Tethys Petroleum Limited

Condensed Consolidated Interim Financial Statements
(Unaudited)
June 30, 2020

NOTICE OF NO AUDITOR REVIEW
OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

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

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

We draw attention to the section entitled "Going Concern" in Note 1 to the condensed consolidated interim financial statements which describes the material uncertainties relating to the Company's adoption of the going concern basis in preparing the condensed consolidated interim financial Statements for the period ended June 30, 2020.

For and on behalf of the Board

W. Wells
Chairman
August 26, 2020

A. Ogunsemi
Director
August 26, 2020

Tethys Petroleum Limited

Condensed Consolidated Interim Statements of Financial Position (unaudited)

(in thousands of US dollars)

	Note	As at June 30, 2020	As at December 31, 2019
Non-current assets			
Intangible assets		31,933	32,034
Property, plant and equipment		53,618	70,953
Restricted cash		73	76
Trade and other receivables		1,264	1,279
		86,888	**104,342**
Current assets			
Cash and cash equivalents		650	694
Restricted cash		22	-
Trade and other receivables		4,545	3,234
Inventories		354	564
		5,571	**4,492**
Total assets		**92,459**	**108,834**
Non-current liabilities			
Financial liabilities - borrowings		7,159	-
Deferred tax		7,513	8,087
Provisions		1,648	1,689
		16,320	**9,776**
Current liabilities			
Financial liabilities - borrowings		6,000	40,196
Deferred revenue		5,979	-
Current taxation		740	1,041
Trade and other payables		5,781	10,367
		18,500	**51,604**
Total liabilities		**34,820**	**61,380**
Equity			
Share capital		10,496	6,832
Share premium		370,814	360,769
Other reserves		43,913	45,556
Accumulated deficit		(367,584)	(365,703)
Total equity		**57,639**	**47,454**
Total equity and liabilities		**92,459**	**108,834**
Going concern	1		
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The notes on pages 6 to 12 form part of these condensed consolidated interim financial statements. The condensed consolidated interim financial statements were approved by the Board on August 29, 2020 and were signed on its behalf.

W. Wells
Chairman
August 26, 2020

A. Ogunsemi
Director
August 26, 2020

Tethys Petroleum Limited

Condensed Consolidated Interim Statements of Comprehensive Income (Loss) (unaudited)

(in thousands of US dollars except per share information)

	Note	Three months ended June 30 2020	Three months ended June 30 2019	Six months ended June 30 2020	Six months ended June 30 2019
Sales and other revenues	3	2,977	3,570	6,478	8,227
Production expenses		(541)	(966)	(1,456)	(1,704)
Depreciation, depletion and amortisation		(1,114)	(1,290)	(2,255)	(2,541)
Impairment charges	5	-	-	(15,280)	-
Administrative expenses		(718)	(772)	(1,455)	(1,388)
Other gains and losses	6	3,957	-	12,260	193
Foreign exchange loss		(132)	(31)	(233)	(239)
Finance costs		(629)	(1,615)	(1,879)	(3,175)
		823	(4,674)	(10,298)	(8,854)
Profit/(loss) before tax from continuing operations		**3,800**	**(1,104)**	**(3,820)**	**(627)**
Taxation		106	(429)	296	(166)
Profit/(loss) from continuing operations and total comprehensive income		**3,906**	**(1,533)**	**(3,524)**	**(793)**
Earnings/(loss) per share:					
From continuing operations (USD) - basic	4	0.04	(0.02)	(0.04)	(0.01)

No dividends were paid or are declared for the period (2019: none).

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

Tethys Petroleum Limited

Condensed Consolidated Interim Statements of Changes in Equity (unaudited)

(in thousands of US dollars)

	Attributable to shareholders				
	Share capital	**Share premium**	**Accumulated deficit**	**Other reserves**	**Total equity**
At January 1, 2019	**6,832**	**360,769**	**(356,900)**	**45,556**	**56,257**
Comprehensive income for the period	-	-	(793)	-	(793)
At June 30, 2019	**6,832**	**360,769**	**(357,693)**	**45,556**	**55,464**
At January 1, 2020	**6,832**	**360,769**	**(365,703)**	**45,556**	**47,454**
Comprehensive loss for the period	-	-	(3,524)	-	(3,524)
Compound instrument extinguished	-	-	1,643	(1,643)	-
Transactions with shareholders					
Shares issued	3,664	10,045	-	-	13,709
Total transactions with shareholders	3,664	10,045	-	-	13,709
At June 30, 2020	**10,496**	**370,814**	**(367,584)**	**43,913**	**57,639**

