Tethys Petroleum Limited

Condensed Consolidated Interim Financial Statements
(Unaudited)
March 31, 2018

NOTICE OF NO AUDITOR REVIEW
OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

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

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

We draw attention to the section entitled "Going Concern" in Note 1 to the condensed consolidated interim financial statements which describes the material uncertainties relating to the Company's adoption of the going concern basis in preparing the condensed consolidated interim financial statements for the period ended March 31, 2018.

For and on behalf of the Board

W. Wells	**A. Ogunsemi**
Chairman	Director
[•] August, 2018	[•] August, 2018

Tethys Petroleum Limited

Condensed Consolidated Interim Statements of Financial Position (unaudited)

(in thousands of US dollars)

		As at	
	Note	**March 31, 2018**	**December 31, 2017**
Non-current assets			
Intangible assets		33,607	33,318
Property, plant and equipment		72,090	74,090
Restricted cash		4	5
Trade and other receivables		2,828	2,734
Deferred tax		75	75
		132,902	**110,222**
Current assets			
Cash and cash equivalents		29	77
Trade and other receivables		2,946	3,530
Assets held for sale		3,473	3,473
Inventories		626	626
Restricted cash		1	1
		7,075	**7,707**
Total assets		**115,679**	**117,929**
Non-current liabilities			
Financial liabilities - borrowings		5,671	5,587
Deferred tax		8,097	8,505
Provisions		1,016	980
		14,784	**15,072**
Current liabilities			
Financial liabilities - borrowings		28,158	26,668
Current taxation		582	582
Trade and other payables		28,529	27,665
		57,269	**54,915**
Total liabilities		**72,053**	**67,982**
Equity			
Share capital		5,081	5,081
Share premium		358,444	358,444
Other reserves		43,873	43,856
Accumulated deficit		(361,690)	(357,357)
Non-controlling interest		(2,082)	(2,082)
Total equity		**43,626**	**47,942**
Total equity and liabilities		**115,679**	**117,929**
Going concern	1		

The notes on pages 6 to 12 form part of these condensed consolidated interim financial statements. The condensed consolidated interim financial statements were approved by the Board on [•] August, 2018 and were signed on its behalf.

W. Wells
Chairman
[•] August, 2018

A. Ogunsemi
Director
[•] August, 2018

Tethys Petroleum Limited

Condensed Consolidated Interim Statements of Comprehensive Income (Loss) (unaudited)
For the three months ended March 31
(in thousands of US dollars except per share information)

		Three months ended March 31	
	Note	**2018**	**2017**
Sales and other revenues	3	1,916	480
Production expenses		(1,045)	(595)
Depreciation, depletion and amortisation		(2,714)	(2,567)
Administrative expenses		(987)	(1,174)
Restructuring costs		-	(118)
Share based payments		(16)	(56)
Foreign exchange (loss)/gain		(266)	(18)
Finance costs		(1,612)	(1,103)
		(6,640)	(5,631)
Loss before tax from continuing operations		**(4,724)**	**(5,151)**
Taxation		391	761
Loss from and total comprehensive loss		**(4,333)**	**(4,390)**
Loss and total comprehensive loss attributable to:			
Shareholders		(4,333)	(4,390)
Non-controlling interest		-	-
Loss and total comprehensive income		**(4,333)**	**(4,390)**
Loss per share attributable to shareholders:			
Basic and diluted - from continuing operations (USD)	4	(0.01)	(0.01)

No dividends were paid or are declared for the period (2017 – none).

