

Tethys Petroleum Limited

Consolidated Financial Statements
For the years ended December 31, 2020 and 2019

Contents

Responsibility Statement of the Directors in Respect of the Annual Report and Accounts	1
Independent Auditor's Report to the Shareholders of Tethys Petroleum Limited	2
Consolidated Financial Statements	9
Notes to Consolidated Financial Statements	13 - 50

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”) as issued by the International Accounting Standards Board (“IASB”), 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, 2020 that may cast significant doubt about Tethys Petroleum Limited’s ability to continue as a going concern.

For and on behalf of the Board

William Wells
Executive Chairman
April 30, 2021

Adeola Ogunsemi
Director
April 30, 2021

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

Opinion

Our opinion on the group financial statements is unmodified

We have audited the group financial statements of Tethys Petroleum Limited and its subsidiaries (the 'group') for the year ended 31 December 2020, which comprise the consolidated statements of financial position, the consolidated statements of comprehensive loss, the consolidated statements of changes in equity, the consolidated statements of cash flows and notes to consolidated financial statements, 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 2020 and of its loss for the year then ended in accordance with IFRSs as issued by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as issued by the International Auditing and Assurance Standards Board (IAASB) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the group 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 IESBA International Code of Ethics 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.

Material uncertainty related to going concern

We draw attention to Note 1 'Going concern' in the group financial statements, which indicates that the Company reported a loss of \$38.5 million for the year ended December 31, 2020 (2019: \$8.8 million loss) and an accumulated deficit as at that date of \$402.6 million (December 31, 2019: \$365.7 million) and negative working capital of \$11.8 million (December 31, 2019: negative \$47.1 million). In addition, the Company reported cash flow from operating activities after tax of \$17.5 million for the year ended December 31, 2020 (2019: \$5.0 million). 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. As stated in Note 1, these events or conditions, along with the other matters as set forth in Note 1, 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.

In responding to the key audit matter, we performed the following audit procedures:

- Considering the inherent risks associated with the group's business model including effects arising from Covid-19, assessing and challenging the reasonableness of estimates made by the directors and the related disclosures and analysed how those risks might affect the group's financial resources or ability to continue operations over the going concern period;
- Confirming that the amount of oil and gas production and capital expenditures included in forecasts were in line with the amounts estimated by a third party;
- Assessing the construction, integrity and accuracy of the model used for the purposes of cash flow forecasting;
- Agreeing key inputs into the cash flow forecast model, such as revenue and cost assumptions, to underlying budgets and forecasts approved by the board of directors;
- 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;
- Challenging the process that management has undertaken to conclude on 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, to challenge management's assessment of going concern and to assess the appropriateness of management's sensitivity analysis;
- Challenging management on the sufficiency and appropriateness of the disclosures within the Board's going concern statement; and

- Challenging management on their fundraising efforts, availability of funding in the current environment, and identification of lenders/investors.

Emphasis of matter – Exploration and production contract work programs

We draw attention to the section of Note 19 entitled ‘Exploration and Production Contract Work Programs’ in the group financial statements, which describes that the work programs for exploration and production contracts include a required level of “Investments” as defined in the 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-fulfilment. 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. Our opinion is not modified in respect of this matter.

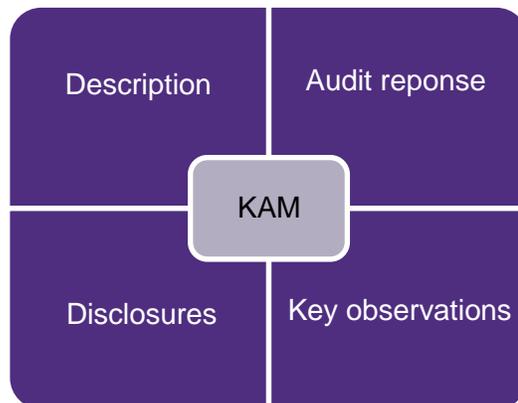
Our approach to the audit

 	<p>Overview of our audit approach</p>
	<p>Overall materiality: \$460,000, which represents approximately 1% of the group’s total assets.</p>
	<p>Key audit matters were identified as:</p> <ul style="list-style-type: none"> • Material uncertainty related to going concern – same as previous year; • Recoverability of the oil and gas property, and exploration and evaluation assets - same as previous year; • Revenue recognition and contract accounting - same as previous year; • Presentation and measurement of debt and accuracy of finance costs - same as previous year; and • Provisions - same as previous year
	<p>In total our procedures covered 100 per cent of revenue, 99 per cent of underlying profit before taxation and 100 per cent of total assets. Detailed instructions were sent to the component auditor located in Kazakhstan, setting out the audit areas that should be covered and the information required to be reported back to the group audit team. Telephone meetings were held with the auditor in Kazakhstan.</p>