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

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

Tethys Petroleum Limited

Condensed Consolidated Interim Statements of Cash Flows (unaudited)

(in thousands of US dollars)

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Cash flow from operating activities				
Profit/(loss) after tax from continuing operations	3,906	(1,533)	(3,524)	(793)
Adjustments for:				
Net finance cost	629	1,615	1,879	3,175
Depreciation, depletion and amortisation	1,114	1,290	2,255	2,541
Impairment charges	-	-	15,280	-
Other gains and losses	(3,957)	-	(12,260)	(193)
Taxation	(106)	429	(296)	166
Net change in working capital	(823)	1,523	4,755	(2,516)
Cash from operating activities	**763**	**3,324**	**8,089**	**2,380**
Tax paid	(529)	(2)	(579)	(2)
Net cash from operating activities	**234**	**3,322**	**7,510**	**2,378**
Cash flow from investing activities:				
Expenditure on exploration assets (net of revenue receipts)	88	(4)	66	(6)
Expenditure on property, plant and equipment	(124)	(854)	(265)	(1,308)
Movement in restricted cash	(30)	-	(19)	-
Net change in working capital	(893)	(859)	(1,008)	(904)
Net cash used in investing activities	**(959)**	**(1,717)**	**(1,226)**	**(2,218)**
Cash flow from financing activities:				
Proceeds of new borrowings	4,800	-	4,800	-
Repayment of borrowings	(4,690)	-	(7,690)	-
DSFK settlement	(3,424)	-	(3,424)	-
Net cash used in financing activities	**(3,314)**	**-**	**(6,314)**	**-**
Effects of exchange rate changes	170	18	(14)	382
Net (decrease)/increase in cash and cash equivalents	**(3,869)**	**1,623**	**(44)**	**542**
Cash and cash equivalents at beginning of the period	4,519	2,379	694	3,460
Cash and cash equivalents at end of the period	**650**	**4,002**	**650**	**4,002**

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

1 General information and going concern

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

The Company has its primary listing on the TSX 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 six months ended June 30, 2020. The Company reported a loss of $3.5 million for the six months ended June 30, 2020 (2019 year: $8.8 million loss) and an accumulated deficit as at that date of $367.6 million (December 31, 2019: $365.7 million) and negative working capital of $12.9 million (December 31, 2019: negative $47.1 million). In addition, the Company reported cash flow from operating activities before tax of $7.5 million for the six months ended June 30, 2020 (2019 year: $5.0 million).

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

The Company's financial position materially improved when some of the Company's loan obligations were restructured, repaid and/or converted into Tethys ordinary shares during the period and a settlement agreement was signed with Olisol Petroleum Limited ("Olisol") and DSFK Special Finance Company LLP ("DSFK") to resolve all disputed matters with those parties. In April 2020, the Company announced that it had completed the issuance of a $4.8 million convertible debenture and received the proceeds which was used to make the settlement payment to DSFK, reduce debt and for general working capital purposes. Further details of these transactions are provided in note 20 of the Company's 2019 consolidated financial statements – *Subsequent events.*

Nevertheless, the Company may not have sufficient funding to fund its obligations for the next twelve months and may need to raise funds to meet any shortfall and to fund its planned capital expenditure program. The Company also has various commitments and contingencies as disclosed in note 19 of the 2019 consolidated financial statements. These circumstances indicate the existence of a material uncertainty which cast significant doubt on the Company's ability to continue as a going concern.

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

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

- Implement the transactions required by the settlement agreement with Olisol and DSFK signed in February 2020, as described in note 20 of the 2019 consolidated financial statements;

- Finish testing of the newly drilled KBD-02 ("Klymene") 2,750m exploration well and, if successful, commence oil production;

- Drill new oil & gas wells to increase production levels and revenues; and

- Secure funding required to meet 2020 capital expenditure plans to the extent that these cannot be funded from existing cash generation. The Company has begun discussions with banks regarding the provision of funding.