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

Tethys Petroleum Limited

Condensed Consolidated Interim Statements of Changes in Equity (unaudited)

(in thousands of US dollars)

	Attributable to shareholders						
	Share capital	**Share premium**	**Accumulated deficit**	**Option reserves**	**Warrant reserves**	**Non-controlling interest**	**Total equity**
At January 1, 2017	**5,081**	**358,444**	**(312,046)**	**27,047**	**16,601**	**(1,899)**	**93,228**
Comprehensive loss for the period	-	-	(4,390)	-	-	-	(4,390)
Transactions with shareholders							
Share-based payments	-	-	-	56	-	-	56
Total transactions with shareholders	-	-	-	56	-	-	56
At March 31, 2017	**5,081**	**358,444**	**(316,436)**	**27,103**	**16,601**	**(1,899)**	**88,894**
At January 1, 2018	**5,081**	**358,444**	**(357,357)**	**27,255**	**16,601**	**(2,082)**	**47,942**
Comprehensive loss for the period	-	-	(4,333)	-	-	-	(4,333)
Transactions with shareholders							-
Share-based payments	-	-	-	17	-	-	17
Total transactions with shareholders	-	-	-	17	-	-	17
At March 31, 2018	**5,081**	**358,444**	**(361,690)**	**27,272**	**16,601**	**(2,082)**	**43,626**

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

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

Tethys Petroleum Limited

Condensed Consolidated Interim Statements of Cash Flows (unaudited)
For the three months ended March 31
(in thousands of US dollars)

	Three months ended March 31	
	2018	**2017**
Cash flow from operating activities		
Loss before tax from continuing operations	(4,724)	(5,151)
Adjustments for:		
Share based payments	16	56
Net finance cost	1,612	1,103
Depreciation, depletion and amortisation	2,714	2,567
Net unrealised foreign exchange gain	45	16
Movement in provisions	-	(120)
Net change in working capital	396	189
Cash used in operating activities	**59**	**(1,340)**
Corporation tax paid	-	(8)
Net cash used in operating activities	**59**	**(1,348)**
Cash flow from investing activities:		
Expenditure on exploration and evaluation assets	(288)	(53)
Expenditure on property, plant and equipment	(509)	(946)
Movement in restricted cash	1	2,680
Movement in advances to construction contractors	3	(14)
Movement in value added tax receivable	(93)	301
Net change in working capital	541	(14)
Net cash (used in)/generated from investing activities	**(345)**	**1,954**
Cash flow from financing activities:		
Repayment of borrowings	-	(242)
Interest paid on borrowings	-	(620)
Movement in other non-current liabilities	-	(21)
Net cash used in financing activities	-	**(883)**
Effects of exchange rate changes on cash and cash equivalents	238	(103)
Net decrease in cash and cash equivalents	**(48)**	**(380)**
Cash and cash equivalents at beginning of the period	**77**	449
Cash and cash equivalents at end of the period	**29**	**69**

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

1 General information and going concern

Tethys Petroleum Limited is incorporated in the Cayman Islands and the address of the Company's registered office is 190 Elgin Avenue, George Town, Grand Cayman, KY1-9007, Cayman Islands. Tethys is an oil and gas company operating within the Republic of Kazakhstan and Georgia. Tethys' principal activity is the acquisition of and exploration and development of crude oil and natural gas fields.

The Company had its primary listing on the Toronto Stock Exchange ("TSX") until March 23, 2018 when it transferred to NEX, a subsidiary of the Toronto Venture Exchange. The Company is also listed on the Kazakhstan Stock Exchange ("KASE").

Going concern

The Management and the Board has considered the Company's current activities, funding position and projected funding requirements for the period of at least twelve months from the date of approval of the condensed consolidated interim financial statements in determining the ability of the Company to adopt the going concern basis in preparing the condensed consolidated interim financial statements for the three months ended March 31, 2018. The Company currently does not have sufficient funding to fund its obligations for the next twelve months.

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

The Company reported a loss of USD4.2 million for the period ended March 31, 2018 (year ended December 31, 2017: USD45.5 million) and an accumulated deficit as at that date of USD361.6 million (December 31, 2017: USD357.4 million) and negative working capital of USD49.7 million (December 31, 2017: negative USD47.2 million). In addition, the Company reported negative cash flow from operating activities before tax of USD0.0 million for the period ended March 31, 2018 (year ended December 31, 2017: positive USD1.3 million).

