

Tethys Petroleum Limited

Consolidated Financial Statements
For the years ended December 31, 2017 and 2016

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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, 2017 that may cast significant doubt about Tethys Petroleum Limited’s ability to continue as a going concern.

For and on behalf of the Board

W. Wells

Chairman

30 August, 2018

A. Ogunsemi

Director

30 August, 2018



Independent Auditor's Report

To the Shareholders of Tethys Petroleum Limited

We have audited the accompanying consolidated financial statements of Tethys Petroleum Limited and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Tethys Petroleum Limited and its subsidiaries as at December 31, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Tethys Petroleum Limited's ability to continue as a going concern.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

August 30, 2018

PricewaterhouseCoopers LLP

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Tethys Petroleum Limited

Consolidated Statements of Financial Position

As at December 31

(in thousands of US dollars)

	Note	2017	2016 Restated
Non-current assets			
Intangible assets	12	33,318	42,732
Property, plant and equipment	13	74,090	103,115
Restricted cash	14	5	2,238
Investment in joint arrangements	16	-	4
Trade and other receivables	15	2,734	1,237
Deferred tax	10	75	208
		110,222	149,534
Current assets			
Cash and cash equivalents	17	77	449
Trade and other receivables	15	3,530	6,532
Assets held for sale	13	3,473	-
Inventories		626	676
Restricted cash	14	1	2,713
		7,707	10,370
Total assets		117,929	159,904
Non-current liabilities			
Trade and other payables	19	-	44
Financial liabilities - borrowings	18	5,587	-
Deferred tax	10	8,505	11,913
Provisions	20	980	910
		15,072	12,867
Current liabilities			
Financial liabilities - borrowings	18	26,668	33,249
Current taxation		582	522
Trade and other payables	19	27,665	19,838
Provisions	8	-	200
		54,915	53,809
Total liabilities		69,987	66,676
Equity			
Share capital	21	5,081	5,081
Share premium	21	358,444	358,444
Other reserves	21	43,856	43,648
Accumulated deficit		(357,357)	(312,046)
Non-controlling interest	22	(2,082)	(1,899)
Total equity		47,942	93,228
Total equity and liabilities		117,929	159,904
Going concern	1		
Commitments and contingencies	25		

The notes on pages 7 to 53 form part of these consolidated financial statements. The consolidated financial statements were approved by the Board on 30 August, 2018 and were signed on its behalf.

W. Wells
Chairman

A. Ogunsemi
Director

Tethys Petroleum Limited

Consolidated Statements of Comprehensive Income (Loss)

For the year ended December 31

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

	Note	2017	2016 Restated
Sales and other revenues	6	7,998	11,734
Sales expenses	2	-	(2,443)
Production expenses		(4,571)	(5,285)
Depreciation, depletion and amortisation		(10,978)	(9,971)
Exploration and evaluation expenditure written off	12	(10,151)	(25,627)
Impairment of oil & gas assets	13	(15,259)	(1,176)
Administrative expenses	7	(5,273)	(5,461)
Restructuring costs	8	(83)	(1,915)
Share based payments	9	(208)	(482)
Loss on revaluation of assets held for sale	13	(3,821)	-
Litigation costs & other asset impairments		(928)	-
Foreign exchange (loss)/gain		(184)	117
Fair value gain on derivative financial instrument		-	275
Finance costs	18	(5,227)	(5,313)
		(56,683)	(57,281)
Loss before tax from continuing operations		(48,685)	(45,547)
Taxation	10	3,191	(1,303)
Loss and total comprehensive loss for the year		(45,494)	(46,850)
Loss and total comprehensive loss attributable to:			
Shareholders		(45,311)	(43,289)
Non-controlling interest		(183)	(3,561)
Loss and total comprehensive loss for the year		(45,494)	(46,850)
Loss per share attributable to shareholders:			
Basic and diluted - from continuing operations (USD)	11	0.09	0.11

No dividends were paid or are declared for the year (2016: Nil).

The notes on pages 7 to 53 form part of these consolidated financial statements.

Tethys Petroleum Limited

Consolidated Statements of Changes in Equity

(in thousands of US dollars)

	Note	Share capital	Share premium	Attributable to shareholders Accumulated deficit Restated	Option reserves	Warrant reserves	Non-controlling interest Restated	Total equity
At January 1, 2016		33,696	321,803	(268,757)	26,565	16,601	1,662	131,570
Comprehensive loss for the year		-	-	(43,289)	-	-	(3,561)	(46,850)
Transactions with shareholders						-	-	-
Shares issued		7,385	641	-	-	-	-	8,026
Share-based payments		-	-	-	482	-	-	482
Par value reduction		(36,000)	36,000	-	-	-	-	-
Total transactions with shareholders		(28,615)	36,641	-	482	-	-	8,508
At December 31, 2016	21	5,081	358,444	(312,046)	27,047	16,601	(1,899)	93,228
Comprehensive loss for the year		-	-	(45,311)	-	-	(183)	(45,494)
Transactions with shareholders								
Share-based payments		-	-	-	208	-	-	208
Total transactions with shareholders		-	-	-	208	-	-	208
At December 31, 2017	21	5,081	358,444	(357,357)	27,255	16,601	(2,082)	47,942

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

The notes on pages 7 to 53 form part of these consolidated financial statements.

Tethys Petroleum Limited

Consolidated Statements of Cash Flows

For the year ended December 31

(in thousands of US dollars)

	Note	2017	2016
Cash flow from operating activities			
Loss before tax from continuing operations		(48,685)	(45,547)
Adjustments for:			
Share based payments	9	208	482
Net finance cost	18	5,227	5,313
Depreciation, depletion and amortisation		10,978	9,971
Unsuccessful exploration and evaluation expenditures	12	10,151	25,627
Impairment charges	13	15,259	1,176
Loss on revaluation of assets held for sale	13	3,821	-
Fair value gain on derivative financial instruments		-	(275)
Net unrealised foreign exchange loss/(gain)		108	(318)
Movement in provisions		(257)	(1,901)
Net change in non-cash working capital	24	4,528	1,249
Cash from/(used in) operating activities		1,338	(4,223)
Corporation tax paid		(24)	(33)
Net cash from/(used in) operating activities		1,314	(4,256)
Cash flow from investing activities			
Expenditure on exploration and evaluation assets		(734)	(619)
Expenditure on property, plant and equipment		(4,544)	(789)
Proceeds from sale of fixed assets		37	23
Movement in restricted cash		4,945	(2,503)
Movement in advances to construction contractors		83	(47)
Movement in value added tax receivable		120	650
Net change in non-cash working capital	24	4,562	225
Net cash from/(used in) investing activities		4,469	(3,060)
Cash flow from financing activities			
Proceeds from issuance of borrowings, net of issue costs	18	-	7,930
Repayment of borrowings	18	(4,929)	(1,395)
Interest paid on borrowings		(815)	(3,369)
Proceeds from issuance of equity		-	1,400
Movement in other non-current liabilities		(110)	(114)
Net cash (used in)/ from financing activities		(5,854)	4,452
Effects of exchange rate changes on cash and cash equivalents		(301)	41
Net decrease in cash and cash equivalents		(372)	(2,823)
Cash and cash equivalents at beginning of the year		449	3,272
Cash and cash equivalents at end of the year		77	449

The notes on pages 7 to 53 form part of these consolidated financial statements.

Tethys Petroleum Limited

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For the year ended 31 December 2017

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

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, Republic of Tajikistan 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 and had a standard listing on the London Stock Exchange ("LSE") until May 2, 2017 when it cancelled its UK listing. The Company is also listed on the Kazakhstan Stock Exchange ("KASE").

Going concern

The Management and the Board has considered the Company's current activities, funding position and projected funding requirements for the period of at least twelve months from the date of approval of the consolidated financial statements in determining the ability of the Company to adopt the going concern basis in preparing the consolidated financial statements for the year ended December 31, 2017. The Company currently does not have sufficient funding to fund its obligations for the next twelve months.

Although these consolidated 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 USD45.5 million for the year ended December 31, 2017 (2016: USD46.9 million) and an accumulated deficit as at that date of USD357.4 million (2016: USD320.0 million) and negative working capital of USD47.2 million (2016: negative USD43.4 million). In addition, the Company reported cash flow from operating activities before tax of USD1.3 million for the year ended December 31, 2017 (2016: negative USD4.3 million).

The Company also has various commitments and contingencies as described in note 25. 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;

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For the year ended 31 December 2017

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

- 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 18.

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 these consolidated financial statements and related filings as well as its late filings for the first quarter of 2018. 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 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 the outcomes of various legal disputes which the Company is involved in, 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 additional funding required to meet capital expenditure programs including its contractual obligations, its

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For the year ended 31 December 2017

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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 Summary of significant accounting policies

Basis of preparation

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

Statement of compliance

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

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.

New and amended accounting standards adopted by the Company

There were no new and revised standards adopted by the Company during the year that had an impact on the consolidated financial statements.

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

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

- The annual improvements process addresses issues in the 2015-2017 reporting cycles including 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 Company has not currently assessed the impact of adopting these interpretations on its consolidated financial statements.

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- IAS 28 – Interests in associates and joint ventures (“IAS 28”), has been amended to clarify that an entity applies IFRS 9, including its impairment requirements, to long-term interests in associate or joint venture to which the equity method is not applied. The amendment to IAS 28 is effective for years beginning on or after January 1, 2018. The Company has determined that the adoption of this interpretation will not have a material impact on its consolidated financial statements.
- IFRS 17 – Insurance contracts (“IFRS 17”), has been issued to clarify recognition and measurement accounting principles with respect to insurance contracts. The issuance of IFRS 17 is effective for years beginning on or after January 1, 2021. The Company has not currently assessed the impact of adopting this interpretation on its consolidated financial statements.
- 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 Company has not currently assessed the impact of adopting this interpretation on its consolidated financial statements.
- IFRS 16 – On January 13, 2016, the IASB issued IFRS 16, “Leases” (“IFRS 16”), which requires entities to recognize lease assets and lease obligations on the balance sheet. For lessees, IFRS 16 removes the classification of leases as either operating leases or finance leases, effectively treating all leases as finance leases. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements, and may continue to be treated as operating leases. Lessors will continue with a dual lease classification model. Classification will determine how and when a lessor will recognize lease revenue, and what assets would be recorded. IFRS 16 is effective for years beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 “Revenue From Contracts With Customers” has been adopted. The standard may be applied retrospectively or using a modified retrospective approach. The Company is currently evaluating the impact of the new standard on the financial statements.
- IFRS 9 – On July 24, 2014, the IASB issued IFRS 9, “Financial Instruments” (“IFRS 9”) to replace International Accounting Standard 39, “Financial Instruments: Recognition and Measurement.” IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements; however, where the fair value option is applied to financial liabilities, the change in fair value resulting from an entity’s own credit risk is recorded in OCI rather than net earnings, unless this creates an accounting mismatch. In addition, a new expected credit loss model for calculating impairment on financial assets replaces the incurred loss impairment model used in IAS 39. The new model will result in more timely recognition of expected credit losses. IFRS 9 is effective for years beginning on or after January 1, 2018. The Company will apply the new standard retrospectively and elect to use the practical expedients permitted under the standard. Comparative periods will not be restated. On May 28, 2014, the IASB published IFRS 15, “Revenue From Contracts With Customers” (“IFRS 15”) replacing IAS 11, “Construction Contracts”, IAS 18, “Revenue” and several revenue-related interpretations.

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

- IFRS 15 – IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The new standard is effective for annual periods beginning on or after January 1, 2018. The standard may be applied retrospectively or using a modified retrospective approach. The Company will apply the standard using the modified retrospective approach recognizing the cumulative impact of adoption in retained earnings as of January 1, 2018. Comparative periods will not be restated.

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

Restatement of comparative amounts

Comparative amounts have been restated including; January 1, 2016 opening statement of changes in equity and financial position by reallocating USD4.4m of accumulated deficit to non-controlling interest. In addition, loss attributable to shareholders for the year ending December 31, 2016 had been decreased by USD3.6 million by reallocating this amount to loss attributable to non-controlling interest. The impact of this was to change the loss per share for the year ending December 31, 2016 from 12 US cents to 11 US cents. These adjustments were to correct for an error in the allocation of impairment charge in prior years.

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 23, 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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Notes to Consolidated Financial Statements

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Business combinations

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

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 reflects the Company's share of the profit or loss after tax and other comprehensive income of the jointly 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 using the currency of the primary economic environment in which the entity operates ("the functional currency"), translated

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Notes to Consolidated Financial Statements

For the year ended 31 December 2017

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

into USD where relevant. These consolidated financial statements are presented in USD, which is the Company's presentation currency.

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

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

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

Oil and gas exploration and evaluation expenditure

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

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

Farm-out arrangements

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

Test production and the appraisal and development phase

Test production is production that is generated in the appraisal and development phase before commercial discovery of oil or gas is officially recognised. Revenue generated from test production is credited against the cost of the well until commercial and technical feasibility is established and the project is deemed to have

Tethys Petroleum Limited

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crossed over into the production phase. Revenue and costs generated from a field classified as operating in the production phase is recorded through the consolidated statement of comprehensive income.

Oil and gas properties in the production phase

Oil and gas properties within Property, plant and equipment are stated at cost, less accumulated depreciation 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. The capitalised value of a finance lease is also included within Property, plant and equipment.

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:

Drilling rigs and related oil and gas equipment	Straight line	5 – 7 years
Smaller rig related equipment	Straight line	6 – 8 years
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.

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Non-current assets held for sale

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

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

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

Impairment of non-financial assets

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

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

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the consolidated statement of comprehensive income 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.

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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.

Financial instruments

Financial assets and financial liabilities are recognised on the Company's consolidated statement of financial position when the Company becomes party to the contractual provisions of the instrument. Financial assets are de-recognised when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are de-recognised when the obligation specified in the contract is discharged, cancelled or expired. There were no own-use derivative contracts in place during the year.

Restricted cash

Non-current 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.

Trade receivables, loans and other receivables

Trade receivables, loans and other receivables, which are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market, are classified as loans and receivables. They are included in current assets, except for maturities greater than 12 months after the reporting date, which are classified as non-current assets. The Company's loans and receivables comprise trade and other receivables in the consolidated statement of financial position.

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, net of any impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the

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present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income. When a trade receivable is not collectable, it is written off against the allowance account for trade receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. These are carried at fair value with gains or losses recognised through the consolidated statement of comprehensive income.

Financial liabilities - borrowings

Borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are measured at amortised cost using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded as the proceeds received net of direct issue costs.

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date a derivative contract was entered into and are subsequently re-measured at their fair value with changes in the fair value immediately recognised in the consolidated statement of comprehensive income.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract. Contracts are assessed for embedded derivatives when the Company becomes a party to them, including at the date of a business combination.

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.

Share-based payments

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

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

Warrants

Warrants issued to loan holders are regarded as derivative instruments, with a fair value at inception representing the value attributable to the option to convert the warrants into equity of the Company.

For warrants issued to loan holders by the Company, where there is a difference between the currency in which shares of the parent company are denominated and the functional currency of the Company, the option to convert the warrants is recorded as a derivative liability because it is not a contract to exchange a fixed number of shares for a fixed amount of US dollars. The derivative liability component is separately identified and measured at fair value through the consolidated statement of comprehensive income.

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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, net of any reimbursement. The increase in the provision due to passage of time is recognised as interest expense.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of natural gas and oil products in the ordinary course of the Company's activities and is recognised when the amount can be reliably measured, it is probable that future economic benefits will flow to the entity, and when specific criteria have been met for each of the Company's activities as described below. Revenue is shown after eliminating sales within the Company.

Revenue from natural gas and oil sales is recognised when it has been lifted and the risk of loss transferred to a third-party purchaser and is shown net of value-added tax. Value-added tax is paid on goods and services purchased and collected on sales of goods and services. At the end of a stipulated period, a deficit is refunded and a surplus is paid to the local tax authority.

The Company recognises finance income earned on the Company's cash and cash equivalents and short term investments on an accruals basis.

Sales expenses

Sales expenses represent agent commissions paid in relation to securing its gas sales contracts and are accrued as gas sales revenue is generated.

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 in the period in which they are incurred.

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Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

Fair value

The fair value of investments, trade and other receivables, trade and other payables approximate their carrying amounts due to the short-term maturity of the instruments. Derivative financial instruments are recorded at fair value with movements in fair value recognised through the consolidated statement of comprehensive income.

Amortised Cost

Loan receivables, long term debt and other non-current liabilities have been recorded at amortised cost using the effective interest rate method.

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:

	2017	2016
Trade receivables	2,004	2,241
Cash and cash equivalents	77	449
Restricted cash	6	4,951
	2,087	7,641

At December 31, 2017, the trade receivable amounted to USD2,004,000 (2016: USD2,241,000). Of this, USD1,689,000 of the trade receivables were overdue past 30 days (2016: USD1,454,000) of which USD1,671,000 were received after the year end.

Although deposits at financial institutions are not covered by bank guarantees, the Company does not believe there to be a significant risk of credit loss as counterparty banks are of good standing. Deposits held with banks in Central Asia are kept to a minimum to minimise credit risk.

The Company is exposed to credit risk in relation to its loans receivable from jointly controlled entities to the extent that the jointly controlled entities fail to meet their contractual obligations. The Company has made full provision for impairment of these loans which amount to USD2.9m including accrued interest at the balance sheet date.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. This risk relates to the Company's ability to generate or obtain sufficient cash or cash equivalents to satisfy these financial obligations as they become due. Since inception, the Company has incurred significant consolidated losses from operations and negative cash flows from operating activities, and has an accumulated deficit at December 31, 2017. Refer also to note 1 - Going concern.

