Tethys Petroleum Limited

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

Contents

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

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

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

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

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

We confirm that to the best of our knowledge:

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

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

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

For and on behalf of the Board

W. Wells
Chairman
April 30, 2019

A. Ogunsemi
Director
April 30, 2019

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

Opinion

Our opinion on the group financial statements is unmodified

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

In our opinion, the group financial statements:

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

Basis for opinion

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

Emphasis of matter

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

Material uncertainty related to going concern

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

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

interest in un pledged property as a result of non-payment.
- The group has made losses since inception and continues to do so for the foreseeable future based on current operations;
- The group is in an insolvent position as its current liabilities exceed its current assets and
- Unless additional funding can be obtained, there are insufficient funds available to support operations for the foreseeable future.

The Board is seeking additional funding from a current shareholder to enable the group to continue to operate. This additional funding had not been secured at the date of this report. This will be contingent on gaining shareholder approval for the definitive purchase agreement These events and conditions give rise to a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

- Challenging the process that management has undertaken to conclude over the duration of the going concern period
- Reading other information that includes projections beyond the assessed going concern period, and assessing whether the disclosures provided give rise to any event or condition outside of the going concern period that may cast significant doubt over the Group's ability to continue as a going concern
- Recalculating the sensitivities prepared by management to assess their accuracy, challenge management's assessment of going concern and consider the appropriateness of management's sensitivity analysis
- Challenging management on the sufficiency and appropriateness of the disclosures within the Board's going concern statement
- Reviewing communications with the lenders to gain comfort that there is no indication that they intend to call the loans due soon.
- Communicating with legal advisors employed by the group to understand in what respect they acted, the status of the litigation, and the probability of the group incurring liabilities as a result of this litigation.
- Making inquiries of the group's in-house legal team to understand their awareness of ongoing or threatened litigation, their assessment of the group's exposure to litigation and the probability of the group incurring liabilities as a result of this litigation.
- reviewing draft settlement agreements, the draft share purchase agreement and draft refinancing agreements to ensure that management is pro-actively working with creditors, shareholders and suppliers.
- discussion with management of the status of negotiations with the shareholder, relating to the additional investment into the Group.

Key observations

A material uncertainty exists that may cast significant doubt over the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

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

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

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

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

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

Other information

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

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

We have nothing to report in this regard.

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

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

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

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

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

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

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

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

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

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

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

Grant Thornton UK LLP

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

30 April 2019

Tethys Petroleum Limited

Consolidated Statements of Financial Position

As at December 31
(in thousands of US dollars)

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

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

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

W. Wells
Chairman

A. Ogunsemi
Director

Tethys Petroleum Limited

Consolidated Statements of Comprehensive Income (Loss)

For the year ended December 31
(in thousands of US dollars, except per share amounts)

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

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

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

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

Tethys Petroleum Limited

Consolidated Statements of Changes in Equity

(in thousands of US dollars)

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

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

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

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

Tethys Petroleum Limited

Consolidated Statements of Cash Flows

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

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

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

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

1 General information and going concern

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

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

Going concern

The Management and the Board has considered the Company's current activities, funding position and projected funding requirements for the period of at least twelve months from the date of approval of the consolidated financial statements in determining the ability of the Company to adopt the going concern basis in preparing the consolidated financial statements for the year ended December 31, 2018. The Company reported a profit of $4.5 million for the year ended December 31, 2018 (2017: $47.5 million) and an accumulated deficit as at that date of $356.9 million (December 31, 2017: $359.3 million) and negative working capital of $30.9 million (December 31, 2017: negative $51.3 million). In addition, the Company reported cash flow from operating activities before tax of $1.0 million for the year ended December 31, 2018 (2017: $1.3 million).

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

The Company currently does not have sufficient funding to fund its obligations for the next twelve months should all lenders call in their debts at once. The Company is currently in default on loan obligations as disclosed further in note 15 and various commitments and contingencies as disclosed in note 21. The Company has been in discussions and negotiations with the related counterparties to restructure the repayments that are currently due. In order to continue as a going concern, the Company will need to agree adequate terms with counterparties to restructure repayments. There is material uncertainty about the outcome of these negotiations which casts significant doubt on the Company's ability to continue as a going concern.

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

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

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

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

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

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

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

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

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

2 Summary of significant accounting policies

Basis of preparation

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

Statement of compliance

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

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

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

Discontinued operation

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

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

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

Adoption of new accounting standards

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

Changes in significant accounting policies from adoption of new accounting standards

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

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

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

Non-derivative financial instruments – recognition and measurement

Financial assets

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

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

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

A provision for impairment of trade receivables is established when there is objective evidence that the Company may not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments	For trade receivables, the simplified approach is applied to the Company's respective business units, which requires the use of the lifetime expected loss provisions for expected credit losses. To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics and the days past due.
(more than 30 days past the due date) are considered indicators that the trade receivable may be impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated statements of operations. When a trade receivable	The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated statements of operations. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

is uncollectible, it is written off against the allowance account for trade receivables.	

Financial liabilities

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

Compound financial instruments

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

Derivative financial instruments

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

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

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

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

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

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

Impact of the adoption of IFRS9, 15 and 16.

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

Financial instruments

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

- Trade receivables

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

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

New interpretations and amended standards adopted by the Company

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

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

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

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

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

New standards and interpretations issued but not yet adopted

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

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

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

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

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

Restatement of comparative amounts

Comparative amounts have been restated as follows:

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

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

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

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

Basis of consolidation

Subsidiaries

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

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

Loss of control

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

Business combinations

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

Joint arrangements

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

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

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

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

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

Segment reporting

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

Foreign currency translation

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

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

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

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

Oil and gas exploration and evaluation expenditure

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

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

Farm-out arrangements

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

Test production and the appraisal and development phase

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

Oil and gas properties in the production phase

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

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

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

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

Other property, plant and equipment

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

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

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

Non-current assets held for sale

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

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

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

Impairment of non-financial assets

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

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

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

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

Asset retirement obligation ("ARO")

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

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

Inventories

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

Taxation including deferred taxation

The tax expense represents current tax and deferred tax.

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

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

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

Share–based payments

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

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

Provisions

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

Borrowing costs

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

Restricted cash

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

3 Financial Risk Management

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

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

a) Financial risk factors

Credit risk

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

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

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

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

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

Liquidity risk

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

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

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

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

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

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

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

Market risk

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

Commodity price risk

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

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

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

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

Interest rate risk

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

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

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

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

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

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

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

Foreign exchange risk

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

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

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

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

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

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

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

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

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

b) Capital risk management

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

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

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

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

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

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

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

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

4 Critical judgments and accounting estimates

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

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

Critical accounting estimates and assumptions

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

Recoverability of asset carrying values

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

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

Oil and gas reserves

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

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

Asset retirement obligation

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

Income taxes

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

Other significant areas of judgment

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

Going concern

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

CGU Identification

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

Functional currency

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

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

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

Under-fulfilment of Work Program Commitments

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

5 Discontinued operation and loss of control

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

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

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

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

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

The result from discontinued operation can be summarised as follows:

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

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

6 Segmental Reporting

Geographical segments

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

2018	**Kazakhstan**	**Georgia**	**Corporate**	**Continuing operations**	**Tajikistan[1]**	**Total[2]**
Gas sales	7,740	-	-	7,740	-	7,740
Oil sales	2,584	-	-	2,584	-	2,584
Other income	15	-	-	15	-	15
Other operating income	-	-		-	-	-
Segment revenue and other income	**10,339**	**-**	**-**	**10,339**	**-**	**10,339**
Inter-segment revenue	-	-		-	-	-
Segment revenue and other income from external customers	**-**	**-**	**-**	**10,339**	**-**	**10,339**
Loss before taxation	**281**	**(3,752)**	**(6,075)**	**(9,546)**	**13,876**	**4,330**
Taxation	287	-	(96)	191	-	191
Loss for the year	**568**	**(3,752)**	**(6,171)**	**(9,355)**	**13,876**	**4,521**
Total assets[2]	108,432	-	105,689	214,121	-	108,732
Total liabilities[2]	122,990	-	34,875	157,865	-	52,505
Expenditure on exploration & evaluation assets, property, plant and equipment	2,759	-	-	2,759	-	2,759
Depreciation, depletion & amortisation	4,962	-	6	4,968	-	4,968

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

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

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

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

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

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

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

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

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

7 Sales and other operating revenues

	2018	**2017**
Kazakhstan:		
Gas sales	7,740	4,762
Oil sales	2,584	3,170
Other revenue	15	66
Revenue from continuing operations	**10,339**	**7,998**

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

8 Administrative expenses

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

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

9 Share-based payments

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

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

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

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

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

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

Warrants issued

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

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

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

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

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

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

10 Taxation

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

	2018	2017 Restated[1]
Loss before income taxes from continuing operations	(9,546)	(49,433)
Income tax rate	20%	20%
Expected income tax recovery	**1,909**	**9,887**
Decrease resulting from:		
Non-deductible expenses net of functional currency foreign exchange impact	(184)	(790)
Revisions in tax estimates and foreign exchange impact on tax pools	(4,304)	(732)
Impact of effective tax rates in other foreign jurisdictions	(1,316)	(4,951)
Losses and tax assets not utilised/recognised	4,086	(223)
	191	**3,191**
Current tax expense	(26)	(55)

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

Deferred tax expense	217	3,246
Total	**191**	**3,191**

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

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

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

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

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

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

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

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

11 Earnings/(loss) per share

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

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

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

Basic loss per share is calculated by dividing the loss attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year. Diluted per share information is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Potential dilutive shares, comprising convertible loans, share options and warrants, are currently anti-dilutive as they are out of the money and therefore there is no difference between basic and diluted earnings per share. The number of potential dilutive shares excluded from the calculation is 34,146,294 (2017: 38,962,793). 2017 amounts have been restated for the 10 for 1 share consolidation which took place on November 28, 2018 to be comparable with the 2018 figures.

12 Intangible assets

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

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

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

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

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

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

13 Property, plant and equipment and assets held for sale

13.1 Property, plant and equipment

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

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

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

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

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

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

13.2 Assets held for sale

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

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

14 Trade and other receivables and joint arrangements

14.1 Trade and other receivables

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

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

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

14.2 Joint arrangements

Aral Oil Terminal (Kazakhstan)

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

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

15 Financial liabilities

Borrowings

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

Note 1 - Subject to litigation as described below.

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

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

Rig loans

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

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

Corporate loan financing

On January 16, 2015, the Company announced that it had secured a new $6.0 million unsecured loan facility. The principal was due at the end of two years with interest payments at the rate of 8% per annum being due every 6 months. In connection with the loan financing, the Company issued the lender warrants over the Company’s shares which were surrendered during 2015 for $2.1 million which was added to the principal amount.

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

ALR loans

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

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

(i) extend the maturity dates to January 27, 2020;
(ii) provide that the loans are convertible in whole, or in part, at ALR's option at any time prior to the extended maturity date at a conversion price of $0.031;
(iii) add a covenant that, other than a loan with a bank, the Company may not enter into any new secured loan or amend an existing loan to provide security, unless ALR consents to such loan or is provided with equivalent security; and
(iv) amend the interest rate payable to provide that if the loans are converted, semi-annual interest shall accrue at a rate of 4% per annum payable only at the time of conversion through the issuance of ordinary shares at the $0.031 conversion price, however, if any part of the loans are not converted, but rather repaid at maturity, the interest rate shall be 9%.

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

Unsecured convertible loan facility from AGR Energy No.1

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

Olisol loan

On November 19, 2015, the Company announced that it had entered into an interim convertible financing facility of up to $15 million (the "Interim Financing Facility") with Olisol. The Interim Financing Facility was convertible into Tethys ordinary shares at CDN0.17 per share. The Interim Financing Facility had a maturity date of August 31, 2016 and bears interest at a rate of 9% per annum.

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

On March 2, 2016, the Company announced that it had signed an amendment to the Interim Financing Facility (the "Facility Agreement Amendment") under which Olisol agreed, subject to certain approvals, to convert all but $1 million of the outstanding amount of principal and accrued interest under the Interim Financing Facility (approximately $6.25 million) into ordinary shares at a price of $0.10 per share. On March 21, 2016, Olisol converted $3.7 million of the outstanding amount into 37,440,042 shares. On April 15, 2016, Olisol converted a further $2.6 million of the outstanding amount into 25,604,419 shares.

On April 28, 2016, the Company and Olisol signed the Amended and Restated Investment Agreement. Olisol was obliged under the legally binding terms of the Amended and Restated Investment Agreement to continue to provide Tethys with amounts reasonably requested by Tethys to fund working capital requirements during the period ending on the latest of (i) the completion of the TAG Loan and (ii) the occurrence of the Closing Date. Olisol undertook to work with Tethys and a Kazakh bank to obtain a bank loan of not less than $10 million for TAG (the "TAG Loan"), however, Olisol did not complete the TAG Loan.

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

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

16 Trade and other payables

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

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

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

17 Asset retirement obligations

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

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

18 Capital and reserves

Share capital and share premium

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

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

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

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

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

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

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

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

Other reserves

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

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

19 Related party transactions

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

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

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

Pope Asset Management and Annuity and Life Reassurance Ltd

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

Remuneration of key management personnel

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

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

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

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

20 Notes to the Consolidated Statements of Cash Flow

20.1 Changes in working capital

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

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

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

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

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

21 Commitments and contingencies

Litigation, claims and assessments

The Company is involved in claims and actions arising in the course of the Company's operations and is subject to various legal actions and exposures, including potential environmental claims and tax positions taken by the Company. Although the outcome of these claims cannot be predicted with certainty, the Company does not expect these matters to have a material adverse effect on the Company's financial position, cash flows or results of operations. If an unfavourable outcome were to occur, there exists the possibility of a material adverse impact on the Company's consolidated net earnings or loss in the period in which the outcome is determined. Accruals for litigation, claims and assessments are recognised if the Company determines that the loss is probable and the amount can be reasonably estimated. The Company believes it has made adequate provision for such claims. While fully supportable in the Company's view, some of these positions, including uncertain tax positions, if challenged may not be fully sustained on review.

