

Tethys Petroleum Limited

Condensed Consolidated Interim Financial Statements
(Unaudited)
March 31, 2019

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

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

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

We draw attention to the section entitled “Going Concern” in Note 1 to the condensed consolidated interim financial statements which describes the material uncertainties relating to the Company’s adoption of the going concern basis in preparing the condensed consolidated interim financial Statements for the period ended March 31, 2019.

For and on behalf of the Board

W. Wells

Chairman

May 30, 2019

A. Ogunsemi

Director

May 30, 2019

Tethys Petroleum Limited

Condensed Consolidated Interim Statements of Financial Position (unaudited)

(in thousands of US dollars)

	Note	As at	
		March 31, 2019	December 31, 2018
Non-current assets			
Intangible assets		29,271	29,423
Property, plant and equipment		70,386	71,183
Restricted cash		3	3
Trade and other receivables		1,439	1,423
		101,099	102,032
Current assets			
Cash and cash equivalents		2,379	3,460
Trade and other receivables		6,819	2,932
Inventories		520	307
Restricted cash		-	1
		9,718	6,700
Total assets		110,817	108,732
Non-current liabilities			
Financial liabilities - borrowings		-	5,281
Deferred tax		7,950	8,214
Provisions		1,500	1,402
		9,450	14,897
Current liabilities			
Financial liabilities - borrowings		35,341	28,604
Current taxation		604	604
Trade and other payables		8,422	8,370
		44,367	37,578
Total liabilities		53,817	52,475
Equity			
Share capital		6,832	6,832
Share premium		360,769	360,769
Other reserves		45,556	45,556
Accumulated deficit		(356,157)	(356,900)
Total equity		57,000	56,257
Total equity and liabilities		110,817	108,732
Going concern	1		

The notes on pages 6 to 9 form part of these condensed consolidated interim financial statements. The condensed consolidated interim financial statements were approved by the Board on May 30, 2019 and were signed on its behalf.

W. Wells
Chairman
May 30, 2019

A. Ogunsemi
Director
May 30, 2019

Tethys Petroleum Limited

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

	Note	Three months ended March 31	
		2019	2018
Sales and other revenues	3	4,656	1,916
Production expenses		(738)	(1,045)
Depreciation, depletion and amortisation		(1,250)	(2,714)
Administrative expenses		(615)	(987)
Share based payments		-	(16)
Other gains and losses		193	-
Foreign exchange gain		(207)	(266)
Finance costs		(1,560)	(1,612)
		(4,177)	(6,640)
Profit/(loss) before tax from continuing operations		479	(4,724)
Taxation		264	391
Profit/(loss) from continuing operations and total comprehensive income		743	(4,333)
Earnings/(loss) per share:			
Basic and diluted - from continuing operations (\$)	4	0.01	(0.09)

No dividends were paid or are declared for the period (2018: none).

The notes on pages 6 to 9 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				Non-controlling interest	Total equity
	Share capital	Share premium	Accumulated deficit	Other reserves		
At January 1, 2018	5,081	358,444	(357,357)	43,856	(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)	43,873	(2,082)	43,626
At January 1, 2019	6,832	360,769	(356,900)	45,556	-	56,257
Comprehensive profit for the period	-	-	743	-	-	743
At March 31, 2019	6,832	360,769	(356,157)	45,556	-	57,000

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

The notes on pages 6 to 9 form part of these condensed consolidated interim financial statements.

Tethys Petroleum Limited

Condensed Consolidated Interim Statements of Cash Flows (unaudited)

(in thousands of US dollars)

	Three months ended March 31	
	2019	2018
Cash flow from operating activities		
Loss before tax from continuing operations	479	(4,724)
Adjustments for:		
Share based payments	-	16
Net finance cost	1,560	1,612
Depreciation, depletion and amortisation	1,250	2,714
Other gains and losses	(193)	-
Net unrealised foreign exchange gain	-	45
Net change in working capital	(4,033)	396
Net cash generated from operating activities	(937)	59
Cash flow from investing activities:		
Expenditure on exploration and evaluation assets	(2)	(288)
Expenditure on property, plant and equipment	(453)	(509)
Movement in restricted cash	1	1
Movement in advances to construction contractors	-	3
Movement in value added tax receivable	(6)	(93)
Net change in working capital	(46)	541
Net cash from/(used in) investing activities	(506)	(345)
Effects of exchange rate changes	362	238
Net increase in cash and cash equivalents	(1,081)	(48)
Cash and cash equivalents at beginning of the period	3,460	77
Cash and cash equivalents at end of the period	2,379	29

The notes on pages 6 to 9 form part of these condensed consolidated interim financial statements.