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

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

As at December 31, 2017	Carrying amount	Contractual cash flows	Less than 1 year	1-3 years	4-5 years	Thereafter
Non-derivative financial liabilities						
Trade and other payables	27,665	27,665	27,665	-	-	-
Financial liabilities - borrowings (note 18)	32,255	34,949	28,270	6,679	-	-
Total	59,920	62,614	55,935	6,679	-	-

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As at December 31, 2016	Carrying amount	Contractual cash flows	Less than 1 year	1-3 years	4-5 years	Thereafter
Non-derivative financial liabilities						
Trade and other payables	19,882	19,882	19,838	44	-	-
Financial liabilities - borrowings (note 18)	33,249	36,015	36,015	-	-	-
Total	53,131	55,897	55,853	44	-	-

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.

On December 30, 2017, Tethys announced that its subsidiary, Kulob Petroleum Limited ("Kulob"), had been notified of the final arbitration award in respect of Kulob's interest in the Bokhtar Production Sharing Contract and Joint Operating Agreement and Shareholders' Agreement ("JOA") with Total E&P Tajikistan B.V. ("Total") and CNPC Central Asia B.V. ("CNPC") pertaining to oil and gas exploration and production rights in Tajikistan. The arbitration tribunal ruled, inter alia, that Kulob should withdraw from the JOA and assign its interest to Total and CNPC at no cost. Tethys does not expect the decisions of the tribunal to have a significant effect on the cash flows of the Tethys Petroleum Limited 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.

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 27 – 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.

Any material decline in oil prices could result in a reduction of the Company's oil revenues in Kazakhstan.

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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, 2017 and 2016.

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 debt is agreed at fixed interest rates and consequently has limited exposure to changes in market interest rates.

The Company has insignificant exposure to interest rate risk on short term deposits to the extent that reductions in market interest rates would result in a decrease in the interest earned by the Company.

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, 2017			
Restricted cash	5	1	6
Cash and cash equivalents	-	77	77
Financial liabilities - borrowings	(32,255)	-	(32,255)
Total	(32,250)	78	(32,172)

	Fixed rate financial instruments	Variable rate financial instruments	Total
As at December 31, 2016			
Restricted cash	2,238	2,713	4,951
Cash and cash equivalents	-	449	449
Financial liabilities - borrowings	(33,249)	-	(33,249)
Total	(31,011)	3,162	(27,849)

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 USD. In addition, a portion of expenditures in the UK and Kazakhstan are denominated in local currency, Sterling and Tenge, respectively. The Company also attempts to negotiate exchange rate stabilisation conditions in new local Tenge denominated service and supply contracts in Kazakhstan.

The Company holds the majority of its cash and cash equivalents in USD. 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 foreign currency denominated monetary assets and liabilities at the reporting dates are as follows:

In USD'000 equivalent as at December 31, 2017	GBP ¹	KZT ¹
Cash and cash equivalents	5	44
Trade and other receivables	3	3,687
Trade and other payables	(98)	(11,394)
Financial liabilities – borrowings	(1,171)	-
Net exposure	(1,261)	(7,663)

In USD'000 equivalent as at December 31, 2016	GBP ¹	KZT ¹
Cash and cash equivalents	5	-
Trade and other receivables	27	5,193
Trade and other payables	(282)	(654)
Financial liabilities – borrowings	(1,356)	(3,833)
Net exposure	(1,606)	706

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

The following table details the Company's sensitivity to a 10% movement in USD against the respective foreign currencies, which represents management's assessment of a reasonably likely change in foreign exchange rates.

Effect to profit or (loss) before tax in USD'000	2017	2016
GBP	(126)	(161)
KZT	(766)	71
Total	(892)	(90)

A 10% strengthening of the USD against the currencies above at December 31, 2017 would have had an equal but opposite effect on the amounts shown above, assuming all other variables remained constant.

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.

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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.

	2017	2016
Total financial liabilities - borrowings (note 18)	32,255	33,249
Less: cash and cash equivalents	(77)	(449)
Net debt	32,178	32,800
Total equity	47,942	93,228
Total capital	80,120	126,028

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

4 Critical judgments and accounting estimates

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

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

Critical accounting estimates and assumptions

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

Recoverability of asset carrying values

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

If there are low oil prices or natural gas prices during an extended period, the Company may need to recognise significant impairment charges. The assessment for impairment entails comparing the carrying

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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.

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.

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Other significant areas of judgment

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

Going concern

The Board has considered the Company's current activities, funding position and projected funding requirements for the period of at least twelve months from the date of approval of the consolidated financial statements, in determining the ability of the Company to adopt the going concern basis in preparing the consolidated financial statements for the year ended December 31, 2017. The assessment of the Company's ability to execute its strategy to meet its future funding requirements involves judgment.

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.

5 Segmental Reporting

Geographical segments

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

2017	Kazakhstan	Tajikistan	Georgia	Corporate	Total
Gas sales	4,762	-	-	-	4,762
Oil sales	3,170	-	-	-	3,170
Other income	66	-	-	-	66
Other operating income	-	-	-	109	109
Segment revenue and other income	7,998	-	-	109	8,107
Inter-segment revenue	-	-	-	(109)	(109)
Segment revenue and other income from external customers	7,998	-	-	-	7,998
Loss before taxation	(23,844)	(1,234)	(9,610)	(13,997)	(48,685)
Taxation	3,291	-	-	(100)	3,191
Loss for the year	(20,553)	(1,234)	(9,610)	(14,097)	(45,494)
Total assets ¹	107,480	8	3,801	110,444	117,929
Total liabilities ¹	125,565	13,884	-	34,342	69,987
Expenditure on exploration & evaluation assets, property, plant and equipment	3,648	537	181	912	5,278
Depreciation, depletion & amortisation	8,667	-	-	2,311	10,978

Note 1 – Total is after elimination of inter-segment items of USD103,804,000.

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In Kazakhstan sales were made to two customers representing greater than 10% of total segment revenue of USD4,762,000 (100% of gas sales were made to one customer) and USD2,672,000 (84% of oil sales were made to one customer).

No borrowing costs or amortisation of assets were capitalised during the year.

Total assets and liabilities for Tajikistan include the underlying assets of Seven Stars Energy Corporation ("SSEC"), in which the Company has an 85% ownership interest and its subsidiaries.

2016	Kazakhstan	Tajikistan	Georgia	Corporate	Total
Gas sales	9,772	-	-	-	9,772
Oil sales	1,977	-	-	-	1,977
Other income	(17)	-	-	2	(15)
Other operating income	-	-	-	767	767
Segment revenue and other income	11,732	-	-	769	12,501
Inter-segment revenue	-	-	-	(767)	(767)
Segment revenue and other income from external customers	11,732	-	-	2	11,734
Loss before taxation	(7,408)	(23,737)	(1)	(14,401)	(45,547)
Taxation	(1,154)	-	-	(149)	(1,303)
Loss for the year	(8,562)	(23,737)	(1)	(14,550)	(46,850)
Total assets ¹	133,731	-	13,231	120,747	159,904
Total liabilities ¹	130,736	12,683	-	31,062	66,676
Expenditure on exploration & evaluation assets, property, plant and equipment	965	105	325	13	1,408
Depreciation, depletion & amortisation	7,369	1	-	2,601	9,971

Note 1 – Total is after elimination of inter-segment items of USD107,805,000.

In Kazakhstan sales were made to two customers representing greater than 10% of total segment revenue of USD9,772,000 (100% of gas sales were made to one customer) and USD1,977,000 (100% of oil sales were made to one customer).

Borrowing costs of USD85,000 incurred in the Corporate segment were capitalised in the Kazakhstan segment during the year.

There was no capitalisation of amortisation of assets during the year.

Total assets and liabilities for Tajikistan include the underlying assets of Seven Stars Energy Corporation ("SSEC"), in which the Company has an 85% ownership interest and its subsidiaries.

6 Sales and other operating revenues

	2017	2016
Gas sales	4,762	9,772
Oil sales	3,170	1,977
Other revenue	66	(15)
Revenue from continuing operations	7,998	11,734

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7 Administrative expenses

Administrative expense by nature	2017	2016
Staff expenses	2,296	2,886
Office costs	156	438
Professional fees	1,407	760
Travel expenses	231	385
Regulation costs	201	281
Directors costs	203	327
Other administrative expenses	779	384
Total	5,273	5,461

8 Restructuring costs

	2017	2016
Restructuring costs	83	1,915
Restructuring provision	-	200

The costs associated with the Company's program of restructuring have been shown in the Consolidated Statement of Comprehensive Income/(Loss) separately from administrative expenses to provide additional information in relation to these expenses.

9 Share-based payments

The Company has 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"). The plan is currently in abeyance and the Company does not intend to make further awards under the plan for the foreseeable future.

The maximum number of ordinary shares reserved for issuance under the plan equals 12% (2016: 12%) of the outstanding ordinary shares. The plan is administered by the Compensation and Nomination Committee of the Board of Directors. Options may be granted pursuant to recommendations of the Compensation and Nomination Committee. The Compensation and Nomination Committee may determine the vesting schedule and term, provided that options may not have a term exceeding ten years. Subject to any resolution passed by the Compensation and Nomination Committee, options will terminate three months after an option holder ceases to be a Service Provider.

The exercise price of options granted under the plan may not be less than the closing price of ordinary shares on the principal stock exchange where the ordinary shares are listed as of the date of the option grant. The plan contains amendment provisions which allow amendments to the plan by the Board of Directors, without shareholder approval, for amendments of a "housekeeping" nature, changes to vesting or termination provisions, and discontinuance of the plan. The plan also provides that outstanding options will vest immediately on the occurrence of a "change of control" (as defined in the plan). Options granted under the plan are only assignable to certain related entities of an option holder or otherwise with the consent of the Company.

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Options granted vest in three tranches with one third vesting immediately, one third after one year and one third after two years with the exception of grants made in 2015 which vest in three tranches with one third vesting at end of each year over a period of 3 years. In all instances, these options are equity settled share based payment transactions.

The following table lists the options outstanding at December 31, 2017 by exercise price:

Local	Exercise price	Outstanding		Exercisable	
	USD equivalent	No of options	Weighted average remaining term (in years)	No of options	Weighted average remaining term (in years)
CAD0.80	0.64	90,000	0.92	90,000	0.92
GBP0.15	0.19	850,000	2.06	566,667	2.06
GBP0.025	0.03	12,771,875	3.25	8,514,583	3.25
Total		13,711,875	3.15	9,171,250	3.15

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

	2017		2016	
	Number of options	Weighted average exercise price (USD)	Number of options	Weighted average exercise price (USD)
Outstanding at January 1	19,354,500	0.11	11,025,500	0.31
Granted	-	n/a	14,307,500	0.03
Forfeited	(2,178,750)	0.12	(3,015,000)	0.19
Expired	(3,463,875)	0.36	(2,963,500)	0.34
Outstanding at December 31	13,711,875	0.05	19,354,500	0.11
Exercisable at December 31	9,171,250	0.05	7,359,500	0.18

The fair value of the share-based payment grants is estimated using the Black-Scholes pricing model using the following average assumptions:

	2017	2016
Weighted average fair value	n/a	USD0.039
Risk free rate	n/a	0.59%
Expected term	n/a	3.50 years
Volatility	n/a	83.48%
Dividend	n/a	Nil
Weighted average share price of options exercised in year	n/a	n/a

In estimating expected volatility, the Company considers the historical volatility of its own share price over the most recent period that is commensurate with the expected option term.

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Warrants issued

The following table summarises the warrant activity for the years ended December 31, 2017 and December 31, 2016.

	2017		2016	
	Number of warrants	Weighted average exercise price (USD)	Number of warrants	Weighted average exercise price (USD)
Outstanding at January 1	194,390,000	0.058	2,090,000	2.500
Granted	-	-	192,300,000	0.031
Expired	(2,090,000)	2.500	-	-
Outstanding at December 31	192,300,000	0.031	194,390,000	0.058
Exercisable at December 31	192,300,000	0.031	194,390,000	0.058

Of the warrants outstanding and exercisable at the end of the year, 96,150,000 are held by a company controlled by one of the Company's directors (2016: 96,150,000).

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

In estimating expected volatility, the Company considers the historical volatility of its own share price over the most recent period that is commensurate with the expected warrant term.

The following table lists the warrants outstanding at December 31, 2017 by exercise price.

Exercise price (USD)	Warrants outstanding	Weighted average remaining term (in years)	Warrants exercisable	Weighted average remaining term (in years)
0.031	192,300,000	1.91	194,390,000	1.91

Warrants classified as derivative financial instruments

The Company has issued warrants which are classified as derivative financial instruments. Details of these are given in note 18.2.

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10 Taxation

Tethys is domiciled in the Cayman Islands which has no corporate income tax. The Company also operates in other tax jurisdictions, the most significant of which is Kazakhstan where the tax rate is 20%. The provision for income taxes is different from the expected provision for income taxes for the following reasons:

	2017	2016
Loss before income taxes from continuing operations	(48,685)	(45,547)
Income tax rate	20%	20%
Expected income tax recovery	9,737	9,109
Decrease resulting from:		
Non-deductible expenses net of functional currency foreign exchange impact	(589)	(310)
Revisions in tax estimates and foreign exchange impact on tax pools	(732)	(1,838)
Impact of effective tax rates in other foreign jurisdictions	(5,002)	(7,683)
Losses and tax assets not utilised/recognised	(223)	(581)
	3,191	(1,303)
Current tax expense	(55)	(131)
Deferred tax expense	3,246	(1,172)
Total	3,191	(1,303)

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

	2017	2016
Tax losses	75	208
Deferred tax asset	75	208
Capital assets	7,878	11,845
Other	627	68
Deferred tax liability	8,505	11,913

No current and deferred tax was charged or (credited) to equity or other comprehensive income. Total tax for the year was charged (credited) to the statement of comprehensive income.

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:

	2017	2016
Capital assets	37,226	33,625
Tax losses	27,574	39,862
Other	301	588
Total	65,101	74,075

Earnings retained by subsidiaries amounted to USD11.0 million (2016 - USD12.1 million). No provision has been made for withholding and other taxes that would become payable on the distribution of these earnings as it is not expected that they will be remitted in the foreseeable future.

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11 Loss per share

	Units	2017	2016 Restated
Loss for the purpose of basic and diluted loss attributable to ordinary shareholders	USD'000	(45,311)	(43,289)
Weighted average shares	000s	508,136	393,065
Per share amount	USD	(0.09)	(0.11)

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 share options and warrants, are currently anti-dilutive and therefore there is no difference between basic and diluted earnings per share. The number of potential dilutive shares excluded from the calculation is 201,471,250 (2016: 201,749,500).

12 Intangible assets

Exploration and evaluation assets	Kazakhstan	Georgia	Tajikistan	Total
January 1, 2016	29,297	12,905	22,000	64,202
Additions	205	325	3,627	4,157
Exploration and evaluation expenditure written off	-	-	(25,627)	(25,627)
December 31, 2016	29,502	13,230	-	42,732
Additions	15	185	537	737
Exploration and evaluation expenditure written off	-	(9,614)	(537)	(10,151)
December 31, 2017	29,517	3,801	-	33,318

No borrowing costs were capitalised within exploration and evaluation assets during the year (2016: USD16,000). The effective weighted average interest rate of the relevant borrowings was 15% in 2016. The effective interest rate is higher than the nominal rate due to the cost of associated warrants (note 18.2).

No staff costs and share-based payment expense were capitalised in the year (2016: USD102,000).

Georgia– Impairment

The Company and its partner in Georgia, Georgia Oil & Gas Limited (“GOG”), relinquished their license in Block XI^A during the year as work performed on the block indicates it has low prospectivity and Tethys and GOG decided not to commit to further investment to it. Accordingly, the capitalised exploration and evaluation expenditure in relation to Block XI^A has been written off and an impairment was taken to reflect the implied value from a restructuring of the Company’s interests in the remaining blocks subsequent to the year end.

Tajikistan – Impairment

The Company’s exploration and evaluation assets in Tajikistan are held via an effective 28.33% participating interest in Bokhtar Production Sharing Contract (“PSC”), with its partners Total and CNPC. The Company ceased paying cash calls from September 2015 and due to the default was issued with a Notice to Withdraw from Total and CNPC. In 2016, the Company wrote off the total carrying book value of USD25,627,000 on the basis that the Company has not budgeted or nor planned expenditure on further exploration for and

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evaluation of mineral resources in Tajikistan. In 2017, a further USD537,000 was capitalised and written off during the year.

13 Property, plant and equipment and assets held for sale

13.1 Property, plant and equipment

	Oil and gas properties			Oil and gas equipment			Other fixed assets ¹			Total net book amount
	Cost	Amortisation	Total	Cost	Depreciation	Total	Cost	Depreciation	Total	
January 1, 2016	168,182	(68,237)	99,945	25,343	(12,554)	12,789	5,095	(4,432)	663	113,397
Additions	872	-	872	-	-	-	57	-	57	929
Disposals	-	-	-	-	-	-	(846)	782	(64)	(64)
Amortisation and depletion	-	(6,838)	(6,838)	-	(2,773)	(2,773)	-	(360)	(360)	(9,971)
Impairment charges	(1,176)	-	(1,176)	-	-	-	-	-	-	(1,176)
December 31, 2016	167,878	(75,075)	92,803	25,343	(15,327)	10,016	4,306	(4,010)	296	103,115
Additions	3,629	-	3,629	906	-	906	10	-	10	4,545
Disposals	(2)	2	-	-	-	-	(332)	318	(14)	(14)
Transfer to Assets Held for Sale	-	-	-	(23,090)	15,771	(7,319)	-	-	-	(7,319)
Amortisation and depletion	-	(8,206)	(8,206)	-	(2,597)	(2,597)	-	(175)	(175)	(10,978)
Impairment charges	(15,259)	-	(15,259)	-	-	-	-	-	-	(15,259)
December 31, 2017	156,246	(83,279)	72,967	3,159	(2,153)	1,006	3,984	(3,867)	117	74,090

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

No borrowing costs were capitalised to oil and gas properties in the current year (2016: USD69,000). The effective weighted average interest rate of the relevant borrowing was 15% in 2016. The effective interest rate is higher than the nominal rate due to the cost of associated warrants (note 18.2).

No staff costs and share-based payment expense were capitalised in the year (2016: USD236,000).