Kazakhstan

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

General background

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

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

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

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

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

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

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

Akkulka Exploration License and Contract and Akkulka Production Contract

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

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

Kul-Bas Exploration and Production Contract

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

Pledge of TAG Assets to Special Financial Company DSFK LLP

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

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

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

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

Tajikistan

In May 2016, the Company's subsidiary Kulob Petroleum Limited ("Kulob") was notified by Total E&P Tajikistan B.V. ("Total") that it had been required to pay the equivalent of $5.0 million to the tax authorities in Tajikistan in relation to the farm-out of part of the Company's interest to Total in 2013. Total was seeking to have the Kulob indemnify it for these taxes under the terms of the farm-out agreement. Kulob disagreed with Total's interpretation of the farm-out agreement or that it is liable to indemnify Total for these taxes. No similar claim has been received from CNPC although the terms of the farm-out with CNPC were the same for Total and CNPC.

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

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

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

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

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

22 Subsequent events

Definitive Agreement for Acquisition of Control

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

1. Proposed Transaction Structure

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

2. Consideration

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

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

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

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

(d) retain all of its Ordinary Shares.

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

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

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

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

3. Stock Market Listing

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

4. Management and the Board

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

5. Definitive Agreement

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

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

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

6. Approval of the Proposed Transaction

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

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

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

Pledge of TAG Assets to Special Financial Company DSFK LLP

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

Tethys Petroleum Limited

Management's Discussion and Analysis
for the year ended December 31, 2018

Contents

The following MD&A is dated April 30, 2019 and should be read in conjunction with the Company's audited Consolidated Financial Statements and related notes for the year ended December 31, 2018. 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.tethys-group.com*.

Readers should also read the "Forward-Looking Statements" legal advisory wording contained at the end of this MD&A.

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. 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, KY1-9005, 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"). The Company is also listed on the Kazakhstan Stock Exchange ("KASE").

Financial highlights

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

	Twelve months ended December 31				
	2018	2017 Restated[1]	Change	2016 Restated[1]	Change
Oil and gas sales and other revenues	10,339	7,998	29%	11,734	(32%)
Loss for the period					
– continuing operations	(9,355)	(46,242)	(80%)	(23,113)	100%
– discontinued operations	13,876	(1,234)	(1224%)	(23,737)	(95%)
	4,521	(47,476)	(110%)	(46,850)	1%
Basic and diluted loss ($) per share					
– continuing operations	(0.17)	(0.91)	(81%)	(0.60)	52%
– discontinued operations	0.21	(0.02)	(1150%)	(0.50)	(96%)
	0.04	(0.93)	(104%)	(1.10)	(15%)
Adjusted EBITDA[2]	4,515	(2,073)	(318%)	(3,253)	(36%)

	As at 31 December				
	2018	2017	Change	2016	Change
Total assets	108,732	116,923	(7%)	159,904	(27%)
Cash & cash equivalents	3,460	77	4394%	449	(83%)
Short & long term borrowings	33,885	31,588	7%	33,249	(5%)
Total non-current liabilities	14,897	13,737	8%	12,867	7%
Net debt[2]	30,425	31,511	(3%)	32,800	(4%)
Number of ordinary shares outstanding[3]	68,324,512	50,813,609	34%	50,813,609	0%

Note 1 - 2017 and 2016 figures have been restated to exclude the Tajikistan operations discontinued during 2018, and also as described in note 1 to the consolidated financial statements.

Note 2 - Adjusted EBITDA and net debt are non-GAAP Measures, refer to page 22 for details.

Note 3 - After 10 for 1 share consolidation on November 28, 2018, prior year amounts restated to be comparable.

Twelve months 2018 versus twelve months in 2017

- Oil and gas sales and other revenues increased by 29% to $10.3 million from $8.0 million due to significantly higher oil and gas prices received from September 1, 2018. Gas revenues increased to $7.7 million from $4.8 million due to the higher gas prices and marginally higher gas production from the addition of new wells which more than offset the decline in production from existing wells. Oil revenues decreased to $2.6 million from $3.2 million despite the higher oil prices as a result of a steep decline in oil production which was in line with expectations following the installation of a pump in the only oil producing well in May 2017 as it nears the end of its producing life;
- The profit for 2018 of $4.5 million was higher than the loss of $47.5 million in 2017 due to the higher oil and gas revenues, lower depletion charges from the lower oil production and lower operating and general and administrative costs. The 2017 result also included a loss of $4.8 million from the revaluation of two drilling rigs which were held for sale. The sale completed during 2018 resulting in a positive adjustment of $0.4 million. There was a $0.2 million deferred tax credit in 2018 compared with a credit of $3.2 million in 2017. Exploration & evaluation expenditure written off and oil & gas asset impairment charges were lower totaling $3.8 million in 2018 compared with $24.9 million in 2017. The loss for the period includes a profit from the

Financial highlights

Tajikistan business segment of $13.9 million (2017: $1.2 million loss) which has been classified as a discontinued operation.

- Adjusted EBITDA was $4.5 million, a significant improvement from the negative $2.1 million in 2017. This reflects the increase in gas revenues from higher prices and the reduced cost base of the business. This improvement is expected to continue into 2019;
- Total assets reduced to $108.7 million from $116.9 million mainly due to exploration & evaluation asset write-offs, depletion charges and a reduction in the drilling rig assets held for sale. These movements were offset by a $3.4 million increase in cash;
- Short & long term borrowings increased to $33.9 million from $31.6 million. This includes a $3.0 million reduction from repayment of rig loans offset by accrued interest on other loans, including default interest on the loans which are past due. Other than the rig loans there were no loan repayments made during the year;
- Net debt reduced by 3% to $30.4 million which includes the increase in short & long term borrowings offset by the increase in cash;
- The number of ordinary shares at the end of 2018 was 68.3 million (2017: 50.8 million). Private placements completed in September and the exercise of warrants added 17.5 million shares for approximately $4.1 million in cash and shareholders approved a 10 for 1 share consolidation on November 28, 2018 which was a requirement of the NEX.

Twelve months 2017 versus twelve months in 2016

- Oil and gas sales and other revenues decreased by 32% to $8.0m from $11.7m 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 2017 of $47.5m was lower than the loss of $46.9m in 2016 due to lower costs which more than offset the reduction in revenues and a deferred tax credit for 2017 compared with a charge in the 2016. In addition, revaluation of the two drilling held for sale resulted in a loss of $4.8m in 2017, exploration & evaluation expenditure written down was $10.2m (2016: $25.6m) and oil & gas asset impairment charges were $15.3m (2016: $1.2m).
- Adjusted EBITDA at negative $2.1m improved by 36% from negative $3.3m for 2016 as a result of reduced costs which more than offset the reduction in revenue;
- Net debt reduced by 4% to $31.5 million from $32.8m reflecting repayments of borrowings offset by accrued interest on existing loans;
- Total non-current liabilities increased from $12.9m to $13.7m 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 $159.9m to $116.9m due mainly to depreciation, depletion and amortisation of oil and gas assets of $11.0m, 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 2018	2017	Change	Twelve months ended December 31 2018	2017	Change
Kazakhstan							
Oil	bopd	250	1,327	(81%)	526	1,156	(55%)
Gas	boe/d	1,908	1,770	8%	1,959	1,932	1%
Total	**boe/d**	**2,158**	**3,097**	**(30%)**	**2,485**	**3,088**	**(19%)**
Oil							
Production	Bbls	23,032	122,072	(81%)	191,912	421,983	(55%)
Oil revenue	$'000	691	887	(22%)	2,584	3,170	(18%)
Production costs	$'000	479	801	(40%)	2,401	2,523	(5%)
Gross margin	**$'000**	**212**	**86**	**147%**	**183**	**647**	**(72%)**
Oil sales price net	$/bbl	34.47	7.54	357%	14.05	7.66	83%
Cost	$/bbl	20.80	6.56	217%	12.51	5.98	109%
Gross margin	**$/bbl**	**13.67**	**0.98**	**1295%**	**1.54**	**1.68**	**(8%)**
Gas							
Production	Mcm	29,825	27,664	8%	121,537	119,838	1%
Gas revenue net	$'000	3,203	1,160	176%	7,740	4,762	63%
Production costs	$'000	636	573	11%	1,881	1,930	3%
Gross margin	**$'000**	**2,567**	**587**	**337%**	**5,859**	**2,832**	**107%**
Gas sales price net	$/Mcm	109.35	42.72	156%	64.79	40.42	60%
Cost	$/Mcm	21.32	20.71	3%	15.48	16.11	(4%)
Gross margin	**$/Mcm**	**88.03**	**22.01**	**300%**	**49.31**	**24.31**	**103%**