Key audit matters

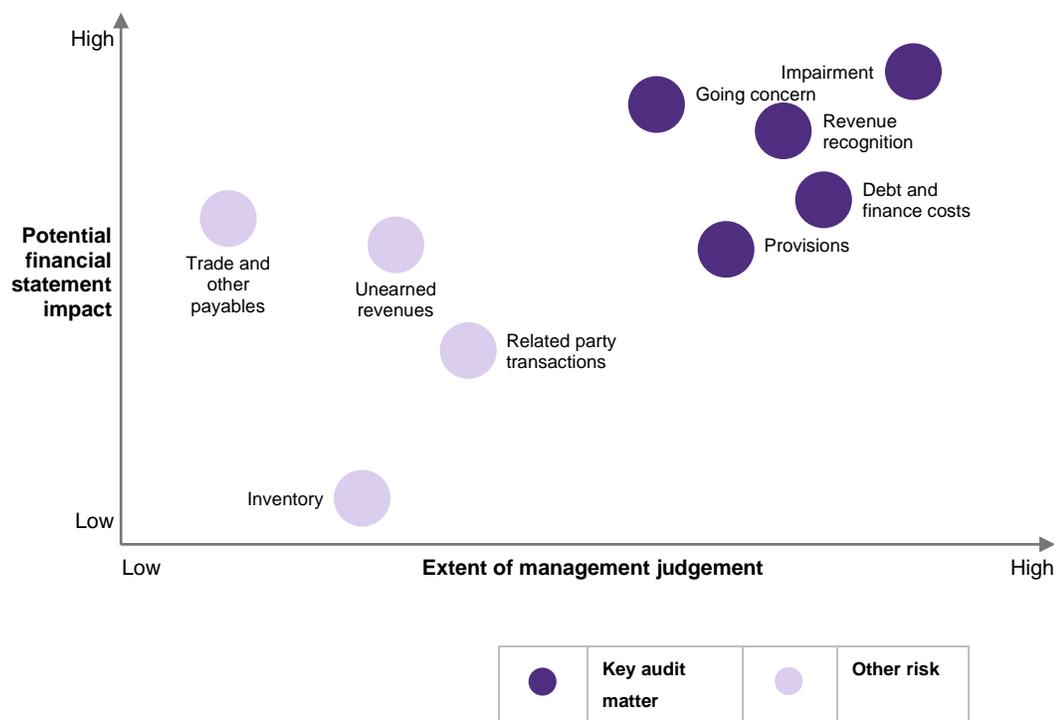
Key audit matters are those matters that, in our view, were of most significance in our audit of the group current period and include the most significant misstatement (whether or not due to fraud) that we identified that had the greatest effect on: the allocation of resources in the audit; and directing the team. These matters were addressed in the context 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 the graph below, we have presented the key audit matters and other risks relevant to the audit.



professional judgement, financial statements of the assessed risks of material identified. These matters overall audit strategy; the efforts of the engagement of our audit of the group opinion thereon, and we do

matters, significant risks



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 Matter

How our scope addressed the matter

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 realise the value attributed to capitalised expenditure on these assets. \$48.5 million has been capitalised in property, plant and equipment for those assets in the production stage as at 31 December 2020 (31 December 2019: \$71.2 million in property, plant and equipment and \$32.0 million in intangible assets).

Significant management judgement is involved to determine 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.

In responding to the key audit matter, we performed the following audit procedures:

- Obtaining management’s assessment of indicators of impairment for exploration and evaluation assets, examining production licenses and resource reports produced by geological experts;
- Testing the mathematical accuracy of management’s impairment calculation;
- Determining the competence, capabilities and objectivity of third-party experts used to estimate oil and gas reserves;
- Challenging the appropriateness of management’s key assumptions including 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;

Key Audit Matter

Relevant disclosures in the group financial statements

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 group financial statements and related disclosures are included in Notes 10 and 11.

How our scope addressed the matter

- Challenging the appropriateness of use of weighted average cost of capital;
- Challenging management on their fundraising efforts and the availability and timing of financing required to fund planned capital expenditures to further develop oil properties;
- Testing sensitivities of the key inputs to management's models; and
- 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.