“Oil and gas properties” assets with a net book value amounting to USD1,458,275 have been pledged by Tethys Aral Gas LLP (“TAG”) as security for the bank loan facility (note 18.1).

Oil and gas properties – Impairment

As of December 31, 2017, 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 FVLCD or VIU. As a result, the Company impaired USD15,259,000 of its oil and gas assets in relation to the Akkulka Gas field cash generating unit.

Due to lower forecast export gas pricing in Kazakhstan and since the oil and gas carrying amount of assets is higher than the Company’s market capitalisation, indicators of impairment were noted for the Kazakhstan Cash Generating Units (“CGUs”). Based on the impairment tests performed by management, the recoverable amount of all CGUs exceeded their carrying values except for the Company’s oil and gas properties in Kazakhstan. The FVLCD was calculated using a discounted cash flow model based on the proved plus probable reserves using forecast oil and gas prices and an after-tax discount rate of 13% for all CGUs. The cash flow model used is considered a level 3 fair value technique based on the unobservable inputs used. An increase

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of 1% to the discount rate would have increased the impairment by USD90,000, while a 1% decrease to the discount rate would have decreased the impairment to USD96,000.

The FVLCD calculation assumes the following forecast oil and gas sales prices in USD/bbl and USD/Mcm, respectively, which was based on the December 31, 2017 price forecasts made by the Company's independent reserve evaluator.

Export pricing for non-associated gas has been forecast to take place at the end of the third quarter of 2018 and 75% of oil production is assumed to be exported in each later year starting in 2021.

Year	Domestic gas Mcm	Export gas Mcm	Domestic oil bbl	Export oil bbl
2018	48	95	16	46
2019	50	99	24	49
2020	53	103	25	52
2021	56	111	27	57
2022	59	116	29	60
2023	60	118	29	61
2024	61	120	29	62
2025	62	121	30	63
2026	63	123	30	64
2027	64	125	31	65
2028	65	126	31	66
2029	65	128	31	67
2030	66	130	32	69
2031	67	132	32	70
2032	68	134	33	71

13.2 Assets held for sale

During the year the Company commenced the sale process of two drilling rigs and related equipment. Accordingly, the assets have been reclassified from Property, plant and equipment to Assets held for sale. The value of the assets has been remeasured to the lower of carrying amount and fair value, less costs to sell, of USD3,473,000 resulting in a loss of USD3,821,000 (2016: nil).

14 Restricted Cash

	2017	2016
Non-current	5	2,238
Current	1	2,713
Total	6	4,951

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15 Trade and other receivables

	2017	2016
Non-current		
VAT recoverable after more one year	2,153	1,073
Advances to construction contractors and other receivables	581	164
	2,734	1,237
Current		
Trade receivables	2,004	2,241
Prepayments	549	414
Other receivables	292	1,971
VAT and other taxes	685	1,906
	3,530	6,532

Current trade and other receivables are unsecured and non-interest bearing. Normal payment terms for the Company are 30 days. As at December 31, 2017, USD1,689,000 of trade receivables were overdue past 30 days (2016: USD1,454,000). Of this amount USD1,671,000 was received after the year end. The other classes within trade and other receivables do not contain impaired assets.

16 Investment in 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, 2017, the carrying value of the Company’s investment in the joint venture was USD nil (2016: nil) and the carrying value of loans made to the joint venture was also USD nil (2016: nil). The joint venture’s assets have been pledged as security for a bank loan facility.

Bokhtar Operating Company (Tajikistan)

On June 18, 2013, a subsidiary of the Company, Kulob Petroleum Limited (“Kulob”), completed a farm-out agreement with Total E&P Tajikistan B.V. (“Total”) and CNPC Central Asia B.V. (“CNPC”) whereby each acquired a one third interest in Kulob’s Bokhtar Production Sharing Contract (“PSC”). An operating company, Bokhtar Operating Company BV, has been established and is jointly owned by the three partners. The Company has classified the arrangement as a joint operation (where the company has rights to the assets, and obligations for the liabilities, relating to the arrangement) and recognises its own assets, liabilities and transactions, including its share of those incurred jointly, in accordance with the relevant IFRSs.

On December 30, 2017, Tethys announced that Kulob had been notified of an arbitration tribunal ruling, that, inter alia, Kulob should withdraw from the PSC and Joint Operating Agreement and Shareholders' Agreement and assign its interest to Total and CNPC at no cost. Further details are provided in note 3 (a).

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17 Cash and cash equivalents

	2017	2016
Cash at bank and in hand	77	449
	77	449

Cash at bank balances earn interest at floating rates based on daily bank deposit rates.

18 Financial liabilities

18.1 Borrowings

	Interest rate per annum	Maturity date	2017	2016
Current				
Rig loans	12.0%	2018	3,031	3,724
Kazakh loan KZT	22.0%	2019	-	2,823
Kazakh loan USD	11.0%	2017	-	1,010
Corporate loan financing	10.5%-20.0%	2017	8,817	7,301
ALR loans	4.0-9.0%	2020	-	5,089
AGR Energy Limited No.1 loan	9%-18.0%	2017	8,439	7,429
Olisol loan	9.0%	Note 1	6,381	5,873
			26,668	33,249
Non-current				
ALR loans	4.0-9.0%	2020	5,587	-
			5,587	-

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.

Rig loans

On February 13, 2014, the Company entered into a loan agreement to borrow up to USD12 million. The loan is secured by the shares of the borrower, a wholly owned subsidiary of the Company, which in turn owned two drilling rigs and other equipment. Loans with a face value of USD4.7 and GBP2.1 million were borrowed under the agreement.

During Q1 2017, the Company agreed amendments to the loan agreement which had various maturity dates between February and June 2017 i.e. three years after the receipt of each lender's tranche. The lenders agreed to an extension of the maturity dates by 18 months. They were due to receive the same equal monthly payments as before, incorporating interest and capital, together with a single balloon repayment of the remaining amount due at the new maturity dates.

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

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Kazakh loan

On June 29, 2012, the Company announced that it had secured a loan facility from a Kazakh bank to fund capital expenditures in Kazakhstan (the “bank loan facility”). The bank loan facility was arranged by Eurasia Gas Group LLP (“EGG”), with the Company’s consent, and is a bank loan to EGG, the Company’s previous oil buyer, whereby EGG drew down on the bank loan facility with the approval of the Company and funds were transferred to the Company’s subsidiary, TAG. The bank loan facility had an initial term of up to four years, since extended to February 2019.

In January 2013, the Kazakh loan arrangement was terminated and replaced with an a whereby funds were advanced to the Company and repaid as a deduction against oil sales. Terms of the arrangement were principally the same (i.e. the same principal repayment on maturity with the same monthly repayments of both principal and interest) and therefore, under IFRS, the amounts advanced continue to be treated as a loan. A total of 1.9 billion KZT (USD12.9 million) of funds were advanced to the Company under the loan agreement. On April 29, 2016, the maturity date was extended to February 2019 and the interest rate was increased to 22%. On September 7, 2016, the Company received an additional USD1.0m drawdown denominated in USD. The interest on this advance is 11% and the maturity date was July 2017 with principal payments due monthly.

Certain oil and gas property assets have been pledged by TAG to the bank as security for funds advanced. Refer to note 27 for subsequent events regarding this security.

As a consequence of the Republic of Kazakhstan Supreme Court ruling in favour of TAG in its dispute with EGG the net amount recognised by the Court as payable by TAG to EGG, less amounts subsequently repaid and amounts due to TAG from EGG, has been reflected in these consolidated financial statements and the loan balance at December 31, 2017 was nil.

Corporate loan financing

On January 16, 2015, the Company announced that it had secured a new USD6.0 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 with warrants over the Company’s shares which were surrendered during 2015 for USD2.1 million which was added to the principal amount.

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

ALR loans

On March 10, 2015, the Company secured a new USD3.5 million unsecured loan facility from Annuity and Life Reassurance Ltd (“ALR”), a company controlled by Pope Asset Management, the Company’s largest shareholder and on June 1, 2015, the Company issued USD1,760,978 aggregate principal amount of convertible debentures to ALR.

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On January 27, 2017 the Company's shareholders approved amendments to the two loan agreements between the Company and ALR which had been entered into on December 20, 2016. The main changes to the loan agreements were to:

- (i) extend the maturity dates to January 27, 2020;
- (ii) provide that the loans are convertible in whole, or in part, at ALR's option at any time prior to the extended maturity date at a conversion price of USD0.031;
- (iii) add a covenant that, other than a loan with a bank, the Company may not enter into any new secured loan or amend an existing loan to provide security, unless ALR consents to such loan or is provided with equivalent security; and
- (iv) amend the interest rate payable to provide that if the loans are converted, semi-annual interest shall accrue at a rate of 4% per annum payable only at the time of conversion through the issuance of ordinary shares at the USD0.031 conversion price, however, if any part of the loans are not converted, but rather repaid at maturity, the interest rate shall be 9%.

Unsecured convertible loan facility from AGR Energy No.1

On May 15, 2015, the Company issued USD7.5 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 USD0.10 per share for an aggregate of up to 75,000,000 ordinary shares. Interest is 9% per annum payable six monthly and the maturity date was June 30, 2017. The Company has had negotiations with the lender regarding the terms of a proposed restructuring of the debentures although at the date of this report these have not been finally agreed.

Olisol loan

On November 19, 2015, the Company announced that it had entered into an interim convertible financing facility of up to USD15 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 USD1 million of the outstanding amount of principal and accrued interest under the Interim Financing Facility (approximately USD6.25 million) into ordinary shares at a price of USD0.10 per share. On March 21, 2016, Olisol converted USD3.7 million of the outstanding amount into 37,440,042 shares. On April 15, 2016, Olisol converted a further USD2.6 million of the outstanding amount into 25,604,419 shares.

On April 28, 2016, the Company and Olisol signed the Amended and Restated Investment Agreement. Olisol was obliged under the legally binding terms of the Amended and Restated Investment Agreement to continue to provide Tethys with amounts reasonably requested by Tethys to fund working capital requirements during the period ending on the latest of (i) the completion of the TAG Loan and (ii) the occurrence of the Closing Date. Olisol undertook to work with Tethys and a Kazakh bank to obtain a bank loan of not less than USD10 million for TAG (the "TAG Loan"), however, Olisol did not complete the TAG Loan.

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Olisol did not perform its financing obligations under the Amended and Restated Investment Agreement by the October 27, 2016 Closing Date and sought to terminate the Amended and Restated Investment Agreement and demand repayment of its loan. The Company does not agree that the loan is repayable and on January 26, 2017 the Company commenced legal action against Olisol, EGG and their respective principals in the Court of Queen's Bench of Alberta. The legal action was to seek, among other things, damages arising from failure to meet contractual obligations under the Amended and Restated Investment Agreement on October 27, 2016 and damages arising from unlawful interference with Tethys' business activities, including issuing erroneous press release information about Tethys as alleged. Tethys intends to enforce its rights and legitimate interests to the fullest extent permitted by law, to protect its investors, assets, investments, management and employees.

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

18.2 Derivative financial instrument

Warrants

The following table summarises the warrant activity for the years ended December 31, 2017 and December 31, 2016.

	Number of warrants	Weighted average exercise price USD
Outstanding and exercisable December 31, 2016	23,333,333	0.15
Warrants cancelled	(23,333,333)	0.15
Outstanding and exercisable at December 31, 2017	-	-

The warrants were issued in connection with the loan from ALR made on March 10, 2015 and were cancelled on January 27, 2017 when the Company's shareholders approved amendments to the loan agreement, see note 18.1.

The warrants were classified as a derivative financial instrument and initially recognised as a liability at fair value and subsequently measured at fair value through income. The amount of the liability at December 31, 2017 was USD nil (2016: USD nil).

18.3 Finance costs / (income)

The net finance cost / (income) comprises:

	2017	2016
Finance costs	5,227	5,313
Finance income	-	-
Total	5,227	5,313

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19 Trade and other payables

	2017	2016
Current		
Trade payables	4,541	785
Accruals	18,783	17,076
Other creditors	4,341	1,977
	27,665	19,838
Non-current		
Other non-current payables	-	44
Total	27,665	19,882

Trade payables are non-interest bearing and are normally settled on contractual terms which typically range from due on presentation of invoice to 30 days. Due to the Company's uneven receipts for oil and gas payments in 2016 and 2017 payments have been made on average in excess of the contractual payment terms. Accruals mainly comprise cash calls outstanding to the Bokhtar Operating Company BV joint venture in Tajikistan, refer to note 3 *Liquidity risk* for further details.

20 Asset retirement obligations

	2017	2016
Balance, beginning of year	910	846
Unwinding of discount due to passage of time	70	64
Balance, end of year	980	910

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 2018 and 2029. The provision has been estimated using existing technology at current prices, escalated at 5.4% (2016: 5.4%) and discounted at 7.4% (2016: 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, 2017 is USD1,617,000 (2016: USD1,704,000).

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21 Capital and reserves

Share capital and share premium

	Number of shares
Authorised as at December 31, 2016:	
Ordinary shares with a par value of USD0.01 each	1,450,000,000
Preference shares with a par value of USD0.01 each	50,000,000
Authorised as at December 31, 2017:	
Ordinary shares with a par value of USD0.01 each	1,450,000,000
Preference shares with a par value of USD0.01 each	50,000,000

Ordinary equity share capital Allotted and fully paid	Date	Number	Share Capital	Share Premium
At January 1, 2016		336,960,387	33,696	321,803
Debt conversion by Olisol ¹	March 21, 2016	37,440,042	3,744	-
Debt conversion by Olisol ²	April 15, 2016	25,604,419	2,560	-
Par value reduction ³	August 31, 2016	-	(36,000)	36,000
Private placement ⁴	November 29, 2016	87,903,396	879	521
Debt conversion by ALR ⁵	December 20, 2016	20,227,854	202	120
At December 31, 2016		508,136,098	5,081	358,444
At December 31, 2017		508,136,098	5,081	358,444

Note 1 - Issued to Olisol Petroleum Limited at USD0.10 per share on March 21, 2016 for conversion of outstanding indebtedness of USD3,744,004.

Note 2 - Issued to Olisol Petroleum Limited at USD0.10 per share on April 15, 2016 for conversion of outstanding indebtedness of USD2,560,442.

Note 3 - On August 23, 2016 the Grand Court in the Cayman Islands approved a motion by Tethys to reduce the par value of the Company's ordinary shares. Accordingly, on August 31, 2016, the Company reduced the par value of its ordinary shares from USD0.10 per share to USD0.01 per share.

Note 4 - 43,951,698 ordinary shares issued to each of Prax Pte Ltd and Jin Guang Ltd at USD0.01593 per share on November 28, 2016 for cash consideration of USD700,000 each.

Note 5 - Issued to Annuity and Life Reassurance Limited at USD0.01593 per share on December 20, 2016 in satisfaction of loan prepayment of USD322,161.

As at December 31, 2017, a total of 40,374,320 (2016: 40,374,320) ordinary shares were reserved under the Company's Long Term Stock Incentive Plan. The number of options outstanding as at December 31, 2017 is 13,711,875 of which 9,171,250 were exercisable and the number of warrants outstanding is 192,300,000 all of which are exercisable. Loan facilities are in place which are convertible into a total of up to 186,316,064 ordinary shares. Details of the options and warrants are given in notes 9 and 19.

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;

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- 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 (2016: None).

Other reserves

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

22 Non-controlling interest

The table below summarise the information relating to subsidiaries in which there is as a material non-controlling interest, before any group eliminations. In each case the non-controlling interest is 15%.

2017	Seven Stars Energy Corporation	Kulob Petroleum Limited
Non-current assets	-	-
Current assets	36,282	5,526
Non-current liabilities	-	-
Current liabilities	(1,117)	(49,212)
Net assets	35,165	(43,686)
Revenue	-	-
Profit/(loss) after tax	-	(1,217)
Cash balance at beginning of year	-	1
Cash balance at end of year	-	-

2016	Seven Stars Energy Corporation	Kulob Petroleum Limited
Non-current assets	-	11,984
Current assets	36,282	5,552
Non-current liabilities	-	-
Current liabilities	(1,117)	(46,796)
Net assets	35,165	(29,260)
Revenue	-	-
Profit/(loss) after tax	-	1
Cash balance at beginning of year	-	12
Cash balance at end of year	-	1

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During 2017, Tethys Services Tajikistan Limited and Kulob Petroleum Limited had cash outflows in respect of operating costs and capitalised exploration and evaluation expenditure and cash inflows in the form of funding from Tethys companies.

