas an increase of 2% to the discount rate to 15% would have resulted in an impairment of \$3.0 million.

The FVLCD calculation assumes forecast oil sales prices in USD/bbl, which are the December 31, 2019 price forecasts made by the Company’s independent reserve evaluator, Gustavson as shown in the table below. The Company has assumed that all oil produced will be sold on the Kazakhstan domestic market. The domestic oil price forecast for 2020 is based on actual prices received by the Company in 2019 and future years’ forecasts of domestic prices are linked to Brent oil prices forecasts.

Brent and Kazakhstan domestic spot and future oil prices fell significantly subsequent to December 31, 2019 due to world-wide over-supply and low demand for oil as a result of the Covid-19 pandemic. Had these significantly lower oil prices been used in the Company’s impairment assessment at December 31, 2019 a significant impairment of the Akkulka Oil CGU would likely have arisen. For example, a 50% reduction in the prices shown the table below in all years would have resulted in an impairment of the Akkulka Oil CGU of approximately \$26 million.

Oil price forecasts used for impairment assessment

| Year | Brent oil bbl | Domestic oil bbl |
|-------------|--------------------------|-----------------------------|
| 2020 | \$64.57 | \$32.41 |
| 2021 | \$63.85 | \$32.04 |
| 2022 | \$63.77 | \$31.93 |
| 2023 | \$64.11 | \$32.05 |
| 2024 | \$64.98 | \$32.46 |
| 2025 | \$66.02 | \$32.96 |
| 2026 | \$67.06 | \$33.46 |
| 2027 | \$68.10 | \$33.95 |

Thereafter price escalation at 1.5% p.a.

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12 Trade and other receivables and joint arrangements

12.1 Trade and other receivables

| | 2019 | 2018 |
|--|--------------|--------------|
| Non-current | | |
| VAT recoverable after more one year | 1,264 | 944 |
| Advances to construction contractors and other receivables | 15 | 479 |
| | 1,279 | 1,423 |
| Current | | |
| Trade receivables, gross | 1,826 | 1,639 |
| Trade receivable, allowance for credit losses | (149) | (149) |
| Prepayments | 320 | 425 |
| Other receivables | 247 | 240 |
| VAT and other taxes | 990 | 777 |
| | 3,234 | 2,932 |

Current trade and other receivables are unsecured and non-interest bearing. Normal payment terms for the Company are 30 days. As at December 31, 2019, \$745,000 of trade receivables were overdue past 30 days (2018: \$211,000). As part of the settlement agreement described in note 20, the previous oil customer has agreed to pay its outstanding debt of \$596,000. An allowance for credit losses has been made for the remaining amount outstanding of \$149,000.

The other classes within trade and other receivables do not contain impaired assets.

12.2 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, 2019, the carrying value of the Company’s investment in the joint venture was \$ nil (2018: nil) and the carrying value of loans made to the joint venture was also \$ nil (2018: nil) after full impairment in prior years. 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 13 *Olisol loan*. A settlement agreement was signed with Olisol in February 2020, see note 20 *Subsequent events*.

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13 Financial liabilities

13.1 Borrowings

| | Interest rate per annum | Maturity date | 2019 | 2018 |
|------------------------------|----------------------------|---------------|---------------|---------------|
| Current | | | | |
| Corporate loan financing | 20% | 2017 | 14,103 | 11,565 |
| AGR Energy Limited No.1 loan | 18% | 2017 | 12,059 | 10,150 |
| Annuity loans | 9% | 2020 | 6,637 | - |
| Olisol loan | 9% | Note 1 | 7,397 | 6,889 |
| | | | 40,196 | 28,604 |
| Non-current | | | | |
| Annuity loans | 4-9% | 2020 | - | 5,281 |
| | | | 40,196 | 33,885 |

Note 1 - Subject to litigation as described below.

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

Corporate loan financing

On January 16, 2015, the Company announced that it had secured a \$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 from the due date interest has been accrued at the default interest rate under the loan agreement of 20%, compounded monthly.

The loan was restructured in January 2020 and fully repaid in April 2020, refer to note 20 for details.

Annuity loans

On March 10, 2015, the Company secured a \$3.5 million unsecured loan facility from Annuity and Life Reassurance Ltd ("Annuity"), 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 Annuity which had been entered into on December 20, 2016. The main changes to the loan agreements were to:

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- (i) extend the maturity dates to January 27, 2020;
- (ii) provide that the loans are convertible in whole, or in part, at Annuity'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 Annuity 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 Annuity 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%.

On January 26, 2020 the loans were converted, refer to note 20 for details.