Key observations

Our audit testing did not identify any material misstatements in respect of the recoverability of oil and gas property assets. As disclosed in Note 11, during the year ended 31 December 2020, the group recognised impairment of the property, plant and equipment in the amount of \$57.6 million.

Revenue recognition and contract accounting

A total of \$13.0 million of revenue was recognised for the sale of crude oil and natural gas, \$11.0 million and \$2.0 million for gas sales and oil sales respectively (2019: \$12.7 million).

Revenue is recognised in the group financial statements at a point in time when the control of the gas and oil passes to the customer and physical delivery occurs.

There is judgement involved in the classification of revenues from sold test oil and in the timing of the reduction of unearned revenues.

We therefore identified revenue recognition and contract accounting as a significant risk, which was one of the most significant assessed risks of material misstatement.

Relevant disclosures in the group financial statements

The group's accounting policy on revenue recognition is shown in Note 2 to the group financial statements and related disclosures are included in Note 6.

In responding to the key audit matter, we performed the following audit procedures:

- Performing substantive analytical procedures over both oil and gas revenue streams by comparing monthly revenues to anticipated revenues;
- Obtaining oil and natural gas sales contracts that were in place during the financial year and for key components of the contracts, assessing whether revenue was recognised in accordance with IFRS 15 'Revenue from contracts with customers';
- Agreeing revenue to documentation of oil and gas extraction volume to confirm consistency of revenue recognised;
- Testing the accuracy of accounting for unearned revenues as at the reporting date and during the year with respect to with the contracts entered into with customers; and
- Agreeing a sample of oil and natural gas sales transactions to relevant supporting documentation to confirm that revenue has been recognised in accordance with the group's accounting policy.

Key Audit Matter

How our scope addressed the matter

Presentation and measurement of debt and accuracy of finance costs

A total liability of \$5.5 million was recognised as at the reporting date (2019: \$40.2 million).

During the year ended 31 December 2020, the group recognised a gain of \$14.0 million as a result of the restructure of, and early repayment of some of its loans. The restructure and repayment of these loans represent a substantial modification in accordance with IFRS 9 'Financial Instruments'

Also, the group converted other loans into shares for the amount of \$13.7 million. The accounting treatment of substantial modifications and recognising new financial liabilities involve significant judgement in the selection of the assumptions used.

We have therefore identified presentation and measurement of debt and accuracy of finance costs as a significant risk, which was one of the most significant assessed risks of material misstatement.

Relevant disclosures in the group financial statements

The group's accounting policy on borrowings is shown in Note 2 to the group financial statements and related disclosures are included in Note 13.

Provisions

The group makes provision for the future cost of decommissioning oil and gas production facilities discounted back to present value. These costs are expected to be incurred between 2022 and 2029. At the year-end, a provision of \$1.7 million was recognised (2019: \$1.7 million).

The calculation and recognition of the provision in the group financial statements requires a number of significant assumptions, including the impact of significant contingencies

Key observations

Our audit testing did not identify any material misstatement in respect of revenue recognition and contract accounting.

In responding to the key audit matter, we performed the following audit procedures:

- Examining loan agreements to determine whether loans have been correctly recognised and disclosed within the group financial statements;
- Obtaining loan amendments and challenging management's consideration of significant modification analysis in accordance with IFRS '9 Financial instruments';
- Inspecting the loan agreements to ensure the correct treatment of the loans per IFRS 9;
- Agreeing the repayments and conversions of loan agreements settled during the year to third party documentation;
- Directly confirming the outstanding balance of the loans due at the reporting date with the relevant lender;
- Recalculation of the interest expense and accrued interest payable, using information extracted from the loan agreement; and
- Evaluating whether the valuation of conversion option of the new loan was recorded correctly in accordance with IFRS '9 Financial instruments'.

Key observations

Our audit testing did not identify any material misstatement in respect of presentation and measurement of debt and accuracy of finance costs.

In responding to the key audit matter, we performed the following audit procedures:

- Identifying the key assumptions and inputs used within management's calculation of the asset retirement obligation and assessing the key assumptions against local market and industry trends in order to determine whether the assumptions used are reasonable and can be sufficiently supported;

Key Audit Matter

disclosed in Note 19, the selection of an appropriate discount rate and estimation of the cost of decommissioning oil and gas facilities. Changes in these assumptions could significantly affect the amount provided for the group's financial statements.

We therefore identified provisions as a significant risk, which was one of the most significant assessed risks of material misstatement.