Oil

- Oil production in Q4 2018 averaged 250 bopd compared with 1,327 bopd in Q4 2017 and 526 bopd for 2018 compared with 1,156 bopd in 2017, reflecting a rapid decline in production after an ESP was installed in early May 2017 to maximise production from the AKD-01 well over its remaining life which is now nearing an end;
- Oil production cost per barrel in Q4 2018 was $20.80 compared with US6.56 in Q4 2017 and was $12.51 in 2018 compared with $5.98 in 2017. The increase reflects the lower levels of production and a significant element of fixed costs;
- Oil prices averaged $34.47 in the quarter compared with $7.54/bbl in Q4 2017, an increase of 357% and $14.05 in 2018 compared with $7.66 in 2017, reflecting higher market prices and re-marketing after the end of a fixed price contract.

Gas

- Q4 2018 gross gas production averaged 1,908 boe/d compared with 1,770 boe/d in Q4 2017 and 2018 gross gas production averaged 1,959 boe/d compared with 1,932 boe/d in 2017, reflecting a natural decline in overall production compensated for by production from the new wells which came on-line in January 2018;
- Gas production cost per Mcm in Q4 2018 increased to $21.32 compared with $20.71 in Q4 2017 and for 2018, decreased to $15.48 compared with $16.11 in 2017, reflecting timing of recognition of some costs for the quarter and lower costs in 2018 whereas production for the year was constant;
- Gas was sold at a net average price equivalent to $109.35 per Mcm for the quarter compared with $42.72 in Q4 2017 and $64.79 per Mcm for 2018 compared with $40.42 in 2017. The increases reflect a significantly improved price from September 1, 2018 representing an increase of 283% in the local currency price.

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 26 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 Kazakhstan.

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:

- Complete the proposed change of control transaction with Jaka Partners FZC, as more particularly described on page 9;
- Maintain the improved oil and gas pricing received since September 2018 and work to improve prices further during 2019;
- Ensure continuity of gas production operations and optimise production volumes by completing the upgrade of the gas compression facility;
- Retain exploration & production contracts by fulfilling work program obligations including successfully drilling new oil wells in the Akkulka and Kul-bas contract areas; and
- Formalise repayment terms for overdue debts to lenders and suppliers.

Significant events and transactions for the year

- *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 met the continued listing requirements of the TSX and would not be able to continue with its listing on the TSX after February 23, 2018 which was subsequently extended 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 the Company's subsidiary Tethys Aral Gas LLP ("TAG") by reversing the earlier court rulings and dismissing Eurasia Gas Group's ("EGG") claims for damages arising from the alleged breach of an oil sales agreement.

- *Change 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 the appointment of Samuel Barrows as Interim Chief Executive Officer.

  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 Former 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 would take all measures to recover the debt from EGG, including but not limited to court collateral collection of TAG's pledged assets.

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

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

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

- *Restructuring of Interests in Georgia*

In June 2018, Tethys and its partner in Georgia, Georgia Oil & Gas, agreed to a restructuring of their respective interests in the Georgian assets whereby Tethys' indebtedness of approximately $1.6 million and its funding obligations for the 2018 operating budget were satisfied by reducing its economic interest in Blocks XI^M and XI^N blocks to 19%. The work program for 2018 involved reprocessing and interpretation of 500km of 2D seismic data and 225km of geological survey work.

The Company has no current plans to make further funds available for the Georgian interests and all exploration assets have been impaired to nil in the current year.

- *Cease Trade Order*

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

The CTO was issued because the Company had not timely filed its audited financial statements, CEO and CFO certifications, and management's discussion & analysis for the year ended December 31, 2017 and its interim financial statements, CEO and CFO certifications, and management's discussion and analysis for the three month period ended March 31, 2018.

On September 7, 2018 the ASC issued a Revocation Order in respect of its previously issued CTO after Tethys brought its filings up to date. Trading in Tethys ordinary shares recommenced on September 19, 2018.

- *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 $1.2 million and warrants to acquire up to a further 63,517,017 ordinary shares for total proceeds of up to $1.4 million. The transactions were subject to approval by the NEX and other regulatory approvals.

On September 6, 2018 the Company announced the share acquisitions had completed. The total proceeds received by Tethys was $1.1 million, rather than the previously announced $1.2m, following a change required by the NEX although the proceeds received on exercise of the warrants increased to $1.5 million.

Mr. Abay Amirkhanov was appointed to the Board of Directors of the Company following completion of the share acquisitions on September 6, 2019.

On September 21, 2018 the Company announced that all of the abovementioned warrants were exercised with the proceeds received by Tethys amounting to approximately $1.5 million.

- *Oil & Gas License Extensions*

On July 18, 2018 the Company announced extensions of two of its oil and gas licenses in Kazakhstan.

Contract No. 3496 for gas production in the Akkulka Field was extended for a further eight years until December 23, 2026 and the related work program for the period 2019-2026 was 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 Receives a Further $1.5 million for Warrants*

On October 31, 2018 the Company announced that Jaka Partners FZC had exercised 48,075,000 share purchase warrants purchased from Global Invest Service Capital at $0.031 per ordinary share with proceeds received by Tethys amounting to approximately $1.5 million. Jaka Partners FZC now owns approximately 18.7% of the ordinary shares of the enlarged share capital of the Company.

- *Share Consolidation*

On December 17, 2018 the Company announced that pursuant to a special resolution passed by shareholders on November 28, 2018, the Company had consolidated its ordinary shares on a ten

(10) for one (1) basis. Effective at the opening of trading on Friday, December 21, 2018, the ordinary shares of Tethys commenced trading on NEX on a consolidated basis.

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

- *Definitive Agreement for Acquisition of Control*

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

1. Proposed Transaction Structure

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

2. Consideration

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

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

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

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

(d) retain all of its Ordinary Shares.

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

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

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

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

3. Stock Market Listing

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

4. Management and the Board

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

5. Definitive Agreement

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

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

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

6. Approval of the Proposed Transaction

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

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

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

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 8.12 million BOE (2017: 9.22 million BOE) and "Proved and Probable" 2P reserves of 17.07 million BOE (2017: 17.95 million BOE).

The net present value after tax of the Company's 2P Kazakh reserves as at December 31, 2018 was $113.8 million (2017: $99.2 million) based on a 10% discount rate.

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.

Both oil and gas reserves are based on availability of sufficient funding to allow development of the known accumulations.