23 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	100.00%	Holding company	Belgium	Belgium
Transcontinental Oil Transportation SPRL	100.00%	Holding company	Belgium	Belgium
Seven Stars Energy Corporation	85.00%	Holding company	BVI	Tajikistan
Tethys Tajikistan Limited	100.00%	Holding company	Cayman Islands	Tajikistan
Imperial Oilfield Services Limited	100.00%	Equipment leasing	Cayman Islands	Cayman Islands
South Caucasus Petroleum Corporation	100.00%	Holding company	Cayman Islands	Georgia
Trialeti Petroleum limited	100.00%	Inactive	Cayman Islands	Georgia
Lisi Petroleum Limited	100.00%	Georgian licence holder	Cayman Islands	Georgia
Saguramo Petroleum Limited	100.00%	Georgian licence holder	Cayman Islands	Georgia
Kulob Petroleum Limited	85.00%	Tajik licence holder	Cayman Islands	Tajikistan
Tethyda Limited	100.00%	Financing	Cyprus	Cyprus
Tethys Services Georgia limited	100.00%	Inactive	Georgia	Georgia
Tethys Aral Gas LLP	100.00%	Oil & gas E&P	Kazakhstan	Kazakhstan
Kul-Bas LLP	100.00%	Exploration	Kazakhstan	Kazakhstan
Tethys Services Kazakhstan LLP	100.00%	Service company	Kazakhstan	Kazakhstan
Asia Oilfield Equipment BV	100.00%	Equipment lease company	Netherlands	Kazakhstan
Tethys Services Limited	100.00%	Service company	England & Wales	England
Tethys Petroleum Incorporated	100.00%	Inactive	USA	USA
Tethys Afghanistan Incorporated	100.00%	Inactive	USA	USA
Jointly controlled entities				
Aral Oil Terminal	50.00%	Oil terminal operations	Kazakhstan	Kazakhstan
Bokhtar Operating Company BV	28.33%	Joint operating company	Netherlands	Tajikistan

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

Olisol Investments Limited and Olisol Petroleum Limited

Alexander Abramov was the Company's Chairman and Non-Executive Director from March 14, 2016 until November 3, 2016, and Alexander Skripka was the Company's Chief Commercial Officer from July 13, 2016 until October 14, 2016 and are regarded as related parties of the Company during those periods. Both are controlling parties of Olisol Investments Limited and its wholly owned subsidiary Olisol Petroleum Limited (together "Olisol"). Olisol and the Company are:

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- (i) Equal partners in the Aral Oil Terminal ("AOT"), a limited liability partnership in Kazakhstan. All of the oil produced and sold by the Company to Eurasia Gas Group LLP ("EGG") in 2016 was trans-shipped through the AOT for which EGG paid a fee to AOT, see below;
- (ii) Parties to the Interim Financing Facility and Facility Amendment Agreement, details of which are given in note 18;
- (iii) Parties to the Amended and Restated Investment Agreement under which Olisol undertook by October 27, 2016 to provide equity investments to Tethys in the amount of CDN9.8 million and also extended a working capital loan in the amount of USD5.7 million which Olisol could convert into additional shares ("Investment Agreement"). Olisol did not perform its financing obligations under the Amended and Restated Investment Agreement and has sought to terminate the Amended and Restated Investment Agreement and demand repayment of its loan. The Company does not believe that Olisol has the right to terminate the Amended and Restated Investment Agreement or that the loan is repayable.

Eurasia Gas Group

Alexander Skripka, is the controlling party of EGG. EGG was the sole customer for oil produced by the Company in 2016. Oil sales of USD1,977,000 were made by the Company to EGG in 2016. Amounts owing to the Company by EGG for oil sales totalled USD 1,454,000 at December 31, 2016 which remained outstanding at December 31, 2017.

EGG arranged a loan for the Company from a Kazakh bank which was to be repaid as a deduction from oil sales. Further details of this arrangement are given in note 18.

EGG was also the sole customer of the AOT in 2016. In the six months to June 30, 2016 (latest date information was been made available to the Company) EGG paid trans-shipment fees of USD228,000 to the AOT. At June 30, 2016 the AOT had a loan owing to EGG, including accrued interest, of USD2,596,000.

Pope Asset Management and Annuity and Life Reassurance Ltd

Pope Asset Management ("PAM"), together with Annuity and Life Reassurance Ltd ("ALR") and other PAM affiliates own or controls 17.3% of the Company's shares as a result of which they considered to be related parties of the Company. The Company has received two loans from ALR, further details of which are disclosed in note 18.

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Remuneration of key management personnel

Key management personnel have been identified as the CEO, CFO and Corporate Secretary and the Non-Executive Directors (2016: five Vice Presidents, the CEO, one Executive Director 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.

	2017	2016
Salaries and short-term employee benefits	729	2,006
Share-based payments	28	402
Termination payments	-	584
Total	757	2,992

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

24 Notes to the Consolidated Statements of Cash Flow

24.1 Changes in working capital

	2017	2016
Trade and other receivables	1,505	(2,822)
Inventories	50	203
Trade and other payables	7,783	5,564
Change in working capital	9,338	2,945
Non-cash transactions	(247)	(1,471)
Net changes in working capital	9,091	1,474

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

	2017	2016
Operating activities	4,528	1,249
Investing activities	4,562	225
Balance	9,091	1,474

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

	Financial liabilities			Equity	
	Non-current borrowings	Current borrowings	Non-current trade & other payables	Net interest	Total
January 1, 2017	-	33,249	44	-	33,293
Interest paid	-	-	-	(815)	(815)
Repayment of current borrowings	-	(4,929)	-	-	(4,929)
Net cash used in financial activities	-	(4,929)	-	(815)	(5,744)
Reclassification	5,129	(5,129)	(44)	-	(44)
Effect of changes in exchange rates	-	223	-	-	223
Interest expense	458	3,254	-	-	3,712
Equity related changes	-	-	-	815	815
December 31, 2017	5,587	26,668	-	-	32,255

25 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.

Contingent liability - Claim against the Company by EGG

On October 27, 2016, the Company announced that it had been notified of a claim lodged by EGG against the Company's subsidiary TAG. EGG was seeking damages for the alleged failure by TAG to deliver certain minimum volumes of crude oil to EGG.

The Almaty City Specialized Inter-district Court on May 23, 2017 found that EGG had suffered damages of approximately USD19.6 million and out of this amount was entitled to collect from TAG damages of USD1.9 million and a debt of USD1.9 million. The Almaty City Court Judicial Division for Civil Cases on August 2, 2017 upheld the decision

TAG appealed the case to the Republic of Kazakhstan Supreme Court. On December 29, 2017 the Supreme Court ruled to suspend the execution of claims made by EGG against TAG, whilst it considered TAG's petition for a review of the earlier court orders under the Supreme Court's cassational procedures.

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On February 14, 2018 the Supreme Court found in favour of TAG by reversing the earlier court rulings and dismissing EGG's claims. The Company understands that the Supreme Court's ruling is final and there is no right of appeal. A net gain of USD557,000 has been recognised in these consolidated financial statements arising from the Supreme Court ruling.

Kazakhstan

The regulatory environment including tax environment in the Republic of Kazakhstan is subject to change and inconsistent application, interpretations and enforcement, and in particular, existing subsurface use contracts are under close scrutiny by the tax and other authorities. This could result in unfavourable changes to the Company's tax positions. Non-compliance with Kazakhstan law and regulations as interpreted by the Kazakhstan authorities may lead to the assessment of additional taxes, penalties and interest. Kazakhstan tax legislation and practice is in a state of continuous development and therefore is subject to varying interpretations and frequent changes, which may be retroactive. Tax periods remain open to retroactive review by the tax authorities for five years. Management believes that its interpretation of the relevant legislation is appropriate and the Company's tax, currency legislation and customs positions will be sustained.

General background

Work programs for exploration and production contracts include a required level of "Investments" as defined in the contracts. "Investments" includes capital expenditure, operating expenses, social sphere, sub-soil monitoring and specialist training costs. It is this required level of Investments that forms the principal financial obligation of the Company in respect of its work program commitments and against which the Company is mainly measured along with production volumes in the production contracts.

Failure by the Company to meet the required level of Investments could put the Company's licences at risk of forfeiture or give rise to penalties for non-fulfillment. Two or more contractual violations, e.g. significant non-fulfillment of financial obligations which are not remedied by a sub-soil user or waived, could lead to a sub-soil user's licence being terminated. At the date of this report the Company had not received any notifications of actual or threatened termination of any of the Company's sub-soil licences.

In addition, an assumed level of other costs forms part of the overall work program (insurance, liquidation fund, indirect costs and taxes). Taken together with the Investments amount described above these form the Company's "Financial obligations, total" as defined in the contracts and as set out in the table below.

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The work program commitments in Kazakhstan can be summarised as follows:

	Kazakhstan Work Program Commitments			
	Expiry date	Program 2017	Spend to date 2017	Program 2018 & later
Akkulka Production Contract (Gas)	2018			
Financial obligations, total		5,209	3,146	3,657
Investments		2,123	2,529	1,694
Kyzyloi Production Contract (Gas)	2029			
Financial obligations, total		6,379	2,388	4,404
Investments		5,856	1,978	3,803
Akkulka Exploration Contract (Oil)	2019			
Financial obligations, total		4,985	3,981	4,442
Investments		4,042	3,020	3,058
Kul-Bas Exploration Contract	2019			
Financial obligations, total		3,423	118	7,529
Investments		3,227	29	7,193
Total				
Financial obligations, total		19,996	9,632	20,032
Investments (subset of Financial obligations)		15,248	7,556	15,748

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

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. Contingent upon commencement of commercial production on the Akkulka contractual territory, an amount of USD3,500,000 was due from the Company as a reimbursement of historical costs previously incurred in relation to the contractual territory. For that part of the contractual territory from which production commenced in 2010, staged payments over a period of nine years totalling approximately USD933,997 are to be paid in equal quarterly instalments from the commencement of production until full reimbursement. To December 31, 2017, the Company had reimbursed USD728,088 in respect of the Akkulka Field. The remaining amount would become payable in the event that the Company moves from pilot production to a full commercial production license.

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 USD3,275,780. To date, the Company has paid two amounts of USD49,137 towards this total. If and when commercial production commences, USD80,666 is due in quarterly instalments until the remaining historical costs of USD3,177,506 have been paid in full.

Tajikistan

In May 2016, the Company was notified by Total E&P Tajikistan B.V. ("Total") that it had been required to pay the equivalent of USD5.0 million to the tax authorities in Tajikistan in relation to the farm-out of part of

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the Company's interest to Total in 2013. Total was seeking to have the Company indemnify it for these taxes under the terms of the farm-out agreement. The Company does not agree 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 its subsidiary, Kulob Petroleum Limited ("Kulob"), had been notified of the final arbitration award in respect of Kulob's interest in the Bokhtar Production Sharing Contract ("Participating Interest") and Joint Operating Agreement and Shareholders' Agreement ("JOA") with Total and CNPC Central Asia B.V. ("CNPC") pertaining to oil and gas exploration and production rights in Tajikistan.

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

- Kulob breached its obligations under the JOA by not paying its share of cash calls since August 2015;
- Total and CNPC are entitled under the JOA to require Kulob to withdraw from the JOA and assign its Participating Interest to them at no cost and Kulob should do so; and
- Kulob should pay Total and CNPC an amount of damages equivalent to the unpaid cash calls plus costs and interest which in the aggregate amounts to approximately USD13.9 million. A net loss of USD655,000 has been recognised in these consolidated financial statements arising from the Tribunal ruling.

The Company does not expect the decisions of the Tribunal to have a significant effect on the results, cash flows or financial position of the Company since Tethys Petroleum Limited was not a party to the arbitration, does not believe it is responsible for the obligations of Kulob and has not provided any guarantees on behalf of Kulob.

Georgia

The Company has a 49% interest in two blocks in Eastern Georgia (Blocks XI^M and XI^N).

On January 16, 2017 the Company announced that Tethys partner in Georgia, Georgia Oil and Gas Limited ("GOG"), had been notified by the State Agency of Oil and Gas in the Ministry of Energy of Georgia (the "Agency") that GOG and Tethys would not be required to complete the previously agreed 50 km of 2D seismic acquisition in Block XI^N by July 1, 2017. Instead, the Agency will evaluate whether Tethys and GOG should conduct 50 km of 2D seismic acquisition over an alternative prospective area.

Tethys and GOG wrote to the Agency in June 2017 seeking to retain Block XI^N subject to the Agency agreeing to a new minimum work programme and confirming it would not levy any penalties for any past non-compliances (for which Tethys would be liable) and to retain Block XI^M subject to the Agency agreeing amendments to the production sharing contract. In respect of Block XI^M Tethys has agreed to fund the cost of 30 km of seismic which is expected to be in the range of USD650,000-700,000. Tethys and GOG also wrote to the Agency to relinquish Block XI^A as work performed on the block indicates it has low prospectivity and Tethys and GOG do not wish to commit to further investment.

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Uzbekistan

Following the Company's withdrawal from Uzbekistan in December 2013 the tax authorities claimed additional taxes payable from the Company amounting to USD2.1 million. The Company believes the claim is without foundation or merit and disputed it. Also following withdrawal from the country, the Company was unable to recover payment for oil previously delivered to the Fergana refinery with an estimated value of USD1.6 million and this could potentially be used to settle any claim which is finally determined.

26 Operating leases

Leases as a lessee:

Operating leases consist primarily of leases for offices. Lease commitments are as follows:

	2017	2016
Less than 1 year	15	230
1 – 3 years	-	135
Greater than 3 years	-	-

27 Subsequent events

Gas Drilling Program Update

On January 11, 2018 the Company announced that it had completed drilling seven new shallow gas wells out of the previously announced eight well program. Due to weather conditions, the eighth well is expected to be drilled in the spring of 2018. All seven wells were tested successfully for gas. In addition to the new wells drilled, one existing well has been successfully worked over.

By January 1, 2018 five wells, comprising one existing well and four new wells, had been tied in to the Company's existing pipelines and added to production. The other new wells, which are further from the Company's existing pipelines, are expected to be tied in during 2018, subject to funding.

Three of the new wells will be on production for three months after which production is required to cease whilst the mandatory reserves evaluation and reporting process is carried out.

There is also a need for repairs and parts replacement at the compressor station to increase capacity which the Company plans to do during 2018. Until these works are carried out the overall production increase from the new wells will be limited by existing compression capacity.

Given the need to cease production from certain wells whilst reserves evaluation and reporting takes place and the need for compressor repair and replacement works, it is anticipated that optimum production levels from all the new wells will be achieved towards the end of 2018.

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TSX Listing Review

On January 24, 2018 the Company announced that the Continued Listings Committee of the Toronto Stock Exchange ("TSX") had determined that the Company no longer meets the continued listing requirements of the TSX and will not be able to continue with its listing on the TSX after February 23, 2018 and subsequently extended this to March 23, 2018 whilst the TSX Venture Exchange ("TSXV") considered the Company's application to move its listing to that exchange. On February 26, 2018 the TSXV informed the Company that it would not meet the TSXV listing requirements and would instead need to transfer its listing to NEX, a subsidiary exchange of the TSXV. The Company was delisted from the TSX on March 23, 2018 and listed on NEX on March 26, 2018.

Republic of Kazakhstan Supreme Court Dismisses EGG Claims

On February 14, 2018 the Republic of Kazakhstan Supreme Court found in favour of the Company's Kazakhstan subsidiary, TAG, by reversing the earlier court rulings and dismissing EGG's claims.

Changes of Management

On March 9, 2018 Mr. Clive Oliver, Chief Financial Officer and Corporate Secretary of the Company tendered his resignation but agreed to continue to work with the Company on an advisory basis to help ensure an orderly transition. In August 2018, Mr. Oliver agreed to continue in those roles at the Company.

On March 12, 2018 the Board of Directors of the Company announced that Mr. Kenneth May, Chief Executive Officer ("CEO"), was stepping down with immediate effect.

On April 3, 2018 the Company announced that it had appointed Samuel Barrows as Interim CEO based in Aktobe, Kazakhstan.

On July 9, 2018 the Company announced that Samuel Barrows had decided to step down with immediate effect and was being replaced by current Board member Mattias Sjoborg as its new Interim CEO.

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

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2017

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

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.

Georgia – Restructuring of Interests

Tethys was unable to fund its share of cash calls from the Operator since July 2017. In June 2018 Tethys and GOG agreed to a restructuring of their respective interests in the Georgian project 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 the remaining blocks to 19%.

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.

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.

Tethys Petroleum Limited

Management's Discussion and Analysis
for the year ended December 31, 2017

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The following MD&A is dated August 30, 2018 and should be read in conjunction with the Company's audited Consolidated Financial Statements and related notes for the year ended December 31, 2017. The accompanying Consolidated Financial Statements of the Company have been prepared by management and approved by the Company's Audit Committee and Board of Directors. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Amounts are stated in US dollars unless otherwise noted. Additional information relating to the Company can be found on the SEDAR website www.sedar.com and the Company's website at www.tethyspetroleum.com.

Readers should also read the "Forward-Looking Statements" legal advisory wording contained at the end of this MD&A and also the Company's Annual Information Form ("AIF").

Nature of Business

Tethys Petroleum Limited and its subsidiaries (collectively "Tethys" or "the Company") is an oil and gas company operating within the Republic of Kazakhstan, Republic of Tajikistan and Georgia. On December 30, 2017 the Company announced that an arbitration tribunal has ordered that it should assign its interest in its Tajikistan project to its partners although at the date of this MD&A this has not occurred. Tethys' principal activity is the exploration and development of crude oil and natural gas fields. The address of the Company's registered office is 190 Elgin Avenue, George Town, Grand Cayman, KY1-9007, Cayman Islands. The domicile of Tethys is the Cayman Islands where it is incorporated.

The Company has its primary listing on the NEX Board of the Toronto Venture Exchange ("TSX") and had a standard listing on the London Stock Exchange ("LSE") until May 2, 2017 when it cancelled its UK listing. The Company is also listed on the Kazakhstan Stock Exchange ("KASE").

Financial highlights

(All references to USD are United States dollars unless otherwise noted and tabular amounts are in thousands, unless otherwise stated)

	Twelve months ended December 31				
	2017	2016	Change	2015	Change
Oil and gas sales and other revenues	7,998	11,734	(32%)	22,135	(64%)
Loss for the period:					
– continuing operations	(45,494)	(46,850)	(3%)	(74,603)	(76%)
– discontinued operations	-	-	-	(28)	(100%)
	(45,494)	(46,850)	(3%)	(74,631)	(76%)
Basic and diluted loss (USD) per share					
– continuing operations	(0.09)	(0.11)	(18%)	(0.22)	(82%)
– discontinued operations	-	-	-	-	-
Adjusted EBITDA ¹	(3,041)	(3,253)	(7%)	(10,569)	(56%)

	As at 31 December				
	2017	2016	Change	2015	Change
Total assets	117,929	159,904	(26%)	190,595	(23%)
Cash & cash equivalents	77	449	(83%)	3,272	(98%)
Short & long term borrowings	32,255	33,249	(3%)	32,032	3%
Total non-current liabilities	15,072	12,867	17%	34,644	(54%)
Net debt ¹	32,178	32,800	(2%)	28,760	14%
Number of ordinary shares outstanding	508,136,098	508,136,098	-	336,960,387	51%

Note 1 Adjusted EBITDA and net debt are non-GAAP Measures, refer to page 30 for details.