The Company also has various commitments and contingencies as described in note 14. These include work program commitments for its oil & gas licenses which have not met been fully met potentially putting those licenses at risk of being revoked.

In order to support the Company's short term liquidity position and improve the Company's financial situation, management's focus in the short term is to:

- Resolve the Company's legal disputes with Eurasia Gas Group LLP ("EGG"), Olisol Petroleum Limited and Olisol Investments Limited (together "Olisol");
- Work with the Company's other major shareholders in Kazakhstan to market the Company's oil and gas for better pricing, including potential export pricing for gas;
- Complete the process of restructuring the Company's loans;

- Increase gas production by drilling new shallow gas wells, well work-overs and tie-in of already drilled wells;
- Seek drilling company partners, or other investors, to fund drilling activities in the Company's Kazakhstan licence areas, for example on a deferred payment or contingent production sharing basis. This includes oil wells in the Akkulka contract area and the Klymene exploration well in the Kul-bas contract area;
- Continue to evaluate farm-out or other value realisation opportunities with respect to the Georgia assets; and
- Implement further cost optimisation across the business.

Three of the Company's loans falling due in 2017 were restructured during the year, the Company plans to negotiate restructurings with certain other lenders and other loans are subject to legal proceedings. Some of these loans as well as other creditors are now past due and there is a risk that lenders or other creditors could take recovery action potentially affecting the Company's ability to continue to operate. Further details of loans are provided in note 10.

The Company is currently the subject of a Cease Trade Order ("CTO") issued by the Alberta Securities Commission on June 29, 2018 due to the late filing of its consolidated financial statements and related filings for the year ended December 31, 2017 as well as its late filings for these condensed consolidated interim financial statements and related documents. This prevents the trading in and purchasing of the Company's ordinary shares in Canada while the order remains in effect.

On July 18, 2018 the Company announced it had entered into share acquisition agreements to raise approximately USD1.2m from the sale of shares and warrants which if exercised would provide the Company with further funds of USD1.4m. The CTO does not apply to this transaction and the Company has received conditional approval for the transaction from the NEX Board of the Toronto Venture Exchange. Some of these proceeds are expected to be used to upgrade gas production facilities to increase production and cash flow from the newly tied in wells announced by the Company on January 11, 2018.

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

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

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

2 Basis of preparation and accounting policies

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

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as applicable to interim financial reporting and do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual consolidated financial statements reported for the year ended December 31, 2017.

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

New accounting policies

There were no new and revised standards adopted by the Company during the financial period ended March 31, 2018 that had an impact on the condensed consolidated interim financial statements.

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

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

(in thousands of US dollars)

3 Segmental Reporting

Geographical segments

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

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

In Kazakhstan, the Company is producing oil and gas from the Kyzyloi and Akkulka fields and is undertaking exploration and evaluation activity in the Kul-bas field. In Georgia, the Company is currently undertaking exploration and evaluation activity. The Company previously undertook exploration activity in Tajikistan, however, on December 30, 2017 an arbitration tribunal ruled it should assign its interest to its partners due to its contractual defaults.

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

The following is an analysis of the Company's revenue, results and assets by reportable segment for the three months ended March 31, 2018:

	Kazakhstan	Tajikistan	Georgia	Corporate	Total
Gas sales	1,252	-	-	-	1,252
Oil sales	655	-	-	-	655
Other income	9	-	-	-	9
Other operating income	-	-	-	27	27
Segment revenue and other income	**1,916**	**-**	**-**	**27**	**1,943**
Inter-segment revenue	-	-	-	(27)	(27)
Segment revenue and other income from external customers	**1,916**	**-**	**-**	**-**	**1,916**
Loss before taxation	(1,989)	-	-	(2,735)	(4,724)
Taxation	403	-	-	(12)	391
Loss for the period	**(1,586)**	**-**	**-**	**(2,747)**	**(4,333)**
Total assets[1]	105,582	8	4,088	109,564	115,679
Total liabilities[1]	125,667	13,884	-	36,065	72,053
Expenditure on exploration & evaluation assets, property, plant and equipment	510	-	287	-	797
Depreciation, depletion & amortization	2,094	-	-	620	2,714

Note 1 – Total is after elimination of inter-segment items of USD103,563,000.