Results of Operations and Operational Review - Kazakhstan

Oil production – Akkulka Contract

	2018					2017				
	Gross fluid		Net	Net production		Gross fluid		Net	Net production	
	m3	barrels	barrels	days	bopd	m3	barrels	barrels	days	bopd
Q1	52,034	327,285	79,217	90	880	17,701	111,336	61,418	90	682
Q2	47,420	298,261	55,831	91	614	21,334	134,186	68,469	91	752
Q3	44,465	279,673	33,832	92	368	62,435	392,703	170,024	92	1,848
Q4	45,698	287,430	23,032	92	250	59,356	373,341	122,072	92	1,327
Total	**189,617**	**1,192,649**	**191,912**	**365**	**526**	**160,826**	**1,011,566**	**421,983**	**365**	**1,156**

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 250 bopd in Q4 2018 (Q4 2017: 1,327 bopd) and

526 bopd for 2018 (2017: 1,156 bopd) from AKD01. The well has been producing with an ESP installed in May 2017 with an approximate 92% water-cut for Q4 2018 and this has been increasing as the well approaches the end of its life.

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 was evaluated by Schlumberger in 2017, which conducted a hydrodynamic study of the Jurassic Carbonates and a geomechanics study.

The Company has reviewed its development plans for the next five years. Following the contract extensions through to March 2022 announced in July 2018 the priority will be to conduct the works required to fulfil the work programs and maintain and the licence and subject to funding, these works would include the drilling of three new deep wells AKD12, 13 and 14. The Company is currently re-entering and testing the nearby AKD03 well which was drilled by Tethys in 2011 but at that time work was suspended due to technical issues. It is anticipated that the AKD03 work will provide information useful in determining the best locations and chance of success for the new wells.

Depending on the success of those wells it may be possible to apply for a full commercial production licence in future if production reaches commercial levels and the necessary infrastructure is put in place such as a gas utilisation facility for associated gas and transportation. A commercial production licence would enable a percentage (possibly around 75%) of oil to be exported and higher prices to be realised than on the internal market where the Company is currently required to sell its production under its pilot production license.

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 since late 2016 through to late 2018 was not transhipped via the AOT although has recently resumed. The Company is considering its options with regard to disposing of its interest in the terminal.

Gas production – Kyzyloi and Akkulka Contracts

	2018				2017			
	Mcm	Mcf	Mcm/d	Boe/d	Mcm	Mcf	Mcm/d	Boe/d
Kyzyloi								
Q1	13,512	477,103	150	884	17,370	613,325	193	1,136
Q2	17,057	602,295	187	1,103	19,327	682,427	212	1,250
Q3	16,219	572,676	176	1,038	16,400	579,068	178	1,049
Q4	16,064	567,236	175	1,028	15,737	555,698	171	1,007
Total	**62,852**	**2,219,310**	**172**	**1,013**	**68,834**	**2,430,518**	**189**	**1,110**
Akkulka								
Q1	15,317	540,827	170	1,002	14,651	517,319	163	958
Q2	14,200	501,397	156	918	13,199	466,067	145	854
Q3	15,407	544,022	167	986	11,227	396,428	122	718
Q4	13,761	485,908	150	880	11,927	421,142	130	763
Total	**58,685**	**2,072,154**	**161**	**946**	**51,004**	**1,800,956**	**139**	**822**
Grand total	**121,537**	**4,291,464**	**333**	**1,959**	**119,838**	**4,231,474**	**328**	**1,932**

Gas operations update

Gas production increased by 1% to 333 Mcm per day in 2018 and increased by 8% to 325 Mcm per day in Q4 2018 compared with Q4 2017 reflecting the natural decline in production from existing wells offset by the increase in production from the new wells which came on line in January 2018.

During the period, the Company produced dry gas from a total of 16 wells at a depth of approximately 480-600m below surface, comprising ten producing wells in the Kyzyloi field and six in the Akkulka.

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.

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. 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 was 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 were furthest from the Company's existing pipelines, were connected in December 2018 and January 2019 resulting average in production of over 400 Mcm per day in February.

There has been a longstanding need for repairs and parts replacement of parts at the compressor station to increase capacity. There are five compressors at the compressor station of which three are operating 24 hours a day at any one time. An offsite overhaul of Engine No. 3 was completed in Q1 2019. In addition, eight new cylinders were installed in January 2019 and a further four new cylinders in late March 2019. Together these works will ensure improved overall efficiency of gas production and continuity of operations should issues arise with one of the compressors.

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 Cretaceous and Upper Jurassic. State approval for the Klymene exploration well drill project and associated emissions are in place. 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 seismicy acquired and interpreted.

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 was the final stage in the extension of the contract. The Company plans to drill this well in 2019, subject to having the funding in place to cover the drilling cost.

Results of Operations and Operational Review - Tajikistan

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

In view of the circumstances described above, the results of the Tajikistan segment have been disclosed as a discontinued operation and shown separately from the results of the Company’s continuing operations. In accordance with the disclosure requirements for discontinued operations, the comparative figures in the Income Statement have been restated to be consistent with the current year presentation.

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

Results of Operations and Operational Review - Georgia

In June 2018, Tethys and its partner in Georgia, Georgia Oil & Gas, agreed to a restructuring of their respective interests in the Georgian assets whereby Tethys’ indebtedness of approximately $1.6 million and its funding obligations for the 2018 operating budget were satisfied by reducing its economic interest in Blocks XI^M and XI^N blocks to 19%. The work program for 2018 involved reprocessing and interpretation of 500km of 2D seismic data and 225km of geological survey work. The Company is not planning to commit significant funding to Georgia in 2019 and is considering its options with regard its interest. The value of capitalised exploration and evaluation expenditure was written off during the year.

Financial Review

Summary of Quarterly Results

	Q4, 2018	Q3, 2018	Q2, 2018	Q1, 2018	Q4, 2017	Q3, 2017	Q2, 2017	Q1, 2017
Oil & gas sales and other revenues	3,895	2,511	2,017	1,916	2,070	2,593	2,855	480
Profit/(loss) for the period	11,074	(324)	(1,895)	(4,334)	(36,302)	(2,879)	(3,905)	(4,390)
Earnings/(loss) per share ($):	0.18	(0.01)	(0.04)	(0.09)	(0.70)	(0.06)	(0.08)	(0.09)
Adjusted EBITDA	2,945	1,734	529	(382)	(2,216)	1,735	(175)	(1,412)
Capital expenditure	2,759	93	365	797	3,705	465	109	999
Total assets	108,732	112,251	113,622	115,679	116,923	149,076	153,901	156,298
Cash & cash equivalents	3,460	2,800	467	29	77	186	817	69
Short & long term borrowings	(33,885)	(32,851)	(32,103)	(33,829)	(31,588)	(32,520)	(33,739)	(33,460)
Total non-current liabilities	(14,897)	(14,247)	(14,359)	(14,784)	(13,737)	(18,051)	(18,929)	(19,053)
Net debt[1]	(30,425)	(30,051)	(31,636)	(33,800)	(31,511)	(32,334)	(32,922)	(33,391)
Number of common shares outstanding	68,324,512	63,517,013	50,813,609	50,813,609	50,813,609	50,813,609	50,813,609	50,813,609

Note 1 - Adjusted EBITDA and net debt are non-GAAP Measures, refer to page 22 for details.