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

2 Basis of preparation and accounting policies

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

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as applicable to interim financial reporting and do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual consolidated financial statements reported for the year ended December 31, 2019.

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

(in thousands of US dollars)

New accounting policies

There were no new and revised standards adopted by the Company during the six months ended June 30, 2019 that had an impact on the condensed consolidated interim financial statements.

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

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

3 Segmental Reporting

Geographical segments

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

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

In Kazakhstan, the Company is producing gas from the Kyzyloi and Akkulka fields and is undertaking exploration and evaluation activity in the Kul-bas field. In the current quarter the Company started producing oil from the Kul-bas field for the first time. The Company also operates a Corporate segment which provides loan funding for development activities in Kazakhstan.

The following is an analysis of the Company’s revenue, results and assets by reportable segment for the six months ended June 30, 2020:

	Kazakhstan	**Corporate**	**Total[1]**
Gas sales	6,478	-	6,478
Oil sales[2]	-	-	-
Segment revenue and other income	**6,478**	**-**	**6,478**
Profit/(loss) before taxation	(13,746)	9,926	(3,820)
Taxation	316	(20)	296
Profit/(loss) for the period	**(13,430)**	**9,906**	**(3,524)**
Total assets	92,280	107,041	92,459
Total liabilities	127,458	14,224	34,820
Expenditure on exploration & evaluation assets, property, plant and equipment		-	
Depreciation, depletion & amortization	2,255	-	2,255

Note 1 – Total is after elimination of inter-segment items of $106,862,000.

Note 2 – Oil revenue from test production of $253,000 from the KBD-02 well in the Kul-bas contract area has been offset against capitalised exploration & evaluation expenditure.

The following is an analysis of the Company's revenue, results and assets by reportable segment for the six months ended June 30, 2019:

	Kazakhstan	Corporate	Total[1]
Gas sales	7,647	-	7,647
Oil sales	580	-	580
Segment revenue and other income	**8,227**	**-**	**8,227**
Profit/(loss) before taxation	2,755	(3,382)	(627)
Taxation	(166)	-	(166)
Profit/(loss) for the period	**2,589**	**(3,382)**	**(793)**
Total assets	110,313	109,384	110,667
Total liabilities	126,551	37,682	55,203
Expenditure on exploration & evaluation assets, property, plant and equipment	1,314	-	1,314
Depreciation, depletion & amortization	2,541	-	2,541

Note 1 – Total is after elimination of inter-segment items of $109,030,000.

4 Earnings/(loss) per share

		Three months ended June 30		Six months ended June 30	
Continuing operations	**Units**	**2020**	**2019**	**2020**	**2019**
Profit/(loss) for the purpose of basic earnings/(loss) attributable to ordinary shareholders	$'000	3,906	(1,533)	(3,524)	(793)
Weighted average shares - basic	000s	93,483	68,324	87,660	68,324
Earnings/(loss) per share - basic	$	0.04	(0.02)	(0.04)	(0.01)

Basic loss per share is calculated by dividing the loss attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

5 Oil and gas properties – Impairment

Brent and Kazakhstan domestic spot and future oil prices fell significantly during the period due to world-wide over-supply and low demand for oil as a result of the Covid-19 pandemic. As of March 31, 2020, the Company identified this decline in oil prices as an impairment indicator and performed an assessment for impairment on the carrying value of its Akkulka Oil assets. The recoverable amount was determined using the higher of Fair Value Less Cost of Disposal ("FVLCD") or Value in Use. As a result, the Company impaired $15,280,000 of its oil assets in relation to the Akkulka Oil Cash Generating Unit ("CGU")

Based on the impairment test performed by management, the recoverable amount of the Akkulka Oil was lower than its carrying value. The FVLCD was calculated using a discounted cash flow model based on the proved plus probable reserves using forecast oil and gas prices and an after-tax discount rate of 13%. The cash flow model used is considered a level 3 fair value technique based on the unobservable inputs used. An increase of 1% to the discount rate would have increased the impairment by $2.3 million, while a 1% decrease to the discount rate would have decreased the impairment by $2.5 million.