Relevant disclosures in the group financial statements

The group's accounting policy on provisions is shown in Note 2 to the group financial statements and related disclosures are included in Notes 15 and 19.

How our scope addressed the matter

- Benchmarking the discount rate used in the calculation of the asset retirement obligation against comparable market data and assessing the appropriateness of the use of the discount rate;
- Communicating with legal advisors employed by the group to understand 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 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; and
- Evaluating whether ongoing litigation and claims should be recognised as provisions or disclosed as contingent liabilities.

Key observations

Our audit testing did not identify any material misstatement in respect of accounting for provisions.

Other information

The directors are responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis for the year ended 31 December 2020 and in the Consolidated Financial Statements for the years ended December 31, 2020 and 2019, other than the group financial statements and our auditor's report thereon. Our opinion on the group 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 group financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the group 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 of the group 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 group financial statements

As explained more fully in the responsibility statement of the directors in respect of the annual report and accounts set out on page 1, the directors are responsible for the preparation of the group financial statements that give a true and fair view in accordance with IFRSs as adopted by the IASB, and for such internal control as the directors determine is necessary to enable the preparation of group financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the group 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 have 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 group financial statements

Our objectives are to obtain reasonable assurance about whether the group 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 ISAs 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 group financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the group 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 group 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 group financial statements, including the disclosures, and whether the group 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 group 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 group 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.

The engagement partner on the audit resulting in this independent auditor's report is Christopher Raab.

Grant Thornton UK LLP
Chartered Accountants
London, United Kingdom

Date:

Tethys Petroleum Limited

Consolidated Statements of Financial Position

As at December 31

(in thousands of US dollars)

	Note	2020	2019
<i>Non-current assets:</i>			
Intangible assets	10	-	32,034
Property, plant and equipment	11	48,539	70,953
Restricted cash		71	76
Trade and other receivables	12	14	1,279
Total non-current assets		48,624	104,342
<i>Current assets:</i>			
Cash and cash equivalents		1,747	694
Trade and other receivables	12	3,106	3,234
Inventories		318	564
Restricted cash		22	-
Total current assets		5,193	4,492
Total assets		53,817	108,834
<i>Non-current liabilities:</i>			
Financial liabilities - borrowings	13	5,549	-
Deferred tax	8	4,612	8,087
Provisions	15	1,706	1,689
Total non-current liabilities		11,867	9,776
<i>Current liabilities:</i>			
Financial liabilities - borrowings	13	-	40,196
Current taxation		541	1,041
Deferred revenue	6	8,137	-
Trade and other payables	14	8,352	10,367
Total current liabilities		17,030	51,604
Total liabilities		28,897	61,380
<i>Equity:</i>			
Share capital	16	10,495	6,832
Share premium	16	370,814	360,769
Other reserves	16	46,192	45,556
Accumulated deficit		(402,581)	(365,703)
Total equity		24,920	47,454
Total equity and liabilities		53,817	108,834
Going concern	1		
Commitments and contingencies	19		
Subsequent events	1, 20		

The notes on pages 13 to 50 form part of these consolidated financial statements. The consolidated financial statements were approved by the Board on April 30, 2021 and were signed on its behalf.

The accompanying notes are an integral part of these audited consolidated annual financial statements.

W. Wells
Chairman

A. Ogunsemi
Director

Tethys Petroleum Limited

Consolidated Statements of Loss and Comprehensive Loss

For the year ended December 31

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

	Note	2020	2018
Sales and other revenues	6	13,040	12,717
Production expenses		(2,779)	(2,877)
Depreciation, depletion and amortisation		(3,634)	(4,446)
Impairment charges	11	(57,630)	-
Administrative expenses	7	(3,089)	(2,916)
Other gains and losses	13	15,030	(4,109)
Foreign exchange loss		(160)	(453)
Finance costs	13	(2,645)	(6,401)
		(54,907)	(21,202)
Loss before tax		(41,867)	(8,485)
Taxation	8	3,346	(318)
Loss for the year and total comprehensive loss for the year attributable to shareholders		(38,521)	(8,803)
Loss per share attributable to shareholders:			
Basic and diluted (\$)	9	(0.40)	(0.13)

No dividends were paid or are declared for the year (2019: nil).

The notes on pages 13 to 50 form part of these consolidated financial statements.

The accompanying notes are an integral part of these audited consolidated annual financial statements.