Unsecured convertible loan facility from AGR Energy Limited 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. From the due date interest has been accrued at the default interest rate under the loan agreement of 18%.

The loan was restructured in January 2020, refer to note 20 for details.

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.

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.

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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 did not agree that the loan was 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.

On February 8, 2020 the Company entered a settlement agreement with Olisol pursuant to which all amounts owing under the Interim Financing Facility will be converted, refer to note 20 for further details.

13.2 Finance costs

The net finance cost comprises:

| | 2019 | 2018 |
|---|--------------|--------------|
| Finance costs - borrowings | 6,311 | 4,732 |
| Finance costs – discount on asset retirement obligation | 110 | 88 |
| Finance income | (20) | - |
| Total | 6,401 | 4,820 |

14 Trade and other payables

| | 2019 | 2018 |
|-----------------|---------------|--------------|
| Current | | |
| Trade payables | 1,817 | 3,716 |
| Accruals | 6,295 | 2,051 |
| Other creditors | 2,255 | 2,603 |
| | 10,367 | 8,370 |

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

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payments in 2018 and 2019 supplier payments were made on average later than the contractual payment terms.

Accruals includes the proposed DSFK settlement payment of \$3,764,000, refer to note 20 for further details.

15 Asset retirement obligations

| | 2019 | 2018 |
|--|--------------|--------------|
| Balance, beginning of year | 1,402 | 980 |
| Additions | 181 | 326 |
| Unwinding of discount due to passage of time | 106 | 96 |
| Balance, end of year | 1,689 | 1,402 |

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 2022 and 2029 and on average have been estimated to cost \$32,500 per well (2018: \$32,500). The provision has been estimated using existing technology at current prices, escalated at 5.4% (2018: 5.4%) and discounted at 7.4% (2018: 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, 2019 is \$2,426,000 (2018: \$2,296,000).

16 Capital and reserves

Share capital and share premium

| | Number of shares | | | |
|---|------------------|-------------------|----------------------|----------------------|
| Authorised as at December 31, 2019: | | | | |
| 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 | | | |
| Ordinary equity share capital | | | | |
| Allotted and fully paid | Date | Number | Share Capital | Share Premium |
| At January 1, 2019 and December 31, 2019 | | 68,324,430 | 6,832 | 360,769 |

Loan facilities were in place which were convertible into a total of up to 18,631,606 ordinary shares. These loans were converted in January 2020, refer to note 20 for further details.

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Preference shares

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 (2018: 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 below.

Share options and warrants

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.

The following table lists the options outstanding at December 31, 2019 by exercise price:

| Local | Exercise price \$ equivalent | Outstanding | | Exercisable | |
|--------------|---------------------------------|------------------|--|---------------|--|
| | | No of options | Weighted average remaining term (in years) | No of options | Weighted average remaining term (in years) |
| GBP1.50 | 1.97 | 85,000 | 0.06 | 85,000 | 0.06 |
| GBP0.25 | 0.33 | 1,277,188 | 6.25 | - | 6.25 |
| Total | | 1,362,188 | 5.86 | 85,000 | 5.86 |

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

| | 2019 | | 2018 | |
|----------------------------|----------------------|---|---|--|
| | Number of options | Weighted average exercise price (\$) | Number of options Restated ¹ | Weighted average exercise price (\$) Restated ¹ |
| Outstanding at January 1 | 1,362,188 | 0.42 | 1,371,188 | 0.50 |
| Expired | - | - | (9,000) | 6.00 |
| Outstanding at December 31 | 1,362,188 | 0.43 | 1,362,188 | 0.42 |
| Exercisable at December 31 | 85,000 | 1.97 | 85,000 | 1.90 |

Note 1 – Refer to note 2 for details of restatement.

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Warrants issued

The following table summarises the warrant activity for the years ended December 31, 2019 and December 31, 2018.

| | 2019 | | 2018 | |
|--|--------------------|--------------------------------------|--------------------|--------------------------------------|
| | Number of warrants | Weighted average exercise price (\$) | Number of warrants | Weighted average exercise price (\$) |
| Outstanding at January 1 | 14,422,500 | 0.31 | 19,230,000 | 0.31 |
| Granted | - | - | - | - |
| Exercised | - | - | (4,807,500) | 0.31 |
| Expired | (14,422,500) | 0.31 | - | - |
| Outstanding and exercisable at December 31 | - | - | 14,422,500 | 0.31 |

Of the warrants outstanding and exercisable at the end of the year, nil are held by a company controlled by one of the Company's directors (2018: 9,615,000).