Twelve months 2017 versus twelve months in 2016

- Oil and gas sales and other revenues decreased by 32% to USD8.0m from USD11.7m due to lower gas prices received in 2017 which more than offset the increase in oil revenues from higher oil production and a slightly higher oil price;
- The loss for the current year of USD45.5m is lower than the loss of USD46.9m in 2016 due to lower costs which more than offset the reduction in revenues and a deferred tax credit for the current year compared with a charge in the prior year. In addition, revaluation of the two drilling held for sale resulted in a loss of USD3.8m in the current year, exploration & evaluation expenditure written down was USD10.2m (2016: USD25.6m) and oil & gas asset impairment charges were USD15.3m (2016: USD1.2m).
- Adjusted EBITDA at negative USD3.0m improved by 7% from negative USD3.3m for the prior year as a result of reduced costs which more than offset the reduction in revenue;
- Net debt reduced by 2% to USD32.2m reflecting repayments of borrowings offset by accrued interest on existing loans;
- Total non-current liabilities increased from USD12.9m to USD15.1m due to rescheduling of the maturity dates on the ALR loans until January 2010 offset by a reduction in Kazakhstan deferred tax liabilities;
- Total assets reduced from USD159.9m to USD117.9m due mainly to depreciation, depletion and amortisation of oil and gas assets of USD11.0m, revaluation of the two drilling rigs and reduction in restricted cash balances as well as the aforementioned asset write-downs and impairment charges.

Operational highlights

	Units	Quarter ended December 31			Twelve months ended December 31		
		2017	2016	Change	2017	2016	Change
Kazakhstan							
Oil	bopd	1,327	584	127%	1,156	787	47%
Gas	boe/d	1,770	961	84%	1,932	1,953	(1%)
Total	boe/d	3,097	1,545	100%	3,088	2,740	13%
Oil							
Production	Bbls	122,072	53,732	127%	421,983	288,185	46%
Oil revenue	USD'000	887	386	130%	3,170	1,977	60%
Production costs	USD'000	801	572	40%	2,523	2,510	1%
Gross margin	USD'000	86	(186)	(146%)	647	(533)	(221%)
Oil sales price	USD/bbl	7.54	6.97	8%	7.66	6.81	12%
Cost	USD/bbl	6.56	10.65	(38%)	5.98	8.71	(31%)
Gross margin	USD/bbl	0.98	(3.68)	(127%)	1.68	(1.90)	(188%)
Gas							
Production	Mcm	27,664	15,022	84%	119,838	121,453	(1%)
Gas revenue net	USD'000	1,160	1,111	4%	5,681	7,508	(24%)
Production costs	USD'000	573	438	31%	1,930	2,027	(5%)
Gross margin	USD'000	587	673	(13%)	3,751	5,481	(32%)
Sales price net ¹	USD/Mcm	42.95	62.10	(31%)	44.18	61.37	(28%)
Cost	USD/Mcm	20.71	29.16	(29%)	16.11	16.69	(4%)
Gross margin	USD/Mcm	22.24	32.94	(32%)	28.07	44.68	(37%)

Note 1 Using a 2017 average exchange rate of USD1 = Tenge 332.3 (2016: USD1 = Tenge 342.2) for the twelve months and USD1 = Tenge 334.4 (2016: USD1 = Tenge 338.2) for the quarter.

Oil

- Average oil production for the quarter increased from 584 bopd to 1,327 bopd and for the year from 787 bopd to 1,156 bopd reflecting an increase in production from the AKD01 well following the installation of an Electrical Submersible Pump ("ESP") in May 2017;
- Oil production cost per barrel for the quarter decreased to USD6.56 compared with USD10.65 in Q4 2016 and to USD5.98 for the year (2016: SD8.71). This was mainly due to the increase in oil production volumes and non-variable costs of production. Total costs for the quarter were higher in part due to the costs of running the ESP which also impacted the full year costs although these were only up 1% for the year due to a continuing focus on cost optimisation;
- Oil prices averaged USD7.54 per bbl for the quarter (Q4 2016: USD6.97 per bbl) and to USD7.66 per bbl for 2017 (2016: USD6.81), reflecting a slightly higher local currency price in the current year and currency exchange effects.

Gas

- Current quarter gas production averaged 1,770 boe/d compared with 961 boe/d in Q4 2016. This was due to a temporary stoppage of gas production between October 18, 2016 and December 9, 2016 whilst contractual matters were resolved with then customer Intergas Central Asia JSC ("ICA") as well as a natural decline in production with no new wells coming on line until January 2018. Gas production averaged 1,932 boe/d for 2017 compared with 1,953 boe/d for 2016, reflecting a natural decline in overall production with no new wells coming online and the abovementioned stoppage period;

Operational highlights - continued

- Gas production cost per Mcm in the current quarter decreased to USD20.71 compared with USD29.16 in Q4 2016 mainly due to the disruption to the higher production volumes and the impact of non-variable costs of production. Costs decreased by 4% to USD16.11 in 2017 compared with US16.69 in 2016 with annual production volumes in 2017 being 1% lower than 2016 and total production costs being 5% lower;
- Gas was sold at a net price equivalent to USD42.95 per Mcm for the quarter compared with USD62.10 in Q4 2016 and USD44.18 per Mcm for 2017 compared with USD61.37 in 2016. This reflects a decrease in the Tenge gas price received to KZT16,000 per Mcm including VAT in 2017 from KZT21,000 per Mcm in 2016. Marketing fees in 2017 were nil (2016: KZT7,000 per Mcm) including VAT.

Operational Review

Outlook

The information provided under this heading is considered as forward looking information; as such please refer to Forward Looking Statements on page 34 of this MD&A.

The Company's objective is to become a leading oil and gas exploration and production Company in Central Asia, by exercising capital discipline, by generating cash flow from existing discoveries and by maturing large exploration prospects within our highly-attractive frontier acreage. The Company produces both oil and natural gas in order to balance its product portfolio and currently has oil and gas interests in the Republic of Kazakhstan, Republic of Tajikistan and Georgia. On December 30, 2017 the Company announced that an arbitration tribunal has ordered that it should assign its interest in its Tajikistan project to its partners. Further details are given under the section *"Significant events and transactions for the year"*.

The Company's long-term ambition is to achieve a significant role in the production and delivery of hydrocarbons from the Central Asian region to local and global markets, especially to the Chinese market. In common with many oil and gas companies, in implementing its strategies, the Company regularly considers farm-out/farm-in and joint venture opportunities and new projects which provide synergy with the Company's activities. Meanwhile, the specific focus of management 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 would include oil wells on the Akkulka licence and the Klymene exploration well on the Kul-bas licence;
- Continue to evaluate farm-out or other value realisation opportunities with respect to the Georgian assets; and
- Implement further cost optimisation across the business.

Significant events and transactions for the year

- *Georgia work program commitments*

On January 16, 2017 the Company announced that its partner in Georgia, Georgia Oil and Gas Limited ("GOG"), had been notified by the State Agency of Oil and Gas in the Ministry of Energy of Georgia ("the Agency") that GOG and Tethys would not be required to complete the previously agreed work program commitment to conduct 50 km of 2D seismic acquisition in Block XI^N by June 30, 2017 which would have cost Tethys approximately USD0.7 million. Had the minimum commitments previously agreed to not been met then Tethys may have been subject to penalties of up to USD2.0 million. Instead of the previously agreed commitment the agency will evaluate whether the partners should instead conduct 50 km of 2D seismic acquisition over an alternative prospective area.

Tethys and its partner GOG proposed to the Agency to amend the existing minimum work program for License Blocks XI^M and XI^N to allow further time to evaluate, through additional geological studies, the possibility of running 2D seismic surveys on the license areas or, alternatively, to relinquish the licenses and terminate the PSCs without application of any sanctions or penalties. The Agency has responded positively to the proposals and confirmed in writing that it has commenced the legal process to review and amend the PSCs.

Tethys and GOG also notified the Agency of their decision to relinquish License Block XI^A and terminate the PSC as work performed to date indicates it has low prospectivity and Tethys and GOG do not wish to commit further investment to it.

- *Kazakhstan change of registered address and relocation of office to Aktobe City*

Also on January 16, 2017 the Company announced that in December 2016 Tethys completed the transfer of the registered legal addresses of its three Kazakhstan subsidiaries, Tethys Aral Gas LLP ("TAG"), Kul-bas LLP and Tethys Services Kazakhstan LLP from Almaty to Aktobe and that Tethys also planned to relocate its main administrative office from Almaty to Aktobe during the first half of 2017 where it also has an office.

These changes are part of an ongoing process of corporate reorganisation and cost optimisation. Tethys' field operations and exploration acreage are both in the Aktobe region which is in the west of Kazakhstan and Aktobe is the main regional centre.

On June 8, 2017 the Company announced that the relocation to Aktobe would be completed on schedule and the Company expects to achieve annualized cost savings of at least USD600,000 from amalgamating the two offices.

- *Appointment of director*

On January 20, 2017 Medgat Kumar was appointed to the Board of Directors of the Company following the equity placement announced in November 2016.

Operational Review - continued

- *Results of Extraordinary General Meeting*

On January 27, 2017 the Company held an Extraordinary General Meeting (“EGM”) and announced that all resolutions put to shareholders at the meeting were passed on a poll at the meeting including the Warrant Exercise Resolution and the Debt Conversion Resolution.

- *Rig loan extension of maturity dates*

In Q1 2017, the Company agreed amendments to the loan agreement entered into on February 13, 2014 by a wholly owned subsidiary of the Company as borrower, the Company as guarantor and a group of lenders. Loan tranches had various maturity dates between February and June 2017, being three years after the receipt of each lender’s tranche.

The loan, which bears interest at 12% per annum and had a principal amount then outstanding of approximately USD3.5 million, is secured by the shares of the borrower, which in turn owns two drilling rigs and related equipment.

The lenders agreed to an extension of the maturity dates by 18 months whereby they would continue to receive the same equal monthly payments as before, incorporating interest and capital, together with a single balloon repayment of the remaining amount due at the new maturity dates.

On November 14, 2017 the Company signed agreements to sell its two drilling rigs and related equipment. This transaction did not complete and the Company instead contracted with another buyer and at the date of this report had received the majority of proceeds allowing repayment in full of the related rig loans, ahead of the contractual maturity dates.

- *Court ruling in favour of Tethys and unblocking of bank accounts*

On February 1, 2017 the Company announced that the Almaty City Court found in favour of Tethys' wholly owned subsidiary, TAG, in rejecting the appeal of EGG against the previous court ruling of December 26, 2016, which also found in favour of TAG.

As a result of EGG's claim against TAG, restrictions were in place over TAG's bank accounts pending the hearing of EGG's appeal. Following the rejection of EGG's appeal, TAG applied to the court to have these restrictions removed which the court approved and were implemented allowing TAG to operate its bank accounts normally. Several days later EGG submitted an amended claim to the Court which resulted in new restrictions being imposed on most of TAG's bank accounts. Following the ruling of the Republic of Kazakhstan Supreme Court on February 14, 2018, see below for details, the Company has been taking steps to have these restrictions lifted.

- *Announcement from Olisol*

On February 10, 2017 the Company acknowledged the public announcement by Olisol on February 9, 2017 regarding the validity of Tethys EGM held on January 27, 2017.

The Tethys Board informed shareholders and other interested parties that the Management Information Circular dated December 22, 2016 mailed to shareholders did contain all material information required for shareholders to make an informed decision at the EGM and the EGM was conducted in accordance with proper procedure under applicable laws as well as the Company's Articles of Association.

Operational Review - continued

Prior to the EGM, Tethys and each of its Kazakhstan subsidiaries commenced legal action against Olisol, EGG and certain of their respective principals in the Court of Queen's Bench of Alberta, Canada. The legal action was to seek, among other things, damages arising from failure to meet contractual obligations under the Amended and Restated Investment Agreement on October 27, 2016 and damages arising from unlawful interference with Tethys' business activities, including issuing erroneous press release information about Tethys as alleged. Tethys intends to enforce its rights and legitimate interests to the fullest extent permitted by law, to protect its investors, assets, investments, management and employees.

- *Cancellation of listing in the United Kingdom*

On March 24, 2017 the Company announced that it had applied to the United Kingdom Listing Authority ("UKLA") to cancel the standard listing of the Company's ordinary shares (the "Shares") from the Official List of the UKLA and the cancellation of trading in the Shares on the Main Market of the London Stock Exchange (together, the "Cancellation"), following a determination by the Company that the costs of maintaining a dual listing on the London and Toronto stock exchanges was unnecessarily expensive for a company of Tethys' size. Following the Cancellation, the Shares have continued to trade on the Toronto Stock Exchange which should provide shareholders with liquidity and places sufficient corporate governance requirements upon the Company. Further, the Company's conclusion, that the London listing be cancelled, was supported by the limited trading and liquidity of the Shares on the London Stock Exchange (meaning that limited benefit was brought by that listing).

The Cancellation took effect at 8:00 am on Tuesday May 2, 2017.

The Company has previously maintained two share registers, a register maintained by Capita Asset Services in the UK and a register maintained by TSX Trust Company in Canada. The shareholdings on the Capita register were transferred to the TSX Trust register following the Company's Annual General Meeting ("AGM") on June 23, 2017 which will result in further cost savings for the Company.

- *Update on gas drilling program*

On March 29, 2017 the Company announced a new 10 well shallow gas well drilling program at a cost of approximately USD6 million and that it hoped to commence drilling in early May. In addition, the Company planned to work over three existing wells and tie in two wells drilled but not tied into production. The program was designed to add twelve or more new wells to existing production. Wells are typically 650m and take up to 14 days to drill with testing usually taking up to 10 days post completion.

The tender was awarded to drilling company Great Wall and contracts were signed on April 28, 2017. Drilling operations were delayed from the original planned date, however, whilst the Company renegotiated some of the contractual terms, including the price, with the outcome being a price reduction achieved of around 12 percent. Most of the payments are deferred until 2018 when the Company expects to be able to pay from increased production.

On July 28, 2017 the Company announced that because drilling had begun later than originally intended, discussions were underway to modify the program. This would involve reducing the number of wells drilled in 2017 from 10 to 8, obtaining and interpreting new seismic then drilling the 2 wells not drilled in 2017 in early 2018 based on the new data and adding 2-3 additional wells. This would result in a 4-5 well drilling program in 2018 with the intention of maintaining and

Operational Review - continued

improving shallow gas production on a continuing basis.

On January 11, 2018 the Company announced that it had completed drilling seven new shallow gas wells out of the previously announced eight well program. Due to weather conditions, the eighth well is expected to be drilled in the spring of 2018. All seven wells were tested successfully for gas at a depth of between 470 and 550 meters. In addition to the new wells drilled, one existing well has been successfully worked over.

By January 1, 2018 five wells, comprising one existing well and four new wells, had been tied in to the Company's existing pipelines and added to production. The other new wells, which are further from the Company's existing pipelines, are expected to be tied in during 2018, subject to funding.

Three of the new wells will be on production for three months after which production is required to cease whilst the mandatory reserves evaluation and reporting process is carried out.

There is also a need for repairs and parts replacement at the compressor station to increase capacity which the Company plans to do during 2018. Until these works are carried out the overall production increase from the new wells will be limited by existing compression capacity.

Given the need to cease production from certain wells whilst reserves evaluation and reporting takes place and the need for compressor repair and replacement works, it is anticipated that optimum production levels from all the new wells will be achieved towards the end of 2018.

- *Requisition of Extraordinary General Meeting*

On May 25, 2017 the Company announced that a member's requisition had been served on the Company by Olisol requiring the convening of an EGM pursuant to paragraph 35(B) of the Company's Articles of Association (the "Requisition"). The Requisition proposed changes to the composition of the Board of Directors of the Company and certain other matters.

On June 26, 2017 the Company announced that the EGM had been postponed until further notice as a result of Olisol's failure to provide certain information regarding its proposed directors that the Company had requested and which the Company is required to include in a management information circular to be sent to shareholders (the "Required Information"). The Board believed that the Required Information could be material to shareholders in deciding whether to vote for a proposed director and therefore decided to postpone the Meeting under Regulation 38 of the Articles to give Olisol the opportunity to provide it which Olisol failed to do.

- *Successful Installation of ESP*

On June 2, 2017 the Company announced that it had successfully completed the installation of an Electrical Submersible Pump ("ESP") in its main oil producing well, AKD-01.

AKD-01 had been producing under natural pressure since first oil in September 2010 and to date has produced approximately three million barrels of oil. Production from AKD-01 has experienced a natural decline and was producing an average of approximately 700 bopd until the well was shut-in for the ESP to be installed. The ESP is intended to significantly increase oil production for the remaining life of the well.

The ESP has been operating as expected although some periods of downtime were experienced at the outset due to issues with generators and the availability of trucking, in part due to extreme

Operational Review - continued

weather conditions. AKD-01 was therefore not on production throughout the whole of June and July although these issues were overcome and thereafter production has continued uninterrupted.

- *Results of Annual General Meeting*

On June 23, 2017 the Company held its AGM and announced that all resolutions put to shareholders at the meeting were passed on a poll at the meeting, including over 99% of all votes cast in favour of the re-election of the current board members.

- *Ruling Against Alexander Skripka in Civil Case*

On July 26, 2017, the Aktobe City Court (the "City Court") found in favour of Tethys Services Kazakhstan LLP ("TSK"), a wholly owned subsidiary of Tethys, in a proceeding brought by Alexander Skripka ("Skripka"). Skripka alleged that his employment agreement with TSK had been improperly terminated and that, among other things, he was entitled to reinstatement of his position with TSK and recovery of certain wages. The City Court found that the employment agreement had been properly terminated and that Skripka has no entitlement to further employment with TSK or to any recovery of wages.

- *RBK Lawsuit*

On August 8, 2017, Tethys commenced an action against RBK Bank seeking an order that it provide Tethys with access to records regarding the loan that it provided to EGG, and was integral to the action EGG brought against TAG. See further updates below in the sections "*Significant events and transactions subsequent to the year-end – Republic of Kazakhstan Supreme Court Dismisses EGG Claims and Update on Kazakhstan Loan*".