Note 2 – Comparative amounts have been restated to exclude the Tajikistan operations discontinued during 2018 as well as the items disclosed in note 1 to the consolidated financial statements and the 10 for 1 share consolidation which took place on November 28, 2018.

Q4, 2018 versus Q4, 2017

- Oil and gas sales and other revenues increased to $3.9 million from $2.1 million due to significantly higher oil and gas prices received from September 1, 2018. Gas revenues increased to $3.2 million from $1.2 million due to the higher gas prices and higher gas production from the addition of new wells which more than offset the decline in production from existing wells. Oil revenues decreased to $0.7 million from $0.9 million despite the higher oil prices as a result of a steep decline in oil production which was in line with expectations following the installation of a pump in the only oil producing well in May 2017 as it nears the end of its producing life;
- The profit for Q4 2018 of $11.1 million was a significant improvement on the loss of $36.3 million in 2017 due to the higher oil and gas revenues, lower depletion charges from the lower oil production and lower operating and general and administrative costs. The 2017 result also included a loss of $4.8 million from the revaluation of two drilling rigs which were held for sale. There was a $1.0 million deferred tax charge in 2018 compared with a credit of $2.7 million in 2017. Exploration & evaluation expenditure written off and oil & gas asset impairment charges were $3.8 million in 2018 and $24.9 million in 2017. The loss for the period includes a profit from the Tajikistan business segment of $13.9 million (2017: $1.2 million loss) which has been classified as a discontinued operation;
- Adjusted EBITDA was $2.9 million, a significant improvement from the negative $2.2 million in 2017. This reflects the increase in gas revenues from higher prices and the reduced cost base of the business. This improvement is expected to continue into 2019;
- Total assets reduced to $108.7 million from $116.9 million mainly due to exploration & evaluation asset write-offs, depletion charges and a reduction in the drilling rig assets held for sale. These movements were offset by a $3.4 million increase in cash;
- Short & long term borrowings increased to $33.9 million from $31.6 million. This includes a $3.0 million reduction from repayment of rig loans offset by accrued interest on other loans, including

default interest on the loans which are past due. Other than the rig loans there were no loan repayments made during the year;

- Net debt reduced by 3% to $30.4 million which includes the increase in short & long term borrowings offset by the increase in cash;
- The number of ordinary shares at the end of 2018 was 68.3 million (2017: 50.8 million). Private placements completed in September and the exercise of warrants added 17.5 million shares for approximately $4.1 million in cash and shareholders approved a 10 for 1 share consolidation on November 28, 2018 which was a requirement of the NEX.

Loss for the period

	Quarter ended December 31			Twelve months ended December 31		
	2018	**2017 Restated[1]**	**Change**	**2018**	**2017 Restated[1]**	**Change**
Sales and other revenue	3,895	2,070	88%	10,339	7,998	29%
Sales expenses	-	(919)	(100%)	-	-	-
Production expenses	(489)	(1,459)	(66%)	(3,667)	(4,571)	(20%)
Depreciation, depletion & amortisation	891	(2,753)	(132%)	(4,968)	(10,978)	(55%)
Exploration & evaluation expenditure written off	(3,752)	(9,610)	(61%)	(3,752)	(9,610)	(61%)
Impairment charges	-	(15,259)	(100%)	-	(15,259)	(100%)
Administrative expenses	(136)	(1,658)	(92%)	(2,322)	(5,233)	(56%)
Restructuring costs	-	21	(100%)	-	(83)	(100%)
Share based payments	(13)	(50)	(74%)	(57)	(208)	(73%)
(Loss)/gain on revaluation of assets held for sale	-	(4,827)	(100%)	419	(4,827)	(109%)
Other gains and losses	(883)	(275)	221%	(883)	(275)	221%
Foreign exchange (loss)/gain	(325)	(275)	18%	165	(184)	(190%)
Finance costs	(999)	(2,801)	(64%)	(4,820)	(6,203)	(22%)
	(5,706)	(39,865)	(86%)	(19,885)	(57,431)	(65%)
Loss before taxation	**(1,811)**	**(37,795)**	**(95%)**	**(9,546)**	**(49,433)**	**(81%)**
Taxation	(1,028)	2,696	(92%)	191	3,191	(94%)
Loss for the period from continuing operations	**(2,839)**	**(35,099)**	**(92%)**	**(9,355)**	**(46,242)**	**(80%)**
Loss for the period from discontinued operations net of tax	**13,913**	**(1,203)**	**(1256%)**	**13,876**	**(1,234)**	**(1224%)**
Loss for the period	**11,074**	**(36,302)**	**(131%)**	**4,521**	**(47,476)**	**(110%)**

Note 1 - 2017 figures have been restated to exclude the Tajikistan operations discontinued during 2018 and also for the amounts disclosed in note 1 to the consolidated financial statements.

Financial Review - continued

The Company recorded a net profit after taxation of $11.1 million for Q4 2018 compared with a $36.3 loss million in Q4 2017 and profit of $4.5 million for 2018 (2017: $47.5 million), the principal variances being:

- Higher gas revenue in the quarter and 2018 due to significantly improved pricing from September 1, 2018 offset by lower oil revenue due to lower production from the AKD-01 well at it nears the end of its producing life;
- Lower production and administrative expenses in 2018 from further cost cutting as well as a release of prior year accruals for other taxes no longer required;
- Lower depreciation, depletion and amortization charges following the reclassification of the Company's drilling rigs to assets held for sale and lower oil production;
- Lower write off of exploration and evaluation expenditure and impairment of oil & gas assets;
- A lower deferred tax credit from reassessment of the value of tax losses and tax pools; and
- A gain on arising on the deconsolidation of the assets and liabilities of the Tajikistan segment due to the companies concerned no longer being controlled by the Company.

Further variances between the periods are discussed below.

Sales & other revenue

	Quarter ended December 31			Twelve months ended December 31		
	2018	**2017**	**Change**	**2018**	**2017**	**Change**
By region and type						
Kazakhstan - Oil	691	887	(22%)	2,584	3,170	(18%)
Kazakhstan - Gas	3,203	1,160	176%	7,740	4,762	63%
Kazakhstan - Other	1	23	(96%)	15	66	(77%)
Total	**3,895**	**2,070**	**88%**	**10,339**	**7,998**	**29%**

Kazakhstan – Oil revenue and price

	Gross sales bbls	Gross sales $000	Realized price at wellhead $/bbl	VAT $000	Revenue $000	Net price $/bbl
2018						
Q1	74,850	734	9.80	79	655	8.75
Q2	57,389	762	13.28	82	680	11.85
Q3	31,688	625	19.69	67	558	17.61
Q4	20,046	773	38.56	82	691	34.47
Total	**183,973**	**2,894**	**15.73**	**310**	**2,584**	**14.05**
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**

Financial Review - continued

- Under the pilot production licence oil can only be sold in the domestic Kazakhstan market and is priced in local currency, the Tenge;
- Sale price is determined at the wellhead where the oil is sold and therefore the Company incurs no transportation or marketing costs;
- Q4 2018 revenue benefited from a higher realised price of $34.47/bbl (Q4 2017: $7.54/bbl) and for 2018 an average realised sales price of $14.05/bbl (2017: $7.66/bbl) but this was more than offset by lower production from the AKD01 which has declined significantly since an ESP was installed in May 2017 and as the well nears the end of its producing life.