Tethys Petroleum Limited

Consolidated Statements of Changes in Equity

(in thousands of US dollars)

	Note	Share capital	Share premium	Accumulated deficit	Other reserves	Total equity
At January 1, 2019	16	6,832	360,769	(356,900)	45,556	56,257
Loss for the year		-	-	(8,803)	-	(8,803)
At December 31, 2019 and January 1, 2020	16	6,832	360,769	(365,703)	45,556	47,454
Loss for the year		-	-	(38,521)	-	(38,521)
Compound instrument extinguished	13	-	-	1,643	(1,643)	-
Compound instrument issued	13	-	-	-	2,279	2,279
Transactions with shareholders						
Shares issued	16	3,663	10,045	-	-	13,708
Total transactions with shareholders		3,663	10,045	-	-	13,708
At December 31, 2020	16	10,495	370,814	(402,581)	46,192	24,920

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 13 to 50 form part of these consolidated financial statements.

The accompanying notes are an integral part of these audited consolidated annual financial statements.

Tethys Petroleum Limited

Consolidated Statements of Cash Flows

For the year ended December 31

(in thousands of US dollars)

	Note	2020	2019
Cash flow from operating activities			
Loss after tax		(38,521)	(8,803)
Adjustments for:			
Net finance cost		2,645	6,401
Depreciation, depletion and amortisation	11	3,634	4,446
Impairment charges		57,630	-
Other (gains)/losses		(15,030)	4,109
Taxation		(3,346)	318
Net change in non-cash working capital	18	11,260	(1,448)
Cash from operating activities		18,272	5,023
Corporation tax paid		(779)	(8)
Net cash from operating activities		17,493	5,015
Cash flow from investing activities			
Interest received		123	20
Expenditure on exploration and evaluation assets ¹		2,111	(2,701)
Expenditure on property, plant and equipment		(9,069)	(4,100)
Movement in restricted cash		(18)	(72)
Net change in non-cash working capital	18	1,362	(1,213)
Net cash used in investing activities		(5,491)	(8,066)
Cash flow from financing activities			
Proceeds from borrowings		7,304	-
Repayment of borrowings	13	(14,620)	-
DSFK settlement	13	(3,424)	-
Net cash used in financing activities		(10,740)	-
Effects of exchange rate changes on cash and cash equivalents		(209)	285
Net increase/(decrease) in cash and cash equivalents		1,053	(2,766)
Cash and cash equivalents at beginning of the year		694	3,460
Cash and cash equivalents at end of the year		1,747	694

Note 1 – amount is stated net of oil sales receipts of \$2,557,000 during the testing phase.

The notes on pages 13 to 50 form part of these consolidated financial statements.

The accompanying notes are an integral part of these audited consolidated annual financial statements.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

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 has its primary listing on the TSX Venture Exchange (“TSXV”). The Company is also listed on the Kazakhstan Stock Exchange (“KASE”).

References below to the Company refer to Tethys Petroleum Limited singly, or collectively with the undertakings included in the consolidation, as the context implies.

Going concern

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 these financial statements were issued 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, 2020. The Company reported a loss of \$38.5 million for the year ended December 31, 2020 (2019: \$8.8 million loss) and an accumulated deficit as at that date of \$402.6 million (December 31, 2019: \$365.7 million) and negative working capital of \$11.8 million (December 31, 2019: negative \$47.1 million). In addition, the Company reported positive cash flow from operating activities after tax of \$17.5 million for the year ended December 31, 2020 (2019: \$5.0 million).

The Company’s financial position has improved as a result of the Company’s loan obligations being restructured, repaid and/or converted into Tethys ordinary shares during the year. Borrowings have reduced from \$40.2 million at December 31, 2019 to \$5.5 million at December 31, 2020, refer to note 3 for further details.

In addition, 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 were used to make the settlement payment to DSFK, reduce debt and for general working capital purposes. An unsecured loan of \$2.5 million was received from the same lender in October 2020

Post year end a private placement of \$1.4 million was completed in April 2021. These proceeds will be used to fund previously incurred drilling expenses, 3D and 2D seismic expenses as well as general and administrative expenses.

Further, during 2020 the Company’s cash flow benefitted from gross oil sales (net of VAT) of \$4.6 million during the testing of the KBD-02 exploration well and prepayments received for gas sales, refer to note 6 for further details.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

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.

There are factors relating to the ongoing COVID-19 pandemic that could impact the business. 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 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. The Company has not suffered any significant adverse effect from Covid-19 and, at this time, does not anticipate Covid-19 will have a material impact 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:

- Complete testing of the newly drilled KBD-02 ("Klymene") 2,750m exploration well and obtain the necessary approvals to re-commence commercial oil production;
- Secure funding required to meet capital expenditure plans to the extent that these cannot be funded from existing cash generation.
- Drill new oil & gas wells to increase production levels and revenues and in particular, further develop the Kul-bas exploration contract area which includes the successful KBD-02 exploration well.