- *TAG Rehabilitation Application*

On August 10, 2017, TAG, a wholly owned subsidiary of Tethys, filed an application for rehabilitation with the Special Economic Court of Aktobe Region (the "Rehabilitation Court"). This followed a decision by the Court of Appeal in Almaty on August 2, 2017 which found in favour of EGG in its appeal of the decision of the lower court made in Tethys' favour in February 2017. The dispute relates to a lawsuit in connection with a contract for oil sales between EGG and TAG dated 2012. The Rehabilitation Court denied the application for rehabilitation. A new application was submitted to the Rehabilitation Court on November 1, 2017, however, this application was also denied.

See also update below regarding Republic of Kazakhstan Supreme Court ruling on February 14, 2018 reversing the decisions of the lower courts and dismissing EGG's claims.

- *Review of the Eligibility for Continued Listing on TSX*

On August 25, 2017 the Company announced that following the abovementioned announcement in relation to TAG's rehabilitation filing, Tethys was notified by the TSX that it was performing an expedited review of the eligibility criteria for the continued listing of the Company's ordinary shares pursuant to Part VII of the TSX Company Manual.

Operational Review - continued

On September 1, 2017 the Company announced that following a detailed written submission by the Company and a meeting of the Continued Listing Committee of TSX (the "Committee") held on August 31, 2017, which was attended by the Company's management and legal counsel, the TSX had notified the Company that it had decided to allow the Company to retain its listing on the TSX subject to its Remedial Review Process. The Company was granted up to 120 days to comply with all requirements for continued listing, beginning August 24, 2017.

On October 25, 2017 the Company announced that the Committee had encouraged the Company to consider its qualifications for a listing on the TSX Venture Exchange ("TSXV") or NEX, a subsidiary of TSXV, in order to ensure, to the extent possible, uninterrupted trading for the Company's ordinary shares. The Company has evaluated the costs and benefits of its listing on the TSX versus a possible listing on the TSXV and concluded that it would be prudent to pursue a listing on the TSXV given the Company's current stage of development. The Company therefore submitted an application to move its listing from the TSX to the TSXV under the TSXV's streamlined application process. In the event that the Company does not meet the TSXV's continued listing requirements for any reason in the future it remains open to the Company to step down to NEX, which would continue to provide a marketplace for trading in the Company's ordinary shares.

On January 24, 2018 the Company announced that the Continued Listings Committee of the Toronto Stock Exchange ("TSX") had determined that the Company no longer meets the continued listing requirements of the TSX and will not be able to continue with its listing on the TSX after February 23, 2018 and subsequently extended this to March 23, 2018 whilst the TSX Venture Exchange ("TSXV") considered the Company's application to move its listing to that exchange. On February 26, 2018 the TSXV informed the Company that it would not meet the TSXV listing requirements and would instead need to transfer its listing to NEX, a subsidiary exchange of the TSXV. The Company was delisted from the TSX on March 23, 2018 and listed on NEX on March 26, 2018.

- *Appointment of new General Director in Kazakhstan*

Also on August 25, 2017, the Company announced the appointment of George Pool as its new General Director in Kazakhstan. George is a US national and a resident of Kazakhstan. Fluent in Russian, he has over 20 years' wide-ranging experience of the culture and business practices of the Former Soviet Union and Latin America having worked on projects in Kazakhstan, Russia, Uzbekistan, China, Panama, Ecuador, Europe and the USA.

- *Approval Received for Continuation of Oil Production*

On September 28, 2017, the Company announced that its subsidiary TAG had been notified by the competent authority in Kazakhstan of its approval of the continuation of the Company's Akkulka Oil Field Pilot Production Project (the "Project") from January 1, 2018 to March 10, 2019. This period coincides with the related Akkulka Exploration Licence and Contract under which the Project is carried out. The approval of the Project allows TAG to continue to produce oil and sell it on the Kazakhstan internal market which it has done since January 2011. Oil is currently being produced from the AKD-01 well in the Akkulka area. The Company has evaluated investing in a gas utilization facility for flared gas which is a prerequisite to apply for a full production licence. This in turn would allow a proportion of oil production to be sold for export at a higher price than can be achieved on the internal market. Future investment in oil development is dependent on securing funding.

Operational Review - continued

- *Olisol Petroleum Press Release*

On September 28, 2017 the Company announced that it acknowledged the Olisol Petroleum press release dated September 26, 2017 but did not intend to issue a response to each of the points raised since a number of them are incorrect or unclear and appear confused.

- *Ongoing Illegal Actions of Olisol*

On October 25, 2017 the Company announced that the actions being taken against the Company by Olisol, its affiliate EGG and EGG's private bailiff which the Company had previously announced on September 28, 2017 were unfortunately continuing and having an adverse financial impact on the Company and its business which could potentially put its operations in jeopardy. Despite the Ministry of Justice of the Republic of Kazakhstan notifying the Company that the actions of the bailiff were illegal and it had suspended the bailiff's licence to operate, EGG has continued to attempt to disrupt the Company's oil deliveries by sending bailiffs and security personnel to the field.

In addition, payments to the Company for its gas sales were delayed whilst the Company worked to reverse the actions of the bailiff which included writing to the Company's oil and gas buyers and local refineries seeking to divert payments for the benefit of EGG. As a consequence of delayed gas payments, the Company was not been able to make certain scheduled payments on time, including its monthly payments to the rig loan lenders.

See also update below regarding Republic of Kazakhstan Supreme Court ruling on February 14, 2018 reversing the decisions of the lower courts and dismissing EGG's claims.

- *Extension of Kul- bas Exploration & Production Contract*

On November 6, 2017, Addition #9 to the Company's Kul- bas Exploration & Production Contract was signed which is the final stage in the extension of the contract until November 2019. This contract area contains the KBD02 ("Klymene") prospect which has the potential to be an order of magnitude bigger than the Company's Doris oil discovery and surrounding prospects (the geographical area of the prospect is up to ten times the areal extent of the Doris oil field).

- *Tajikistan Arbitration*

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

The Arbitral Tribunal of the International Court of Arbitration of the International Chamber of Commerce (the "ICC") has declared and/or ordered that:

- Kulob breached its obligations under the JOA by not paying its share of cash calls since August 2015;
- Total and CNPC are entitled under the JOA to require Kulob to withdraw from the JOA and assign its Participating Interest to them at no cost and Kulob should do so; and

Operational Review - continued

- Kulob should pay Total and CNPC an amount of damages equivalent to the unpaid cash calls plus costs and interest which in the aggregate amounts to approximately USD13.9 million.

The Company does not expect the decisions of the ICC to have a significant effect on the results, cash flows or financial position of the Company since Tethys Petroleum Limited was not a party to the arbitration, does not believe it is responsible for the obligations of Kulob and has not provided any guarantees on behalf of Kulob.

The value of Kulob's Participating Interest was fully written down in the Company's Consolidated Financial Statements for the 2016 financial year and the cash calls made by Bokhtar Operating Company B.V. ("BOC") have been fully provided for in the Company's Consolidated Financial Statements for 2016 and subsequent periods. Since Kulob is unable to pay the damages claim awarded by the ICC and, in the event that the Company elects not to do so, the Company expects to deconsolidate Kulob and/or recognise an accounting gain for the amount of accrued cash calls no longer payable by the Tethys group.

Significant events and transactions subsequent to the year-end not already discussed above

- *TSX Listing Review*

On January 24, 2018 the Company announced that the Continued Listings Committee of the Toronto Stock Exchange ("TSX") had determined that the Company no longer meets the continued listing requirements of the TSX and will not be able to continue with its listing on the TSX after February 23, 2018 and subsequently extended this to March 23, 2018 whilst the TSX Venture Exchange ("TSXV") considered the Company's application to move its listing to that exchange. On February 26, 2018 the TSXV informed the Company that it would not meet the TSXV listing requirements and would instead need to transfer its listing to NEX, a subsidiary exchange of the TSXV.

- *Republic of Kazakhstan Supreme Court Dismisses EGG Claims*

On February 14, 2018 the Republic of Kazakhstan Supreme Court found in favour of TAG by reversing the earlier court rulings and dismissing EGG's claims.

- *Changes of Management*

On March 9, 2018 Mr. Clive Oliver, Chief Financial Officer and Corporate Secretary of the Company tendered his resignation but agreed to continue to work with the Company on an advisory basis to help ensure an orderly transition. In August 2018, Mr. Oliver agreed to continue in those roles at the Company.

On March 12, 2018 the Board of Directors of the Company announced that Mr. Kenneth May, Chief Executive Officer ("CEO"), was stepping down with immediate effect.

On April 3, 2018 the Company announced that it had appointed Samuel Barrows as Interim CEO based in Aktobe, Kazakhstan.

Operational Review - continued

On July 9, 2018 the Company announced that Samuel Barrows had decided to step down with immediate effect and was being replaced by current Board member Mattias Sjoborg as its new Interim CEO.

- *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.

- *Georgia - restructuring of interests*

Tethys was unable to fund its share of cash calls from the Operator since July 2017. In June 2018 Tethys and GOG agreed to a restructuring of their respective interests in the Georgian project 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 the remaining blocks to 19%.

- *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.

- *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.

Operational Review - continued

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.

Reserves

Following the completion of the annual evaluation of the Kazakhstan reserves by an independent qualified reserves evaluator, Gustavson Associates ("Gustavson"), of Colorado, USA, in accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities of the Canadian Securities Administrators ("NI 51-101"), the Company announced Total Gross (i.e. before the application of Kazakh Mineral Extraction Tax) Oil and Gas Reserves consisting of "Proved" 1P reserves of 9.22 million BOE (2016: 12.17 million BOE) and "Proved and Probable" 2P reserves of 17.95 million BOE (2016: 22.90 million BOE).

The NPV10 value after tax of the Company's 2P Kazakh reserves as at December 31, 2017 was USD99.2 million (2016: USD157.6 million).

Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. There is a 10% probability that the quantities actually recovered will equal or exceed the sum of proved plus probable plus possible reserves.

The Company's 2017 AIF includes more detailed disclosure and reports relating to petroleum and natural gas activities for 2017. Both oil and gas reserves are based on availability of sufficient funding to allow development of the known accumulations.

Operational Review - continued

Results of Operations and Operational Review - Kazakhstan

Oil production – Akkulka Contract

	2017					2016				
	Gross fluid m3	barrels	Net barrels	Net production days	bopd	Gross fluid m3	barrels	Net barrels	Net production days	bopd
Q1	17,701	111,336	61,418	90	682	16,850	105,988	78,366	91	861
Q2	21,334	134,186	68,469	91	752	20,987	132,002	87,840	91	965
Q3	62,435	392,703	170,024	92	1,848	17,532	110,274	68,248	92	742
Q4	59,356	373,341	122,072	92	1,327	15,181	95,483	53,732	92	584
Total	160,826	1,011,566	421,983	365	1,156	70,550	443,747	288,185	366	787

Oil operations update

The Company produces oil from the AKD01 well under a pilot production license and the well has been performing to expectations. Oil production averaged 1,327 bopd in Q4 2017 (1,156 bopd YTD) from AKD01. The well has been producing with an ESP installed in May 2017 with an approximate 67% water-cut for Q4 and this has been gradually increasing.

The AKD06 well has been shut in since late Q4 2014 due to the lower oil price received and the increased operating costs of a high water-cut well. The AKD05 well has been off production since November 2015. The option of using enhanced oil recovery (“EOR”) techniques for this well has recently been being evaluated by Schlumberger, which conducted a hydrodynamic study of the Jurassic Carbonates and a geomechanics study.

The Company is currently reviewing its development plans for the next two years. Following the recently announced contract extensions through to March 2019 the priority will be to conduct the works required to fulfil the work programs and maintain and further extend the licence. There is no guarantee that an extension will be achieved since the Company has been operating the pilot production licence since 2011 with multiple licence extensions obtained since then and has not yet moved to a commercial production licence. Subject to funding which is uncertain, these works would include the drilling of two new deep wells AKD12 and AKD13. Prior to this the Company plans to re-analyse the available data from previously drilled wells and to retest the adjacent AKD03 well.

Where possible, in parallel with these works, steps will be undertaken to apply for a full commercial production licence which would enable a percentage of oil to be exported and higher prices to be realised than on the internal market where the Company is currently required to sell all oil produced under its pilot production licence. The Company has been evaluating the options for a gas utilisation facility, for associated gas, which is one of the requirements for commercial production.

The horizontal drilling of AKD05 and other possible enhancement projects would follow, only once there is greater certainty if a commercial licence can be obtained and higher sales prices achieved to make it economically viable.

Joint Venture – Aral Oil Terminal (“AOT”)

The Company has a 50% interest in the AOT which was previously used to tranship oil produced by the Company after it was trucked to the AOT by the buyer. Oil sold in 2017 has not been transhipped via the AOT and the Company is considering its options with regard to disposing of its interest in the terminal.

Operational Review - continued

Gas production – Kyzylloi and Akkulka Contracts

	2017				2016			
	Mcm	Mcf	Mcm/d	Boe/d	Mcm	Mcf	Mcm/d	Boe/d
Kyzylloi								
Q1	17,370	613,325	193	1,136	16,113	568,922	177	1,042
Q2	19,327	682,427	212	1,250	17,039	601,656	187	1,102
Q3	16,400	579,068	178	1,049	16,384	578,532	178	1,048
Q4	15,737	555,698	171	1,007	7,237	255,532	79	463
Total	68,834	2,430,518	189	1,110	56,773	2,004,642	155	913
Akkulka								
Q1	14,651	517,319	163	958	21,647	764,340	238	1,400
Q2	13,199	466,067	145	854	18,716	660,855	206	1,210
Q3	11,227	396,428	122	718	16,533	583,766	180	1,058
Q4	11,927	421,142	130	763	7,784	274,885	85	498
Total	51,004	1,800,956	139	822	64,680	2,283,846	177	1,040
Grand total	119,838	4,231,474	328	1,932	121,453	4,288,488	332	1,953

Gas operations update

Production commenced from the Kyzylloi field in 2007, following the construction of a 56 km, 325mm outside diameter export pipeline from the Kyzylloi field gathering station to the main Bukhara–Urals gas trunkline, where a compressor station was constructed at 910 km on that trunkline. The gas flows into the main trunkline which is owned by Intergas Central Asia JSC (“ICA”), a division of the Kazakh State natural gas company KazTransGas JSC (“KTG”);

Production commenced from the Akkulka field on October 6, 2010.

Gas production decreased by 1% or 4 Mcm per day in 2017 compared with 2016 although the reduction would have been larger but for the stoppage of gas production between October 18, 2016 and December 9, 2016 whilst contractual matters were resolved with the customer ICA. The underlying reduction in production reflects the natural decline in production from existing wells with no new wells coming on line until January 1, 2018.

During 2017, the Company produced dry gas from a total of 13 wells at a depth of approximately 480-600m below surface, comprising eight producing wells in the Kyzylloi field and five in the Akkulka field with combined current average production for 2017 being 328 Mcm/d (2016: 332 Mcm/d).

The completed Bozoi-Shymkent-China gas pipeline means that Tethys now has two potential gas export routes that provide alternatives to sell its gas; the route taking gas to the more populous south eastern part of Kazakhstan and, ultimately to China, and the Bukhara-Urals trunk line that transports gas from Central Asia into Russia. Export to China, if this can be achieved, would allow the Company to realise a higher net sales price. The Company believes that the long-term price for gas will rise in the region, in particular dry gas exported via pipeline from Central Asia and that Chinese demand will increase over the medium to long term, especially with the substitution in China of a greater percentage of energy use from gas instead of coal.

Details of the Company’s gas will drilling program are given on page 8.

Exploration - update

The KBD02 (“Klymene”) prospect is planned to be drilled to a total depth of 2,750 metres targeting a large structure in the south west of the Kul-Bas block, and will target three horizons in the Lower

Operational Review - continued

Cretaceous and Upper Jurassic. State approval for the Klymene exploration well drill project and associated emissions are in place and the Company is seeking a partner to fund the cost of the well on a production sharing or joint venture basis. The Klymene prospect has the potential to be an order of magnitude bigger than the Doris oil discovery and surrounding prospects (the geographical area of the prospect is up to ten times the areal extent of the Doris oil field). It appears to have good four-way structural closure and positive amplitude effects which may be indicative of enhanced porosity on the recently acquired and interpreted seismic.

In May 2017 the Company received a positive decision from the Ministry of Energy to extend the license (appraisal period) for the next two years up to November 11, 2019. This extension of appraisal period for two years includes an obligation to drill and test KBD-02 (Klymene) and test KBD-01 (Kalypso). On November 6, 2017 Addition #9 to the contract was signed which includes the work program for 2018 and 2019 and is the final stage in the extension of the contract. The Company is dependent on better pricing for its oil & gas sales and outside funding in order to meet all its obligations under the contracts.

Operational Review - continued

Results of Operations and Operational Review - Tajikistan

The Company's 85% owned subsidiary Kulob Petroleum Limited ("Kulob") entered into the Bokhtar Production Sharing Contract with the Government of Tajikistan in June 2008 and in December 2012 farmed out 66.67% to Total E&P Tajikistan B.V. ("Total") and CNPC Central Asia B.V. ("CNPC") for a payment of USD63 million towards past costs and an undertaking to pay around USD18 million of Kulob's share of future costs. The joint venture's new exploration strategy was to focus on potential hydrocarbons in the deep Jurassic geological horizon of between 5,000 to 7,000 metres. A new joint operating company BOC was established which in 2014/15 carried out a wide-line 2D seismic acquisition programme, large scale passive seismic acquisition, a magnetotellurics campaign and some further geological studies and reprocessing of old seismic.