Kazakhstan - Gas revenue and price

- Q4 2018 gas revenues were 176% higher due to higher production, which was up by 8% following new wells coming on line in January 2018 and a significantly higher gas price from September 1, 2018, representing an increase of 283% from the previous local currency price. 2018 gas revenues were 63% higher mainly to the higher price as gas production was only 1% higher.
- Gas production was sold throughout 2017 at a fixed Tenge price of KZT 16,000 per 1,000 cubic metres, including 12% VAT and up to the end of August 2018. From September 1, 2018 a significantly improved price of KZT 45,333 per 1,000 cubic metres has been received, representing an increase of 283%;
- Gas contracts are subject to exchange rate risk – refer to page 25 – "*Sensitivities*".

Production expenses

		Quarter ended December 31			Twelve months ended December 31		
	Units	**2018**	**2017**	**Change**	**2018**	**2017**	**Change**
Kazakhstan							
Oil production	$000's	479	801	(40%)	2,401	2,523	(5%)
Gas production	$000's	636	573	11%	1,881	1,930	(3%)
Other	$000's	(626)	85	(836%)	(615)	118	(621%)
Total	**$000's**	**489**	**1,459**	**(66%)**	**3,667**	**4,571**	**(20%)**
Oil							
Net production	bbls	23,032	122,072	(81%)	191,912	421,983	(55%)
Cost	$/bbl	20.80	6.56	217%	12.51	5.98	109%
Gas							
Production	boe	175,535	162,813	8%	715,289	705,291	1%
Cost	$/boe	3.62	3.52	3%	2.63	2.74	(4%)
Weighted average cost per boe	$/boe	5.62	4.82	17%	4.72	3.95	19%

Kazakhstan – oil production

A significant proportion of costs associated with oil production are fixed, so costs are not generally expected to reduce in the same proportion as a decline in production. Oil production costs were 40% lower for the quarter reflecting significantly lower production as the producing well AKD01 nears the end of its producing life but were only 5% lower in 2018 mostly due to costs associated with running the ESP which was installed on May 2017. Due to the 81% reduction in production volume for the quarter and 55% for 2018 the per barrel cost of production increased significantly to $20.80/bbl in Q4 2018 (Q4 2017: $6.56) and $12.51/bbl in 2018 (2017: $5.98).

Kazakhstan – gas production

Gas production costs increased in Q4 2018 by 3% mainly due to provision made for old and slow moving inventory and for 2018 decreased by 4%, partly due to a weakening of the Kazakhstan Tenge. Gas production, generally more so than the oil, has a significant fixed cost element (e.g. cost of production personnel) and consequently, as production increases, the production cost per Mcm (or boe) generally decreases.

Other production expenses

In Q4 2018, the company released accruals it made several years ago for estimated production tax which are no longer considered to be required. The resulting in credit of $0.6 million in Q4 2018 has been shown separately from oil and gas production expenses as 'Other production expenses'. Other production expenses in 2017 comprised accrued penalties for non-fulfilment of work programs.

Depreciation, depletion and amortization (DD&A)

DD&A for the quarter was a credit of $0.9 million (2017: $2.8 million cost) reflecting a revised estimate and for 2018 was $5.0 million (2017: $11.0 million) mainly relating to the Kazakh production assets but also on oil and gas equipment in 2017. The decrease in DD&A expense mainly reflects lower depreciation of drilling rigs which were classified as held for sale from November 2017 until July 2018 and the lower oil production.

Administrative expenses

	Quarter ended December 31			**Twelve months ended December 31**		
	2018	**2017**	**Change**	**2018**	**2017**	**Change**
Staff	353	694	(49%)	1,904	2,275	(16%)
Non-executive director fees	17	64	(73%)	212	203	4%
Professional fees	12	322	(96%)	286	1,389	(79%)
Other taxes and fees	(160)	190	(184%)	(274)	231	(337%)
Other administrative expenses	(86)	388	(122%)	194	1,135	(83%)
Total	**136**	**1,658**	**(92%)**	**2,322**	**5,233**	**(56%)**
G&A expenses per boe ($)	0.68	5.81	(88%)	2.56	4.64	(45%)

- Staff costs decreased by 51% in the quarter and 16% for 2018 as a result of headcount and salary reductions;
- The fees paid to each non-executive director fees did not change during 2018 or 2017 but are set in Pounds Sterling so there is a currency translation variance. In addition, Mr. Abay Amirkhanov was appointed to the Board on September 6, 2018. Mr. Mattias Sjoborg became an Executive Director from July 9, 2018 and the fees paid to him in that role have been shown as staff costs;
- Professional fees reduced mainly due to lower legal fees with a number of legal cases having been concluded or in abeyance;
- Other administrative costs include, marketing costs which include mandatory corporate social responsibility obligations in Kazakhstan, investor relations costs, bank charges, vehicles costs in Kazakhstan and insurance costs. These were lower in the quarter and for the year due to lower activity levels and the release of some accruals no longer required.

Financial Review - continued

Share based payments

Share based payments were lower in Q4 2018 and for the year as 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. These have mainly arisen in Kazakhstan where $ and Kazakhstan Tenge are used and from the revaluation of the GBP denominated rig loans which were repaid in May 2018.

Finance costs - net

Finance costs comprise interest expense net of interest income. Interest income was minimal and interest expense arises from the Company's borrowings. Finance costs were significantly lower for the quarter reflecting under accruals which corrected in Q4 2017. For 2018 finance costs were 22% lower. This is a combination lower interest charges after the rig loans were repaid in May and higher interest accruing on two of the loans which fell due during 2017 and where default interest rates apply.

Taxation

The deferred tax credit was lower in Q4 2018 and for the year mainly due to property, plant & equipment timing differences for accounting and tax purposes.

Liquidity and Capital Resources

The Company reported a loss of $4.5 million for the year ended December 31, 2018 (2017: $47.5 million) and an accumulated deficit as at that date of $356.9 million (December 31, 2017: $359.3 million) and negative working capital of $30.9 million (December 31, 2017: negative $51.3 million). In addition, the Company reported cash flow from operating activities before tax of $1.0 million for the year ended December 31, 2018 (2017: $1.3 million).

The Company also has various commitments and contingencies as described in note 21 of the 2018 consolidated financial statements. These include work program commitments for its oil & gas licenses which have not 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, we will need to:

- Complete the proposed change of control transaction with Jaka Partners FZC, as more particularly described on page 8;

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

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

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

Financial Review - continued

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

Some of the Company's loans were restructured during 2017 and the rig loans were repaid in full during 2018, however, other loans and amounts due to suppliers are past due and there is a risk that lenders or suppliers could take recovery action against the Company. Further details of loans are provided in note 15 of the consolidated financial statements.

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

Tethys' future operations and earnings will depend upon the success of these efforts and the results of its operations in the Republic of Kazakhstan.