(in thousands of US dollars)

FVLCD calculation assumes the following forecast oil and gas sales prices in $/bbl. The Company has assumed that all oil produced will be sold on the Kazakhstan domestic market. The domestic oil price forecast for 2020 is based on actual prices received by the Company in 2019 adjusted downward for the reduction in Brent oil price forecasts for 2020 and future years' forecasts of domestic prices are linked to Brent oil prices forecasts published by a reputable well-known oil & gas consultancy.

Year	Brent oil bbl	Domestic oil bbl
2020	$30.00	$14.96
2021	$40.00	$18.85
2022	$50.00	$22.81
2023	$51.00	$22.89
2024	$52.02	$23.18
2025	$53.06	$23.54
2026	$54.12	$23.90
2027	$55.20	$24.25
Thereafter price escalation at 1.5% p.a.		

6 Other gains and losses

Loan Restructuring

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

(1) The lender provided a waiver of all past defaults;
(2) The maturity date was extended from January 31, 2017 to December 31, 2021;
(3) Repayment of $1,000,000 due contingent upon certain future events;
(4) A discount of $500,000 would be applied to the outstanding balance upon payment of the $1,000,000;
(5) The Company would be required to use 15% of any gas sales receipts (net of VAT) received by its subsidiary companies, subject to a minimum of $200,000 per month, to repay a portion of the outstanding balance;
(6) The interest rate changed from 20% to 10.5%, payable monthly;
(7) An early payment discount would apply if Tethys made any repayments exceeding those described above on or before June 30, 2020 such that the outstanding balance would be reduced by two times the amount of the repayment i.e. an effective discount of up to 50% of the outstanding balance; and
(8) A discount of $2,000,000 would apply to the outstanding balance upon full repayment of the loan on or prior to the maturity, less the amount of any early payment discount already received.

The difference between the carrying amount of the financial liability extinguished and the new liability assumed was recognised in profit or loss as *Other gains and losses*.

The Company fully repaid the loan during the period by remitting payments totalling $7.7 million, the final payment being made on April 22, 2020, which resulted in a further gain being recognised in profit or loss as *Other gains and losses*.

Second Loan Restructuring

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

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

The loan restructurings described above represent a substantial modification of the terms of the existing financial liabilities and so have been accounted for as an extinguishment of the original financial liabilities and the recognition of new financial liabilities at their estimated fair values.

The difference between the carrying amount of the financial liability extinguished and the new liability assumed was recognised in profit or loss as *Other gains and losses*.

A second loan amendment agreement relating to the Loan was agreed on April 29, 2020, pursuant to which the outstanding balance is now repayable in three instalments of $3,000,000 on December 31, 2020, June 30, 2021 and December 31 ,2021.

7 Subsequent events

Graduation to TSX Venture Exchange

On July 8, 2020, the Company announced that it had received approval to graduate from the NEX Board of the TSX Venture Exchange to a Tier 2 'Oil & Gas' Issuer on the TSX Venture exchange.

Testing of Klymene Exploration Well (KBD-02)

On July 14, 2020, the Company announced completion of its testing of the first zone of KBD-02 and the initiation of testing of the second potential zone. The testing of the first zone was done using different choke sizes ranging from 5mm and 11mm. The 11mm choke increased production to over 700 bopd from the previously announced 400 bopd (using a 9mm choke). The testing of the second zone resulted in an average production rate of 15.5 tons per hour or 372 tons per day (approximately 2,700 barrels per day) using an 11 mm choke. Using a 9 mm choke the average production rate was 276 tons per day. The oil quality is high, the pressure very good and at present there is no water present.

On August 20, 2020, the Company announced that over the last 20 days the second zone has produced approximately 2,000 barrels of oil per day using different choke sizes. The most recent testing used an 11 mm choke and produced approximately 2,800 barrels of oil per day over the last 7 days. The pressure has remained strong through 4 different choke sizes used during the testing. The well has produced over 77,000 barrels of oil in total. In July, oil was sold in range of approximately $14-$17 per barrel. The Company is also in the process of pursing financing options in order to address debts coming due and to help accelerate expansion plans.

Loan Amendment

On August 25, 2020, the Company entered into a further loan Amendment with the holder of the loan originally issued to AGR Energy Limited No. 1. The amendment includes an option to make a repayment of $4 million by August 31, 2020 and a repayment of $3 million by December 31, 2020 as full repayment of the loan. The Company has received a gas prepayment of approximately $7.7 million and intends to make the $4 million payment by August 31.