Due to the high costs involved, Tethys employed Macquarie Capital to conduct an extensive farm-out exercise in the first half of 2015 with a view to farming down Kulob's remaining participating interest but these efforts were ultimately unsuccessful. As a consequence, Tethys decided not to commit any further capital to the project after August 2015 and to attempt to reach a mutually acceptable solution with the Claimants. Instead, Total and CNPC sought to have Kulob withdraw from the project and assign its participating interest to them and, in May 2016, commenced arbitration proceedings against Kulob at the ICC.

Total and CNPC took the decision to demobilise BOC in 2016 since analysis of the data acquired had not identified any structures that supported the geologists' initial concept. The data showed that the structural model they had developed was not proven and that the Jurassic horizon is much deeper, more poorly defined and less structured than they had thought. As a result, further exploration would be necessary to see if the structures at this depth exist. The risk and the additional cost of this work would be considerable and it was therefore decided not to proceed with it at that time.

Tethys recently went back to interested parties from the 2015 farm-out exercise but was unable to complete a transaction prior to the conclusion of the arbitration proceedings. A summary of the outcome of the arbitration proceedings is given on page 12.

Operational Review - continued

Results of Operations and Operational Review - Georgia

In January 2014, the Company acquired a 56% interest (now 49%) in the Georgian license areas: Blocks XI^A, XI^M and XI^N. 2D seismic had been acquired in 2013 prior to the Company acquiring its interest and activities since then focused on the collation, preparation, processing and interpretation of seismic and well data across blocks XI^A and XI^M with some geochemical and structural geology work having been completed across all three blocks and with ground gravity data acquisition in 2015.

During 2015 the operator, Norio Operating Company Limited, oversaw ground gravity acquisition on all three blocks. Field acquisition was completed in 2015 with a total of 187.4 sq.km of XI^A phase III obligation gravity, 197.5 sq.km of XI^M phase II obligation and 721.1 sq.km of XI^N phase II obligation gravity completed. In parallel, approvals to the changes in the work program were passed successfully through several State entities and the final Government ratification was received. This stipulated the main requirement to be a minimum of 50km of 2D seismic to be finished and evaluated by July 1, 2017 in Block XI^N at an estimated cost to Tethys of USD1.1 million with a potential non-compliance fine to Tethys of USD2.0 million.

On January 16, 2017 the Company announced that Tethys partner in Georgia, Georgia Oil and Gas Limited ("GOG"), had been notified by the State Agency of Oil and Gas in the Ministry of Energy of Georgia (the "Agency") that GOG and Tethys would not be required to complete the previously agreed 50 km of 2D seismic acquisition in Block XI^N by July 1, 2017. Instead, the Agency would evaluate whether the Tethys and GOG should conduct 50 km of 2D seismic acquisition over an alternative prospective area.

Tethys and GOG wrote to the Agency in June 2017 seeking to retain Block XI^N subject to the Agency agreeing to a new minimum work program and confirming it would not levy any penalties for any past non-compliances (for which Tethys would be liable) and to retain Block XI^M subject to the Agency agreeing amendments to the production sharing contract. In respect of Block XI^M Tethys agreed to fund the cost of 30 km of seismic which was expected to be in the range of USD650,000-700,000. Tethys and GOG also wrote to the Agency to relinquish Block XI^A as work performed on the block indicates it has low prospectivity and Tethys and GOG do not wish to commit to further investment.

Tethys was unable to fund its share of cash calls from the Operator since July 2017. In June 2018 Tethys and GOG agreed to a restructuring of their respective interests in the Georgian project 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 the remaining blocks to 19%.

The work program for 2018 involves reprocessing and interpretation of 500km of 2D seismic data and 225km of geological survey work.

Financial Review

Summary of Quarterly Results

	Q4, 2017	Q3, 2017	Q2, 2017	Q1, 2017	Q4, 2016	Q3, 2016	Q2, 2016	Q1, 2016
Oil & gas sales and other revenues	2,070	2,593	2,855	480	1,631	3,119	3,529	3,455
Loss for the period – continuing operations	(34,320)	(2,879)	(3,905)	(4,390)	(32,203)	(4,036)	(4,934)	(5,677)
Loss per share (\$): – continuing operations	(0.06)	(0.01)	(0.01)	(0.01)	(0.07)	(0.01)	(0.01)	(0.02)
Adjusted EBITDA ¹	(3,157)	1,727	(186)	(1,425)	(1,093)	(838)	(338)	(934)
Capital expenditure	3,705	465	109	999	354	318	342	394
Total assets	117,929	149,076	153,901	156,298	159,904	187,323	185,634	189,103
Cash & cash equivalents	77	186	817	69	449	1,800	700	1,133
Short & long term borrowings	(32,255)	(32,520)	(33,739)	(33,460)	(33,249)	(34,167)	(30,502)	(30,532)
Total non-current liabilities	(15,072)	(18,051)	(18,929)	(19,053)	(12,867)	(12,908)	(13,447)	(31,628)
Net debt ¹	(32,178)	(32,334)	(32,922)	(33,391)	(32,800)	(32,367)	(29,802)	(29,399)
Number of common shares outstanding	508,136,098	508,136,098	508,136,098	508,136,098	508,136,098	400,004,848	400,004,848	374,400,429

Note 1 Adjusted EBITDA and net debt are non-GAAP Measures, refer to page 30 for details

Financial Review – continued

Loss for the period

	Quarter ended December 31			Twelve months ended December 31		
	2017	2016	Change	2017	2016	Change
Sales and other revenue	2,070	1,631	27%	7,998	11,734	(32%)
Sales expenses	(919)	(311)	195%	-	(2,443)	(100%)
Production expenses	(1,459)	(782)	87%	(4,571)	(5,285)	(14%)
Depreciation, depletion & amortisation	(2,753)	(1,715)	61%	(10,978)	(9,971)	10%
Exploration & evaluation expenditure written off	(10,151)	(25,627)	(60%)	(10,151)	(25,627)	(60%)
Impairment charges	(15,259)	(1,176)	1198%	(15,259)	(1,176)	1198%
Administrative expenses	(1,667)	(1,082)	54%	(5,273)	(5,461)	(3%)
Restructuring costs	21	(515)	(104%)	(83)	(1,915)	(96%)
Share based payments	(50)	(299)	(83%)	(208)	(482)	(57%)
Loss on sale of fixed assets	-	(10)	(100%)	-	-	-
Loss on revaluation of assets held for sale	(3,821)	-	-	(3,821)	-	-
Litigation costs & other asset impairments	(928)	-	-	(928)	-	-
Foreign exchange loss	(275)	(24)	1046%	(184)	117	(257%)
Gain on derivative financial instruments	-	-	-	-	275	(100%)
Finance costs	(1,825)	(478)	282%	(5,227)	(5,313)	(2%)
Loss before taxation	(37,016)	(30,388)	22%	(48,685)	(45,547)	7%
Taxation	2,696	(1,815)	(397%)	3,191	(1,303)	(345%)
Loss for the period	(34,320)	(32,203)	(7%)	(45,494)	(46,850)	(3%)

The Company recorded a net loss after taxation of USD34.3m for the current quarter compared with USD32.2m in Q4 2016 and USD45.5m for 2017 (2016: USD46.9m), the principal variances being:

- Decrease in sales and other revenue due to lower gas prices received in 2017 which more than offset the increase in oil revenues from higher oil production and a slightly higher oil price;
- No sales expenses in 2017 with the expenses for the quarter reflecting the reinstatement of an accrual for amounts potentially payable for the period June-November 2016 when the related contract was terminated;
- Higher production costs for both oil and gas for the quarter, partly due to timing of recognition of costs as between one quarter and other and higher costs of running the ESP for oil production. For the year, however, production costs were 14% lower. This is due to a combination of oil production costs up only 1% for the year, despite much higher production, due to a continuing focus on cost optimisation and gas production costs lower by 5%, despite production volume being only 1% lower than the prior year. Also, in 2016 production costs included provision of USD0.8m for penalties for under fulfilment of work programs;
- Depletion was higher due to higher oil production volumes;
- Tajikistan capitalised exploration & evaluation expenditure was written down to nil in 2016 giving rise to a charge of USD25.6m. Further costs accrued in 2017 of USD0.5m were also charged to profit and loss. Georgia capitalised costs of USD9.6m were written down in 2017 (2016: nil);
- An impairment charge of USD15.3m was recognised in respect of oil & gas properties in 2017 (2016: USD1.2m) mainly due to the assumptions made regarding future export prices for gas;

Financial Review – continued

- The process of restructuring which included office closures and staff reductions was largely completed in 2016 so restructuring costs were only USD0.1m in 2017 compared with USD1.9m in the prior year;
- The Company commenced the sale process for two drilling rigs and related equipment owned by the Company which were reclassified as assets held for sale resulting in a revaluation loss of USD3.8m (2016: nil);
- Finance costs were lower as effective interest charges resulting from loan issue costs including the costs of warrants has largely unwound by the end of 2016, however, this was offset by higher default interest rates accrued on two overdue loans;
- Lower deferred tax charge which was a credit in 2017 of USD3.2m compared with a charge of USD1.3m in 2016. This arises in Kazakhstan due mainly to revaluation of losses and fixed assets tax pools and reflects the reduction on the value of Kazakhstan oil & gas properties following the aforementioned DD&A and impairment charges.

Further variances between the periods are discussed below.

Sales & other revenue

	Quarter ended December 31			Twelve months ended December 31		
	2017	2016	Change	2017	2016	Change
<i>Summary</i>						
Oil	887	386	130%	3,170	1,977	60%
Gas	1,160	1,243	(7%)	4,762	9,772	(51%)
Other	23	2	1050%	66	(15)	(540%)
Total	2,070	1,631	27%	7,998	11,734	(32%)
<i>By region</i>						
Kazakhstan - Oil	887	386	130%	3,170	1,977	60%
Kazakhstan - Gas	1,160	1,243	(7%)	4,762	9,772	(51%)
Kazakhstan - Other	23	2	1050%	66	(15)	(540%)
Other	-	-	0%	-	-	0%
Total	2,070	1,631	27%	7,998	11,734	(32%)

Kazakhstan – Oil revenue and price

	Gross sales bbls	Revenue \$000	Realized price at wellhead \$/bbl	Compensation \$000	VAT \$000	Net sales \$000	Net price \$/bbl
2017							
Q1	61,575	534	8.67	-	57	477	7.75
Q2	64,160	571	8.90	-	61	510	7.95
Q3	170,232	1,451	8.52	-	155	1,296	7.61
Q4	117,566	994	8.45	-	106	887	7.54
Total	413,533	3,550	8.59	-	380	3,170	7.66
2016							
Q1	79,250	593	7.47	12	64	517	6.52
Q2	88,417	702	7.94	14	73	615	6.96
Q3	67,119	524	7.81	10	55	459	6.84
Q4	55,505	441	7.94	9	46	386	6.97
Total	290,291	2,260	7.78	45	238	1,977	6.81

Financial Review – continued

- Under the pilot production licence oil can only be sold in the domestic Kazakhstan market;
- Sale price is determined at the wellhead where the oil is sold and therefore the Company incurs no transportation or marketing costs.
- Current quarter and full year revenue were affected by the increase in production volumes from the ESP and higher oil price due to better terms from the current oil buyer and also USD/KZT exchange rate fluctuations since oil is priced in Tenge.

Kazakhstan - Gas revenue and price

- Gas revenue decreased 7% in the current quarter against Q4 2016 from USD1.24m to USD1.16m. This was due to a lower net price in 2017 (see below) and a temporary stoppage of gas production between October 18, 2016 and December 9, 2016 whilst contractual matters were resolved with then customer ICA. The year on year decrease in gas revenue from USD9.7m to USD4.8m is mainly a result of the lower price (see below) since production volumes were only 1% lower. These revenue figures are before sales expenses (see below);
- Gas was sold at a net price equivalent to USD42.95 per Mcm for the quarter compared with USD62.10 in Q4 2016 and USD44.18 per Mcm for 2017 compared with USD61.37 in 2016. This reflects a decrease in the Tenge gas price received to KZT16,000 per Mcm including VAT in 2017 from KZT21,000 per Mcm in 2016 .
- Gas contracts are subject to exchange rate risk – refer to page 32 – Sensitivities.

Sales expenses

Sales expenses in the prior periods represent marketing agent commissions for gas sales. This contract was terminated in November 2016 and so there are no equivalent expenses in 2017 and sales expenses which had been accrued for the period May to December 2016 were released during in 2017 as they are not expected to be payable.

Production expenses

		Quarter ended December 31			Twelve months ended December 31		
	Units	2017	2016	Change	2017	2016	Change
Kazakhstan							
Oil production	USD000's	801	572	40%	2,523	2,510	1%
Gas production	USD000's	573	438	31%	1,930	2,027	(5%)
Other	USD000's	85	(228)	(137%)	118	748	(84%)
Total	USD000's	1,459	782	87%	4,571	5,285	(14%)
Oil							
Net production	bbls	122,072	53,732	127%	421,983	288,185	46%
Cost	USD/bbl	6.56	10.65	(38%)	5.98	8.71	(31%)
Gas							
Production	boe	162,813	88,408	84%	705,291	714,793	(1%)
Cost	USD/boe	3.52	4.95	(29%)	2.74	2.84	(4%)
Weighted average cost per boe	USD/boe	4.82	7.11	(32%)	3.95	4.52	(13%)

Financial Review – continued

Kazakhstan – oil production

A significant proportion of costs associated with oil production are fixed, so costs would not generally be expected to reduce in the same proportion as a decline in production. Oil production increased in the quarter compared to Q4 2016 partly due to the cost of running the ESP but cost per barrel of oil produced decreased due to the increase in production and non-variable i.e. fixed costs. For the year oil production costs were only up 1% despite a 46% increase in production volumes. Whilst there were costs of running the ESP there was a focus on cost optimisation which reduced costs in other areas.

Kazakhstan – gas production

Gas production costs increased by 31% in the current quarter although production was up 84%. For the year gas production costs were 5% lower reflecting cost optimisation efforts since production was only 1% lower than the prior year. Costs per barrel of oil equivalent also reduced for the quarter and also year on year. Q4 2016 was affected by a temporary stoppage of gas production between October 18, 2016 and December 9, 2016 whilst contractual matters were resolved with then customer ICA.

Gas production, generally more so than the oil, has a significant fixed cost element which includes compressor supplies denominated in US dollars and consequently, as production declines, the production cost per Mcm (or boe) generally increases.

Other production expenses

Other production costs include an allocation of non-Kazakh corporate personnel costs engaged in production activities. Also, in 2016 the Company accrued for penalties relating to the under fulfilment of agreed 2016 Kazakh work program.

Depreciation, depletion and amortization (DD&A)

DD&A for the quarter was USD2.8 million (2016: USD1.7 million) and for 2017 was USD11.0 million (2016: USD10.0million) mainly relating to depletion of the Kazakh production assets but also depreciation on oil and gas equipment. The increase for the quarter and the full year was due to higher oil production following installation of the ESP.

Administrative expenses

	Quarter ended December 31			Twelve months ended December 31		
	2017	2016	Change	2017	2016	Change
Staff	696	570	22%	2,296	2,886	(20%)
Travel	43	82	(48%)	231	385	(40%)
Office	17	116	(85%)	156	438	(64%)
Professional fees	328	94	249%	1,407	760	85%
Regulatory	39	80	(51%)	201	281	(28%)
Marketing costs	424	58	631%	603	242	149%
Non-executive director fees	64	33	94%	203	327	(38%)
Other costs	56	49	14%	176	142	24%
Total	1,667	1,082	54%	5,273	5,461	(3%)
G&A expenses per boe (USD)	5.85	7.61	(23%)	4.68	5.81	(19%)

- Staff costs increased in the current quarter due to accrued late payment payroll penalties in Kazakhstan and reduced by 20% or the year as a result of reductions in the number of staff. The company completed the closure of its Almaty office and amalgamation of functions with its Aktobe

Financial Review – continued

office in Kazakhstan on June 30, 2017 and expects to achieve annualized cost savings of at least USD600,000 the majority of which will be staff costs;

- Reductions in travel expenses reflect management's focus to reduce costs in this area and are also lower due to reductions in staff levels across the business;
- Office costs were significantly lower in the current quarter mainly due to significant downsizing of the Company's London office. For the year office costs were also significantly lower following the closure of a number of offices in 2016 including the Company's Guernsey office where functions were amalgamated in London. With the closure of the Almaty office in June, 2017, the Tethys group now has offices in Aktobe and London with the Company's registered office being in the Cayman Islands;
- Professional and regulatory fees were higher in the quarter and for the year as a result of higher legal and other consultancy fees. Legal fees and court costs were incurred in respect of the Company's January EGM, Canadian legal proceedings being pursued by the Company against Olisol, defending actions against the Company in Kazakhstan and the costs of several arbitration proceedings;
- Marketing costs include mandatory corporate social responsibility obligations in Kazakhstan, investor relations costs and marketing research costs. These costs were higher due to Kazakhstan costs;
- Non-executive director fees for the year are lower due to having four directors 2017 compared with up to seven in 2016. The increase for the quarter reflects an adjustment in the 2016 quarter;
- Other costs, which include bank charges, vehicles costs and insurance are higher in the current quarter and for the year however 2016 costs were unusually low and not representative due to the reversal of some previously accrued costs from prior periods.

Restructuring costs

Costs associated with the restructuring program undertaken in 2015 and completed in 2016 have been shown separately from administrative expenses. These include legal and financial advisory fees associated with the Olisol investment transaction as well as staff termination and office closure costs.

Share based payments

The costs of option awards is estimated and recognised over the vesting period. No option awards have been made since March 2016.

Foreign exchange loss - net

Foreign exchange gains and losses arise from the revaluation of monetary assets and liabilities denominated in currencies other than the reporting currency and the receipt or settlement of foreign currency denominated amounts at a different amount than the originally recorded transaction amount.

Fair value gain on derivative financial instruments

The fair value gain of USD0.3 million in 2016 was due to the revaluation of warrants issued in connection with corporate loans and also loans with conversion features. The warrants were revalued to nil in the course of 2016 and hence there is no gain or loss reflected in the current periods.