Financing and Going Concern

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

Cash Flow

	Quarter ended December 31			Twelve months ended December 31		
	2018	**2017**	**Change**	**2018**	**2017**	**Change**
Net cash from operating activities	**624**	**983**	**(46%)**	**979**	**1,314**	**(25%)**
Capital expenditure	(1,504)	(3,705)	(59%)	(2,759)	(5,278)	(48%)
Net changes in working capital	(448)	4,629	(110%)	(151)	4,562	(103%)
Other investing cash flows	(98)	(81)	(1%)	4,084	5,185	(21%)
Net cash (used in)/from investing activities	**(2,050)**	**843**	**(342%)**	**1,174**	**4,469**	**(74%)**
Loan principal and interest payments	-	(2,106)	(100%)	(3,261)	(5,744)	(43%)
Proceeds from equity, net of costs	1,490	-	-	4,076	-	-
Other financing cash flows	-	(110)	(100%)	-	(110)	(100%)
Net cash from/(used in) from financing activities	**1,490**	**(2,216)**	**(167%)**	**815**	**(5,854)**	**(114%)**
Effect of exchange rates	596	281	158%	415	(301)	(238%)
Net increase/(decrease) in cash	**660**	**(109)**	**(747%)**	**3,383**	**(372)**	**(1009%)**
Cash & cash equivalents at beginning of period	2,800	186	1405%	77	449	(83%)
Cash & cash equivalents at end of period	**3,460**	**77**	**4394%**	**3,460**	**77**	**4394%**

Operating activities

Net cash from operating activities was at a similar level, albeit slightly lower, for the quarter and the year compared with 2017 reflecting the timing of collection of oil & gas receivables and the timing of payments to suppliers.

Financial Review - continued

Investing activities

Capital expenditure net of working capital movements was $2.9 million compared with $0.7 million and mainly comprises the costs of tying in the shallow gas wells drilled in the second half of 2017.

Other investing cash flows in 2018 of $4.1 million includes $3.9 million proceeds from the sale of two drilling rigs and the prior year amount of $5.2 million includes a $4.9 movement from restricted cash.

Financing activities

There were no loan payments in the quarter and for the year loan payments comprise full repayment of the rig loans in May. In 2017 rig loan payments were made for the period January to August 2017 and not thereafter due to the lack of funds and pending the sale of the drilling rigs. The 2017 payments also included full settlement of the Kazakh loans and some interest payments made at the beginning of the year on other loans.

The Company raised $4.1 million during the year from the issuance of ordinary shares as described in more detail above under *Significant events and transactions for the year - Agreements to Acquire Shares in the Company* and $1.5m of this was received during the quarter. No proceeds from equity were received in 2017.

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, 2018 Consolidated Financial Statements. Refer to note 4 – *Critical Judgments and Accounting Estimates* of the December 31, 2018 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, and non-cash items" 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**		
	2018	**2017**	**Change**	**2018**	**2017**	**Change**
Loss before taxation	**(1,811)**	**(37,795)**	**(95%)**	**(9,546)**	**(49,433)**	**(81%)**
Depreciation, depletion and amortization	(891)	2,753	(132%)	4,968	10,978	(55%)
Exploration and evaluation expenditure written off	3,752	9,614	(61%)	3,752	9,610	(61%)
Impairment charges	-	15,259	(100%)	-	15,259	(100%)
Share based payments	13	50	(74%)	57	208	(73%)
Loss on revaluation of assets held for sale	-	4,827	(100%)	(419)	4,827	(109%)
Other gains and losses	883	275	221%	883	275	221%
Finance costs - net	999	2,801	(64%)	4,820	6,203	(22%)
Adjusted EBITDA	**2,945**	**(2,216)**	**(233%)**	**4,515**	**(2,073)**	**(318%)**

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, 2018 Consolidated Financial Statements.

	As at December 31		
	2018	**2017**	**Change**
Total financial liabilities - borrowings	33,885	31,588	7%
Less: cash and cash equivalents	(3,460)	(77)	4394%
Net debt	**30,425**	**31,511**	**(3%)**
Total equity	56,257	47,603	18%
Total capital	**86,682**	**79,114**	**10%**

Net debt reduced by 3% to $30.4 million in 2018 due to a $3.0 million reduction from repayment of rig loans offset by accrued interest on other loans. Other than the rig loans there were no loan repayments made during the year. The reduction in net debt also includes an increase in cash and cash equivalents of $3.4 million in 2018 which is analysed above in the section *Cash Flow*.

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

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, 2018 the Company had authorised share capital of 145,000,000 (2017: 145,000,000) ordinary shares of which 68,324,512 (2017: 50,813,610) had been issued and 50,000,000 (2017: 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.

The number of ordinary shares issued and outstanding at the date of this MD&A was 68,324,512 and the number of preference shares issued and outstanding was nil.

As at December 31, 2018, a total of 4,037,432 (2017: 4,037,432) ordinary shares were reserved under the Company's Long Term Stock Incentive Plan. The number of options outstanding as at December 31, 2018 was 1,362,188 (2017: 1,371,187) all of which were exercisable (2017: 917,125) and the number of warrants outstanding is 14,422,500 (2017: 19,230,000) all of which were exercisable. Loan facilities are in place which were convertible into a total of up to 18,361,606 (2017: 18,361,606) ordinary shares.

On November 28, 2018 the Company completed a 10 for 1 share consolidation and all figures shown above are on a post-consolidation basis.

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 19 of the Consolidated Financial Statements.

Commitments and contingencies

Details of the Company's commitments and contingencies including litigation, claims and assessments and work program commitments are provided in note 21 of the Consolidated Financial Statements.

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

			Payments due by period		
Contractual obligations	**Total**	**Less than 1 year**	**1 – 3 years**	**4 – 5 years**	**After 5 years**
Borrowings	35,283	28,604	6,679	-	-
Kazakhstan work program commitments	72,058	19,269	26,126	6,432	20,231
Trade and other payables	8,370	8,370	-	-	-
Provisions	1,402	102	-	323	977
Total contractual obligations	**117,113**	**56,345**	**32,805**	**6,755**	**21,208**

Risks, uncertainties and other information

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 2018 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, 2018. 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 Kyzyloi 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 KZT370 to the $ to KZT444 for example, would result in a net price reduction of $18.21 per Mcm. Based on a sales volume of 110,000 Mcm per annum, this would result in a reduction of $2.0 million in gas revenues.

The price of oil sales is sensitive to movements in the market price. On a production level of 250 bopd, a movement of $1 per barrel on the price received by the Company would result in a plus or minus movement in oil sales revenue of $0.1 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 2018 Consolidated Financial Statements - note 2 *Summary of Significant Accounting Policies* and Note 4 – *Critical Judgments and Accounting Estimates* – for further details.

Derivative Financial Instruments

The Company does not have any derivative financial instruments.

Significant equity investees

Details of significant equity investees are discussed in note 19 of Consolidated Financial Statements for the year ended December 31, 2018.

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; 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.

Forward-looking statements - continued

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, 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

AKD	Akkulka Deep
AOT	Aral Oil Terminal LLP
Bbls	Barrels of oil
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
EOR	Enhanced oil recovery
ESP	Electrical submersible pump
GAAP	Generally accepted accounting principles
IFRS	International Financial Reporting Standards
ICC	International Court of Arbitration of the International Chamber of Commerce
JOA	Joint Operating Agreement and Shareholders' Agreement
KASE	Kazakhstan Stock Exchange
Kulob	Kulob Petroleum Limited
KZT	Kazakhstani Tenge
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
NEX	NEX Board of the TSX Venture Exchange
Olisol	Olisol Investments Limited and Olisol Petroleum Limited
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
$	United States Dollar
TOTAL	Total E&P Tajikistan B.V.
TSX	Toronto Stock Exchange
TSXV	TSX Venture Exchange
$/bbl	$ per barrel
$/Mcm	$ per thousand cubic metre
VAT	Value added tax
YTD	Year to date cumulative