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

1 General information and going concern

Tethys Petroleum Limited is incorporated in the Cayman Islands and the address of the Company's registered office is 190 Elgin Avenue, George Town, Grand Cayman, KY1-9005, Cayman Islands. Tethys is an oil and gas company operating within the Republic of Kazakhstan. Tethys' principal activity is the acquisition of and exploration and development of crude oil and natural gas fields.

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

Going concern

The Management and the Board has considered the Company's current activities, funding position and projected funding requirements for the period of at least twelve months from the date of approval of the 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, 2019. The Company reported a profit of \$0.7 million for the three months ended March 31, 2019 (2019 full year: \$4.5 million) and an accumulated deficit as at that date of \$356.2 million (December 31, 2018: \$356.9 million) and negative working capital of \$34.6 million (December 31, 2018: negative \$30.9 million). In addition, the Company reported negative cash flow from operating activities before tax of \$0.9 million for the three months ended March 31, 2019 (2017 full year: positive \$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 currently does not have sufficient funding to fund its obligations for the next twelve months should all lenders call in their debts at once. The Company is currently in default on loan obligations as disclosed further in note 15 of the 2018 consolidated financial statements and various commitments and contingencies as disclosed in note 21 of the 2018 consolidated financial statements. The Company has been in discussions and negotiations with the related counterparties to restructure the repayments that are currently due. In order to continue as a going concern, the Company will need to agree adequate terms with counterparties to restructure repayments. There is material uncertainty about the outcome of these negotiations which casts significant doubt on the Company's ability to continue as a going concern.

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

- Complete the proposed change of control transaction with Jaka Partners FZC;
- Maintain the improved oil and gas pricing received since September 2018 and work to improve prices further during 2019;
- Ensure continuity of gas production operations and optimise production volumes by completing the upgrade of the gas compression facility;

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

(in thousands of US dollars)

- Retain exploration & production contracts by fulfilling work program obligations including successfully drilling new oil wells in the Akkulka and Kul-bas contract areas; and
- Formalise repayment terms for overdue debts to lenders and suppliers.

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

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

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

2 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 ("\$").

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

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

New accounting policies

There were no new and revised standards adopted by the Company during the three months ended March 31, 2019 that had an impact on the condensed consolidated interim financial statements.

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

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

3 Segmental Reporting

Geographical segments

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

The Board of Directors consider the business from predominantly a geographical perspective and the Company currently operates in two geographical markets: Kazakhstan and Rest of World (or Corporate).

In Kazakhstan, the Company is producing oil and gas from the Kyzylai and Akkulka fields and is undertaking exploration and evaluation activity in the Kul-bas field. The Company also operates a corporate segment which provides loan funding for development activities in Kazakhstan.

The following is an analysis of the Company's revenue, results and assets by reportable segment for the three months ended March 31, 2019:

	Kazakhstan	Corporate	Total	Eliminations	Group
Gas sales	4,174	-	4,174	-	4,174
Oil sales	482	-	482	-	482
Segment revenue and other income	4,656	-	4,656	-	4,656
Loss before taxation	2,016	(1,537)	479	-	479
Taxation	264	-	264	-	264
Loss for the period	2,280	(1,537)	743	-	743
Total assets ¹	110,559	106,299	216,858	(106,041)	110,817
Total liabilities ¹	123,696	36,162	159,858	(106,041)	53,817
Expenditure on exploration & evaluation assets, property, plant and equipment	455	-	455	-	455
Depreciation, depletion & amortization	1,250	-	1,250	-	1,250

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, 2018 are as follows:

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

(in thousands of US dollars)

	Kazakhstan	Corporate	Total	Eliminations	Group
Gas sales	1,252	-	1,252	-	1,252
Oil sales	655	-	655	-	655
Other income	9	-	9	-	9
Other operating income	-	27	27	(27)	-
Segment revenue and other income	1,916	27	27	(27)	1,916
Loss before taxation	(1,989)	(2,735)	(4,724)	-	(4,724)
Taxation	403	(12)	391	-	391
Loss for the period	(1,586)	(2,747)	(4,333)	-	(4,333)
Total assets ¹	105,582	113,660	219,242	(103,563)	115,679
Total liabilities ¹	125,667	49,949	175,616	(103,563)	72,053
Expenditure on exploration & evaluation assets, property, plant and equipment	510	287	797	-	797
Depreciation, depletion & amortization	2,094	620	2,714	-	2,714

No borrowing costs were capitalised during the period.

4 Loss per share

Continuing operations	Units	Three months ended March 31	
		2019	2018
Loss for the purpose of basic and diluted loss attributable to ordinary shareholders	\$'000	743	(4,333)
Weighted average shares	000s	68,324	50,814
Per share amount	\$	0.01	(0.09)

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.