Financial Review – continued

Finance costs - net

Finance costs comprise interest expense net of interest income. The expense is higher in the current quarter due to an under-accrual in previous quarters for default interest on two loans which are overdue but lower for the year due to lower effective interest charges from the loan issuance costs and the costs of warrants which had unwound by the end of 2016.

Taxation

A reconciliation of the loss before income tax to the income tax expense is provided in note 10 of the consolidated financial statements. The majority of the tax charge or credit reflected in each period is a non-cash deferred tax movement.

Liquidity and Capital Resources

The Company reported a loss of USD45.5 million for the year ended December 31, 2017 (2016: USD46.9 million) and an accumulated deficit as at that date of USD357.4 million (2016: USD320.0 million) and negative working capital of USD47.2 million (2016: negative USD43.4 million). In addition, the Company reported cash flow from operating activities before tax of USD1.3 million for the year ended December 31, 2017 (2016: negative USD4.3 million).

The Company also has various commitments and contingencies as described in note 25 of its consolidated financial statements. 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 18 of the consolidated financial statements.

The Company is currently the subject of a Cease Trade Order ("CTO") issued by the Alberta Securities Commission June 29, 2018 due to the late filing of these consolidated financial statements and related

Financial Review – continued

filings as well as its late filings for the first quarter of 2018. 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 and Georgia.

Net debt

Net debt (refer to Non-GAAP measures) is calculated as total borrowings (which includes 'current and non-current borrowings') less cash and cash equivalents. Total capital is calculated as 'equity' plus net debt. All figures are as stated in the Consolidated Financial Statements.

	As at December 31		
	2017	2016	Change
Total financial liabilities - borrowings	32,255	33,249	(3%)
Less: cash and cash equivalents	(77)	(449)	(83%)
Net debt	32,178	32,800	(2%)
Total equity	47,942	93,228	(49%)
Total capital	80,120	126,028	(36%)

Refer to the section above "*Liquidity and capital resources*" for a description of the Company's plans to reduce net debt.

Financing and Going Concern

Details of the Company's financing and going concern assessment are provided in note 1 of the Consolidated Financial Statements.

Financial Review – continued

Cash Flow

	Quarter ended December 31			Twelve months ended December 31		
	2017	2016	Change	2017	2016	Change
Net cash from/(used in) operating activities	983	1,023	(4%)	1,314	(4,256)	131%
Capital expenditure	(3,705)	(354)	947%	(5,278)	(1,408)	275%
Net changes in working capital	4,629	(14)	(33164%)	4,562	225	1928%
Other investing cash flows	(81)	(2,609)	(97%)	5,185	(1,877)	(376%)
Net cash from/(used in) investing activities	843	(2,977)	(128%)	4,469	(3,060)	(246%)
Proceeds from loan financing	-	-	0%	-	7,930	(100%)
Loan principal and interest payments	(2,106)	(859)	145%	(5,744)	(4,764)	21%
Proceeds from equity, net of costs	-	1,400	(100%)	-	1,400	(100%)
Other financing cash flows	(110)	(24)	(358%)	(110)	(114)	(4%)
Net cash (used in)/from financing activities	(2,216)	517	(529%)	(5,854)	4,452	(231%)
Effect of exchange rates	281	86	227%	(301)	41	(834%)
Net decrease in cash	(109)	(1,351)	(92%)	(372)	(2,823)	(87%)
Cash & cash equivalents at beginning of period	186	1,800	(90%)	449	3,272	(86%)
Cash & cash equivalents at end of period	77	449	(83%)	77	449	(83%)

Operating activities

Net cash from operating activities was USD1.0 for the quarter and USD1.3m for the year reflecting the timing of collection of oil & gas receipts and delays in the timing of payments to some suppliers.

Investing activities

Net cash from investing activities for the year includes USD0.7m spent on exploration and evaluation activities and USD4.5m spent on property, plant and equipment, principally in drilling and tying in the shallow gas wells in the second half. This amount is offset by a positive USD4.6 working capital movement reflecting the amounts still owing for this work to the drilling company. Also included is a positive USD4.9 movement in restricted cash which comprises USD3.0m previously subject to court imposed restrictions at December 31, 2016 and since lifted as well as USD1.9m withdrawn from the Company's bank account by EGG's bailiff following a lower court judgment which found in favour of EGG. This amount has been offset against amounts which were owing by the Company to EGG.

Financing activities

Net cash used in financial activities for the quarter was USD2.2m reflecting the reduction in loans due to EGG as a result of the Supreme Court ruling and for the year was USD5.9m which also includes the aforementioned USD1.9m withdrawn from the Company's bank account as repayment against amounts owing to EGG. Monthly repayments of the Company's rig loans comprising capital and interest were made from January to August 2017 and interest payments were made on the AGR Energy Limited No.1 and Corporate loan financing at the beginning of the year. No further payments were made due to the lack of funds although the rig loans were repaid in full subsequent to the year end.

Financial Review – continued

Accounting policies, changes to accounting standards and critical estimates

The Company's significant accounting policies and discussion of changes to accounting standards are disclosed in note 2 – *Summary of Significant Accounting Policies* of the December 31, 2017 Consolidated Financial Statements. Refer to note 4 – *Critical Judgments and Accounting Estimates* of the December 31, 2017 Consolidated Financial Statements for information on the Company's significant judgments and assumptions and critical estimates.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Non-GAAP Measures

Adjusted EBITDA

Adjusted EBITDA is defined as "Loss or Profit before Interest, Tax, Depreciation, Amortization, Impairment, Fair value gains or losses and Share Based Payments" and is calculated on the results of continuing operations. It provides an indication of the results generated by the Company's principal business activities prior to how these activities are financed, assets are depreciated and amortized, or how results are taxed in various jurisdictions.

The reconciliation of Adjusted EBITDA to Loss for the Period is as follows:

	Quarter ended December 31			Twelve months ended December 31		
	2017	2016	Change	2017	2016	Change
Adjusted EBITDA	(3,157)	(1,083)	192%	(3,041)	(3,253)	(7%)
Depreciation, depletion and amortization	(2,753)	(1,715)	61%	(10,978)	(9,971)	10%
Exploration and evaluation expenditure written off	(10,151)	(25,627)	(60%)	(10,151)	(25,627)	(60%)
Impairment charges	(15,259)	(1,176)	1198%	(15,259)	(1,176)	1198%
Share based payments	(50)	(299)	(83%)	(208)	(482)	(57%)
Loss on revaluation of assets held for sale	(3,821)	-	-	(3,821)	-	-
Fair value gain on derivative financial instrument - net	-	-	0%	-	275	(100%)
Finance costs - net	(1,825)	(478)	282%	(5,227)	(5,313)	(2%)
Loss before taxation	(37,016)	(30,388)	22%	(48,685)	(45,547)	7%

Net debt

Net debt is calculated as total borrowings (which includes current and non-current borrowings) less cash and cash equivalents. Total capital is calculated as equity plus net debt. All figures are as stated in the December 31, 2017 Consolidated Financial Statements.

Adjusted EBITDA and Net debt shown in this MD&A do not have any standardised meaning as prescribed under IFRS and, therefore, are considered non-GAAP measures. These measures have been described and presented to provide shareholders and potential investors with additional information regarding the Company's financial results. These measures may not be comparable to similar measures presented by other entities.

Stockholder Equity

As at December 31, 2017 the Company had authorised share capital of 1,450,000,000 ordinary shares of which 508,136,098 (2016: 508,136,098) had been issued and 50,000,000 preference shares of which none had yet been issued. The preference shares have the rights as set out in the Memorandum and Articles of Association of the Company.

Financial Review – continued

As at December 31, 2017, a total of 40,374,320 (2016: 40,374,320) ordinary shares were reserved under the Company's Long Term Stock Incentive Plan. The number of options outstanding as at December 31, 2017 is 13,711,875 of which 9,171,250 were exercisable and the number of warrants outstanding is 192,300,000 all of which are exercisable. Loan facilities are in place which are convertible into a total of up to 186,316,064 ordinary shares.

Dividends

There were no dividends paid or declared in the period.

Transactions with Related Parties

Disclosure of the Company's transactions with related parties are provided in note 23 of the Consolidated Financial Statements.

Commitments and contingencies

Details of the Company's commitments and contingencies including litigation, claims and assessments, work program commitments and operating leases are provided in notes 25 and 26 of the Consolidated Financial Statements.

A summary of the Company's contractual obligations for the next five years and thereafter is shown in the table below:

Contractual obligations	Total	Payments due by period			
		Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Borrowings	34,949	28,270	6,679	-	-
Operating leases	15	15	-	-	-
Kazakhstan work program commitments	20,032	19,232	800	-	-
Trade and other payables	27,665	27,665	-	-	-
Total contractual obligations	82,661	75,182	7,479	-	-

The table above reflects the contractual position as at December 31, 2017 although it should be noted that a number of the group's loans are subject to restructuring negotiations and/or legal proceeds as described in note 18 of the Consolidated Financial Statements.

Risks, uncertainties and other information

Readers are encouraged to read and consider the risk factors and additional information regarding the Company, included in its 2017 AIF filed with the Canadian securities regulators, a copy of which is posted on the SEDAR website at www.sedar.com.

Risk management is carried out by senior management, in particular the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”) as well as the Board of Directors. The Company has identified its principal risks for 2017 to include:

- (1) Liquidity and going concern;
- (2) Retention and extension of existing licences;
- (3) Production volumes and pricing – both oil and gas; and
- (4) Political, fiscal, litigation and related risks.

Financial Risk Management

The Company’s activities expose it to a variety of financial risks including: market risk, credit risk, liquidity risk, interest rate, commodity price and foreign exchange risk. Details of the Company’s exposure to these risks and how this is managed is given in note 3 to the Consolidated Financial Statements for the year ended December 31, 2017. 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 of the Company 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.

Sensitivities

The price of gas sales from gas produced from both the Kyzylai and Akkulka gas fields under gas sales contracts denominated in Tenge and is sensitive to a fluctuation in exchange rates. A 20% devaluation of the Tenge, from KZT323 to the USD to KZT388 for example, would result in a net price reduction of USD8.30 per Mcm. Based on a sales volume of 120,000 Mcm per annum, this would result in a reduction of USD1.0 million in gas sales receipts.

The price of oil sales is sensitive to movements in the market price. On a production level of 1,000 bopd, a movement of USD1 per barrel on the price received by the Company would result in a plus or minus movement in oil sales revenue of USD0.4 million per annum.

Critical Accounting Policies and Estimates

The annual and Consolidated Financial Statements of the Company are prepared in accordance with IFRS and IFRIC Interpretations issued by the IFRS Interpretations Committee, refer to 2017 Consolidated Financial Statements - note 2 *Summary of Significant Accounting Policies* and Note 4 – *Critical Judgments and Accounting Estimates* – for further details.

Risks, uncertainties and other information - continued

Derivative Financial Instruments

Details are disclosed in note 18 of the Consolidated Financial Statements.

Disclosure and Internal Controls

Disclosure and Internal Controls over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer of the Company are responsible for designing a system of internal controls over financial reporting ("ICFR"), or causing them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with International Financial Reporting Standards.

During the review of the design and effectiveness of the Company's control system over financial reporting it was noted that due to reductions in the number of staff at the Company's Corporate Head Office after the financial year end, there is a material weakness in the design and operating effectiveness in the system of internal controls due to the Company's inability to achieve appropriate segregation of duties. The limited number of staff may also result in weaknesses with respect to accounting for complex and non-routine transactions due to a lack of technical resources. Based on this evaluation, management concluded that the Company's ICFR has not been effective throughout the period December 31, 2017 to the date of this MD&A.

While management of the Company has put in place certain procedures, including management and Audit Committee oversight and review, to mitigate the risk of a material misstatement in the Company's financial reporting, there is no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement. Management is of the opinion that none of these control deficiencies has resulted in a material misstatement in the Company's interim and annual financial statements. The Company is investigating ways in which this material weakness might be remediated without the need to hire additional staff in the Corporate Head Office finance function, for example by utilising resources elsewhere in the Tethys group. The effectiveness of this action will then be assessed to determine whether it is adequate to remediate the material weakness.

Furthermore, Chief Executive Officer and the Chief Financial Officer of the Company are also responsible for ensuring the Company has appropriate disclosure controls and procedures ("DCP"). Given the weakness in ICFR noted above, coupled with the fact the Company has not filed the Annual or Interim Filings within the required timeline leading to the Cease Trade Order (See Cease Trade Order section), management has concluded that there is a material weakness in the Company's DCP.

The Company's CEO and CFO have filed certifications with the Canadian securities regulators regarding the quality of the Company's public disclosures relating to the period ended December 31, 2017.

Significant equity investees

Details of significant equity investees are discussed in note 23 of Consolidated Financial Statements for the year ended December 31, 2017.

Forward-looking statements

In the interest of providing Tethys' shareholders and potential investors with information regarding the Company and its subsidiaries, including management's assessment of the Company's and its subsidiaries' future plans and operations, certain statements contained in this MD&A constitute forward-looking statements or information (collectively referred to herein as "forward-looking statements") within the meaning of the "safe harbour" provisions of applicable securities legislation. Forward-looking statements are typically identified by words such as "anticipate", "believe", "expect", "plan", "intend", "forecast", "target", "project" or similar words suggesting future outcomes or statements regarding an outlook.

Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur.

By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur, which may cause the Company's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements.

These risks, uncertainties and assumptions include, among other things: the significant uncertainty over the Company's ability to generate sufficient cash flow from operations to meet its current and future obligations and continue as a going concern; risks of exploration and production licenses, contracts and permits being cancelled due to non-fulfilment of contractual commitments or not being renewed when they expire; the Company will not be successful in negotiating binding terms for the export of oil and gas at prices significantly higher than prices currently realised; volatility of and assumptions regarding oil and gas prices; fluctuations in currency and interest rates; ability to successfully complete proposed debt or equity financings or restructuring; product supply and demand; market competition; ability to realise current market oil and gas prices; risks inherent in the Company's and its subsidiaries' marketing operations, including credit risks; imprecision of reserve estimates and estimates of recoverable quantities of oil and natural gas and other sources not currently classified as proved; the Company's and its subsidiaries' ability to replace and expand oil and gas reserves; unexpected cost increases or technical difficulties in constructing pipeline or other facilities; unexpected delays in its drilling operations; delays in the delivery of its drilling rigs; unexpected difficulties in transporting oil or natural gas; risks associated with technology; the timing and the costs of well and pipeline construction; the Company's and its subsidiaries' ability to secure adequate product transportation; changes in royalty, tax, environmental and other laws or regulations or the interpretations of such laws or regulations; political and economic conditions in the countries in which the Company and its subsidiaries operate; the risk associated with the uncertainties, inconsistencies and contradictions in local laws and their interpretation and application in local jurisdictions in which the Company operates; the risk of international war, hostilities and terrorist threats, civil insurrection and instability affecting countries in which the Company and its subsidiaries operate; risks associated with existing and potential future lawsuits and regulatory actions made against the Company and its subsidiaries; and other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by Tethys.

With regard to forward looking information contained in this MD&A, the Company has made assumptions regarding, amongst other things, the continued existence and operation of existing pipelines; the proposed increase in the selling price for the delivery of gas to China; future prices for oil and natural gas; future currency and exchange rates; the Company's ability to generate sufficient cash flow from operations and access to capital markets to meet its future obligations and ability to continue as a going concern; the regulatory framework representing mineral extraction taxes,

Forward-looking statements

royalties, taxes and environmental matters in the countries in which the Company conducts its business, gas production levels; and the Company's ability to obtain qualified staff and equipment in a timely and cost effective manner to meet the Company's demands. Statements relating to "reserves" or "resources" or "resource potential" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described exist in the quantities predicted or estimated, and can be profitably produced in the future. Although Tethys believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A and, except as required by law, Tethys does not undertake any obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Glossary

AGM	Annual General Meeting
AIF	Annual Information Form
AKD	Akkulka Deep
AOT	Aral Oil Terminal LLP
Bbls	Barrels of oil
BOC	Bokhtar Operating Company B.V.
boe/d	Barrel of oil equivalent per day
bopd	Barrels of oil per day
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CNPC	CNPC Central Asia B.V.
EBITDA	Earnings before interest, taxes, depreciation and amortisation
EGG	Eurasia Gas Group LLP
EGM	Extraordinary General Meeting
EOR	Enhanced oil recovery
ESP	Electrical submersible pump
GAAP	Generally accepted accounting principles
GOG	Georgia Oil and Gas Limited
IFRS	International Financial Reporting Standards
ICA	Intergas Central Asia JSC
ICC	International Court of Arbitration of the International Chamber of Commerce
JOA	Joint Operating Agreement and Shareholders' Agreement
KASE	Kazakhstan Stock Exchange
KTG	KazTransGas
Kulob	Kulob Petroleum Limited
KZT	Kazakhstani Tenge
LSE	London Stock Exchange
m3	Cubic metre
Mcf	Thousand cubic feet
Mcf/d	Thousand cubic feet per day
Mcm	Thousand cubic metres
Mcm/d	Thousand cubic metres per day
MD&A	Management's Discussion & Analysis
NPV	Net present value
Olisol	Olisol Investments Limited and Olisol Petroleum Limited
PSC	Production sharing contract
Q1	Three month period commencing January 1 and ending 31 March
Q2	Three month period commencing April 1 and ending 30 June
Q3	Three month period commencing July 1 and ending 30 September
Q4	Three month period commencing October 1 and ending 31 December
sq.km	Square kilometre
TAG	Tethys Aral Gas LLP
USD	United States Dollar
TOTAL	Total E&P Tajikistan B.V.
TSK	Tethys Services Kazakhstan LLP

Glossary

TSX	Toronto Stock Exchange
TSXV	TSX Venture Exchange
UKLA	United Kingdom Listing Authority
USD/bbl	USD per barrel
USD/Mcm	USD per thousand cubic metre
VAT	Value added tax
YTD	Year to date cumulative