There were no performance conditions attached to the warrants and all the granted warrants were immediately vested. Each warrant was exercisable into one share. Warrants were equity settled share based payment transactions.

17 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 |
| Tethyda Limited | 100% | Group financing | Cyprus | Cyprus |
| Tethys Holdings Limited | 100% | Inactive | Cyprus | Cyprus |
| 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% | Inactive | Kazakhstan | Kazakhstan |
| Asia Oilfield Equipment BV | 100% | Inactive | Netherlands | Kazakhstan |
| 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.

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Pope Asset Management and Annuity and Life Reassurance Ltd

Pope Asset Management (“PAM”) is a Registered Investment Advisor managed by William P. Wells (Executive Chairman of Tethys). PAM clients own approximately 21.1% of the Company’s shares at December 31, 2019. The Company had two loans from Annuity (a Pope Asset client) outstanding at December 31, 2019, further details of which are disclosed in note 13. These loans were converted in January 2020 increasing the total shareholding of PAM clients to approximately 32.5%.

Jaka Partners FZC

Jaka Partners FZC (“Jaka”), owned 18.7% of the Company’s shares at December 31, 2019 as a result of which it is considered to be a related party of the Company. Jaka acquired a 25% interest in the two loans originally made by Annuity which were outstanding at December 31, 2019, further details of which are disclosed in note 13. These loans were converted in January 2020 increasing the total shareholding of Jaka in the Company to 20.0%.

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.

| | 2019 | 2018 |
|---|------------|------------|
| Salaries and short-term employee benefits | 530 | 567 |
| Share-based payments | - | 10 |
| Total | 530 | 577 |

18 Notes to the Consolidated Statements of Cash Flow

18.1 Changes in working capital

| | 2019 | 2018 |
|---------------------------------------|----------------|-----------------|
| Trade and other receivables | (302) | 760 |
| Inventories | (257) | 319 |
| Trade and other payables | 1,997 | (19,295) |
| Change in working capital | 1,438 | (18,216) |
| Non-cash transactions | (4,099) | 921 |
| Net changes in working capital | (2,661) | (17,295) |

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

| | 2019 | 2018 |
|----------------------|----------------|-----------------|
| Operating activities | (1,448) | (17,144) |
| Investing activities | (1,213) | (151) |
| Balance | (2,661) | (17,295) |

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

| | Financial liabilities | | | Equity | Total |
|---------------------------------------|------------------------|--------------------|------------------------------------|--------------|---------------|
| | Non-current borrowings | Current borrowings | Non-current trade & other payables | Net interest | |
| January 1, 2018 | 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) |
| Effect of changes in exchange rates | - | 48 | - | - | 48 |
| Interest expense | 1,029 | 4,043 | - | - | 5,072 |
| Equity related changes | - | - | - | 438 | 438 |
| January 1, 2019 | 5,281 | 28,604 | - | - | 33,885 |
| Reclassification | (5,281) | 5,281 | - | - | - |
| Interest expense (note 13.2) | - | 6,311 | - | - | 6,311 |
| December 31, 2019 | - | 40,196 | - | - | 40,196 |

19 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.

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Exploration and Production Contract Work Programs

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-fulfilment. Two or more contractual violations, e.g. significant non-fulfilment 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:

| | Kazakhstan Work Program Commitments | | | |
|--|-------------------------------------|---------------|-----------------------|-------------------------|
| | Expiry date | Program 2019 | Spend to date 2019 | Program 2020 & later |
| Akkulka Production Contract (Gas) | 2026 | | | |
| Financial obligations, total | | 4,702 | 1,451 | 14,423 |
| Investments | | 2,265 | 1,111 | 7,129 |
| Kyzyloi Production Contract (Gas) | 2029 | | | |
| Financial obligations, total | | 4,309 | 2,590 | 26,729 |
| Investments | | 868 | 2,088 | 4,485 |
| Akkulka Exploration Contract (Oil) | 2022 | | | |
| Financial obligations, total | | 6,941 | 4,274 | 12,055 |
| Investments | | 6,182 | 3,681 | 10,568 |
| Kul-Bas Exploration Contract | 2019 | | | |
| Financial obligations, total | | 3,470 | 2,802 | - |
| Investments | | 3,338 | 2,662 | - |
| Total | | | | |
| Financial obligations, total | | 19,422 | 11,117 | 53,207 |
| Investments (subset of Financial obligations) | | 12,653 | 9,542 | 22,182 |

The amounts shown in the table above under ‘Spend to date’ have been incurred in 2019 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 2020 & 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.