No borrowing costs were capitalised during the period.

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

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

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

No borrowing costs were capitalised during the period.

4 Loss per share

		Three months ended March 31	
Continuing operations	**Units**	**2018**	**2017**
Loss for the purpose of basic and diluted loss attributable to ordinary shareholders	$'000	(4,333)	(4,390)
Weighted average shares	000s	508,136	508,136
Per share amount	$	(0.01)	(0.01)

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

5 Related party transactions

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

6 Subsequent events

Update on Kazakhstan Loan

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 EGG by Bank RBK JSC ("RBK") in 2012. Also in 2012, TAG pledged certain of its oil and gas assets as collateral for the RBK loan to EGG including gas pipelines, booster compressor stations and oil gathering facility. EGG was TAG's former oil customer and advanced certain funds to TAG. In December 2017, RBK's loan to EGG was assigned to DSFK. DSFK has written to EGG to demand repayment of the loan because of EGG's failure to make certain scheduled repayments. DSFK has written separately to TAG regarding EGG's default and subsequent failure to repay the loan and informed TAG that it will take all measures to collect the debt, including but not limited to court collateral collection on the pledged assets. TAG has yet to receive full information regarding the EGG debt and is evaluating the legal position in order to protect its pledged assets from possible court collateral collection actions by DSFK and ultimately to have the pledges released.

Cease Trade Order

On July 2, 2018 the Company announced that the Alberta Securities Commission (“ASC”) had issued a Cease Trade Order against the Company and revoked the previously issued Management Cease Trade Order (“MCTO”). Accordingly, Tethys securities have been halted from trading.

The Cease Trade Order was issued because the Company had not timely filed its audited financial statements, CEO and CFO certifications, and management discussion & analysis (the “Annual Filings”) for the year ended December 31, 2017 and its interim financial statements, CEO and CFO certifications, and management discussion and analysis (the “Interim Filings”) for the three month period ended March 31, 2018. Once the filings have been made the Company intends to apply to the ASC to have the Cease Trade Order revoked.

Restructuring of interests in Georgia

In June 2018, Tethys and its partner in Georgia, Georgia Oil & Gas, agreed to a restructuring of their respective interests in the Georgian assets whereby Tethys’ indebtedness of approximately USD1.6 million and its funding obligations for the 2018 operating budget were satisfied by reducing its economic interest in Blocks XI^M and XI^N blocks to 19%. The work program for 2018 involves reprocessing and interpretation of 500km of 2D seismic data and 225km of geological survey work.

Agreements to Acquire Shares in the Company

On July 18, 2018 the Company announced that it had signed binding agreements for new investors to purchase 63,517,017 ordinary shares in the Company for total proceeds of USD1.2 million and warrants to acquire up to a further 63,517,017 ordinary shares for total proceeds of up to USD1.4 million. The transactions are subject to receipt of approval from the NEX Board of the TSX Venture Exchange and other regulatory approvals which may be required.

The Company also reported that the proposals to acquire shares in the Company announced on January 23, 2018 would no longer be proceeding.

Oil & Gas License Extensions

Also on July 18, 2018 the Company announced extensions of two of its Oil & Gas licenses in Kazakhstan.

Contract No. 3496 for gas production in the Akkulka Field has been extended for a further eight years until December 23, 2026 and the related work program for the period 2019-2026 has been approved.

In addition, Contract No. 265 for appraisal of the Akkulka Oil & Gas Area has received Ministry of Energy approval for a three year extension of the exploration period until March 10, 2022, provided the Company meets certain conditions. The Company currently produces oil in this contract area under a pilot production license.