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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 wrote to EGG to demand repayment of the loan because of EGG's failure to make certain scheduled repayments. DSFK separately wrote 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 TAG assets pledged to DSFK have a book value of \$0.4 million 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.

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On February 8, 2020 the Company announced that it had agreed a settlement agreement with DSFK which, when implemented, will result in the TAG asset pledges being released. Further details are given in note 20.

Tajikistan

In May 2016, the Company's former 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 a final arbitration award in respect of Kulob's interest in the Bokhtar Production Sharing Contract and Joint Operating Agreement and Shareholders' Agreement 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") ordered, inter alia, that Kulob should pay Total and CNPC an amount of damages amounting to approximately \$13.9 million.

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 it 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 does not believe there is any basis for this claim.

20 Subsequent events

The following subsequent events have been treated as non-adjusting as so have not been reflected in these consolidated financial statements, except where noted below.

Loan Restructuring

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

- (1) The lender has provided a waiver of all past defaults;
- (2) The maturity date has been extended from January 31, 2017 to December 31, 2021;
- (3) Repayment of \$1,000,000 contingent upon certain future events;
- (4) A discount of \$500,000 will be applied to the outstanding balance upon payment of the \$1,000,000;

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- (5) The Company shall be required to use 15% of any gas sales receipts (net of VAT) received by its subsidiary companies, subject to a minimum of \$200,000 per month, to repay a portion of the outstanding balance;
- (6) The interest rate has changed from 20% to 10.5%, payable monthly;
- (7) An early payment discount will apply if Tethys makes any repayments exceeding those described above on or before June 30, 2020 such that the outstanding balance will be reduced by two times the amount of the repayment i.e. an effective discount of up to 50% of the outstanding balance; and
- (8) A discount of \$2,000,000 will apply to the outstanding balance upon full repayment of the loan on or prior to the maturity, less the amount of any early payment discount already received.

On April 16, 2020 the Company announced that it had fully repaid the loan by remitting approximately \$7.7 million.

Second Loan Restructuring

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

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

The monetary claims under the Loan were assigned by AGR Energy Limited No. 1 to a private individual in 2016. In conjunction with the Amendment Agreement, further assignments have been made. The Amendment Agreement can be terminated if any of these assignments is declared by a court of competent jurisdiction as invalid, void or is otherwise terminated, in which case the Amendment Agreement would have no effect and the original loan agreement signed with AGR Energy Limited No. 1, as assigned to this individual, would continue in force and effect as if never amended by the Amendment Agreement.

On April 29, 2020 the Company agreed and entered into a further loan amendment agreement (“Second Amendment Agreement”) with the new holder of the loan (“Lender”), the key terms of which are described below:

Tethys shall have the option to either:

- (i) Make a repayment of the outstanding balance in the amount of US\$3,000,000 on December 31, 2020, June 30, 2021 and December 31, 2021; or

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- (ii) Make a repayment of US\$7,000,000 by August 25, 2020 upon which Tethys will receive a US\$2,000,000 early payment discount and the outstanding balance will be considered repaid in full.

Loan Conversion

On January 27, 2020, the Company announced that holders of the loans originally made to Annuity and Life Reassurance Ltd had elected to convert in full, the principal and accrued interest outstanding on the Loans of \$5,775,787 into 18,631,569 Tethys ordinary shares.

Settlement Agreement

On February 8, 2020, the Company announced that it had reached a legally binding settlement agreement with Olisol Petroleum Limited and certain of its affiliated companies and their principals (together "Olisol") and DSFK Special Finance Company LLP ("DSFK"), (hereinafter the "Settlement Agreement").

The key terms of the Settlement Agreement insofar as they affect Tethys are:

- (1) Tethys and Olisol agree that they shall seek to discontinue the Canadian lawsuit commenced by Tethys on January 27, 2017 with no order as to costs and the parties agree not to bring any further claims in respect of the disputed matters in the Canadian lawsuit;
- (2) Tethys agrees to issue eighteen million (18,000,000) ordinary shares to Olisol in full satisfaction, and in exchange for full repayment, of all amounts owing under the facility agreement between the parties. Based on the amount claimed by Olisol to be owing at December 31, 2019 of \$7,396,812, this would equate to a price of \$0.41 per ordinary share;
- (3) Olisol agrees to sell a total of 2,809,036 Tethys ordinary shares to existing shareholder Gemini IT Consultants DMCC ("Gemini") for an aggregate of \$1,151,705, at a price of \$0.41 per Share. The proceeds of the sale shall be delivered by Olisol to DSFK;
- (4) Olisol agrees for a period of three years to always exercise the voting rights attaching to its ordinary shares in Tethys in accordance with the recommendation of the Tethys Board of Directors;
- (5) Tethys subsidiary, TethysAralGas LLP ("TAG"), agrees to pay DSFK a settlement payment of KZT 1,434,692,762 (approximately \$3.8 million at the December 31, 2019 rate of exchange) to cancel and release TAG from all obligations under the pledge agreements under which TAG's gas transportation assets are pledged to DSFK;
- (6) The settlement payment referred to in (5) above will be funded from the proceeds of a convertible debenture which Tethys has agreed to issue to Gemini and which Gemini has agreed to subscribe for (the "Debenture"). The Debenture will be for an amount of no less than \$4.6 million with a three year term, interest and principal due at maturity, interest rate of 9% payable if held to maturity or 4% if converted prior to maturity. The issuance of the Debenture will be subject to the approval of the TSXV, assuming that Tethys is able to move its listing from the NEX to the TSXV;

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- (7) Olisol agrees to pay TAG KZT 227,223,284 (approximately \$0.6 million) to settle unpaid oil sales debts owing to TAG;
- (8) DSFK and Olisol agree to release Tethys and TAG from all claims, and not to sue Tethys and TAG, in respect of the disputed matters, and vice versa; and
- (9) Those parties to the Settlement Agreement, which are also parties to Kazakhstan court proceedings brought by DSFK, will seek to execute a mediation agreement reflecting their rights and obligations under the Settlement Agreement and have this approved by the Republic of Kazakhstan Court.

The obligation of Tethys and TAG to complete the transactions contemplated by the Settlement Agreement is subject to prior receipt of any approvals required by relevant securities laws or stock exchange rules, Gemini having subscribed and paid for the Debenture and Tethys satisfaction that all necessary DSFK corporate approvals have been obtained. Whilst not part of the Settlement Agreement, Tethys understands that Gemini plans to grant William Wells a six month option to purchase 50% of the Debenture at cost, plus accrued interest.

The Company has accrued for the proposed DSFK settlement payment in these accounts in the amount of \$3,764,000 and this amount has been included in *Other gains and losses* in the Consolidated Statements of Comprehensive Income (Loss).

Kul-bas Exploration Contract

Also on February 8, 2020, the Company announced that it had received confirmation of an extension of its Kul-bas Exploration Contract until December 31, 2022. This will allow the Company to test the KBD-02 exploration well ("Klymene") which the Company finished drilling in December.

Gas Sales Prepayment

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

Completion of Debenture

Also on April 16, 2020, the Company announced that it had completed the issuance of the Debenture described above under *Settlement Agreement* in the amount of \$4.8 million. The proceeds of the Debenture will be used to make the settlement payment to DSFK, repay the outstanding balance of the Corporate Loan referred to above and for general working capital purposes.

TSX Venture Exchange Application

Tethys received conditional approval from the TSX Venture Exchange ("TSXV") to graduate from the NEX Board to the TSXV as a Tier 2 Oil & Gas Issuer. Graduation to the TSXV is conditional on completion of the

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convertible debenture with Gemini and the previously announced shares for debt transaction with Olisol. Now that the convertible debenture has been completed the Company plans to complete in short order the shares for debt transaction with Olisol and will then request the TSXV to promote Tethys to the TSXV.

Covid-19

The Covid-19 global pandemic emerged subsequent to the end of the December 31, 2019 reporting period. Possible adverse effects from Covid-19 could include lower oil & gas prices received by the Company due to lower demand for oil & gas, customers not paying for oil & gas delivered, planned oil & gas development activities becoming uneconomic due to lower prices, difficulty in obtaining future financing, failure of suppliers who are no longer be able to supply goods and services and employees becoming unavailable due to sickness or quarantine measures. However, the Company's oil & gas operations are in a remote region of Kazakhstan where, at the time of writing, no cases of Covid-19 have been reported and the Company is taking precautions to prevent personnel from becoming infected and to identify infections at any early stage should they occur. At the time of writing, the Company has not suffered any significant adverse effect from Covid-19 and, at this time, it is not possible to determine what effect, if any, Covid-19 will have on the Company's operations over the next twelve months.

Reduction in oil prices

Brent and Kazakhstan domestic spot and future oil prices fell significantly subsequent to December 31, 2019 due to world-wide over-supply and low demand for oil as a result of the Covid-19 pandemic. The effect of the reduction in prices on the value of the Company's oil assets has been considered in note 11, *Oil and gas properties – impairment assessment*.