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 circumstances indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern.

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.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

Statement of compliance

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

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

New standards adopted by the Company

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

- 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 and applied prospectively. The Company assessed the impact of this amendment and has determined that there is currently no impact on its financial statements. However, the Company believes that going forward, more business acquisitions will likely qualify for assets purchases rather than business combinations.

New standards and interpretations issued but not yet adopted

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

- IAS 1 – Presentation of Financial Statements (“IAS 1”), has been amended to clarify how to classify debt and other liabilities as either current or non-current. The amendment to IAS 1 is effective for the years beginning on or after January 1, 2023. The Company is currently assessing the impact of this amendment.
- The annual improvements process addresses issues in the 2018-2020 reporting cycles including changes to IFRS 9, Financial Instruments, IFRS 1, First Time Adoption of IFRS, IFRS 16, Leases, and IAS 41, Biological Assets. These improvements are effective for periods beginning on or after January 1, 2022. The Company is currently assessing the impact of this amendment.
- IAS 37 – Provisions (“IAS 37”), has been amended to clarify (i) the meaning of “costs to fulfil a contract”, and (ii) that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

dedicated to that contract. These amendments are effective for periods beginning on or after January 1, 2022. The Company is currently assessing the impact of this amendment.

- IAS 16 – Property, Plant and Equipment (“IAS 16”), has been amended to (i) prohibit an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly), (ii) clarify that an entity is “testing whether the asset is functioning properly” when it assesses the technical and physical performance of the asset, and (iii) require certain related disclosures. These improvements are effective for periods beginning on or after January 1, 2022. The Company is currently assessing the impact of this amendment.

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 17, have been consolidated into the Company’s consolidated financial statements.

Inter-company transactions, balances and unrealized 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.

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.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

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 Statements of Loss and Comprehensive Loss reflects the Company's share of the profit or loss after tax and other Consolidated Statements of Loss and Comprehensive Loss 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 all of the Company's subsidiaries are measured in United States dollars (\$) which is the currency of the primary economic environment in which the subsidiaries 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 Statements of Loss and Comprehensive Loss.

Revenue from contracts with customers

The Company is in the business of producing and selling oil and natural gas. Revenue from contracts with customers is recognised when control of the oil or natural gas is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for the oil and natural gas. The Company has concluded that it is the principal in its revenue arrangements because it controls the oil and natural gas before transferring them to the customer. Contracts with customers have one performance obligation to deliver oil or natural gas at prices stated at the contracts, with no variable considerations.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

Revenue from sale of natural gas is recognised at the point in time when control of the asset is transferred to the customer, when it is delivered via the Company's gas pipeline at the meter point with the State-owned gas trunk-line. The normal credit term is 30 days after the end of the calendar month of supply.

Revenue from sale of crude oil and gas condensate is recognised at the point in time when control of the asset is transferred to the customer, when it is delivered at the well-site. Credit terms can vary from payment in advance of delivery to 30 days after the date of delivery.

Advance payments received from customers are shown in the Company's balance sheet as deferred revenue until such time as the conditions for revenue recognition have been met at which time they are shown as sales revenue in the Consolidated Statements of Loss and Comprehensive 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.

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 capitalised 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 Statements of Loss and Comprehensive 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

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

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 Statements of Loss and Comprehensive Loss.

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

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

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 Statements of Loss and Comprehensive 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, 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

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

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.

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 Statements of Loss and Comprehensive 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 Statements of Loss and Comprehensive 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 Statements of Loss and Comprehensive Loss.

Financial instruments

Financial instruments are measured on initial recognition at fair value, plus, in the case of financial instruments other than those classified as fair value through profit or loss ("FVPL"), directly attributable transaction costs. Financial instruments are recognised when the Company becomes a party to the contracts that give rise to them and are classified as amortised cost, fair value through profit or loss or fair value through other comprehensive income, as appropriate. The Company considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract if the host contract is not measured at fair value through profit or loss and when the economic characteristics and risks are not closely related to those of the host contract. Reassessment only

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Financial assets at FVPL

Financial assets at FVPL include financial assets held for trading and financial assets not designated upon initial recognition as amortised cost or fair value through other comprehensive income ("FVOCI"). A financial asset is classified in this category principally for the purpose of selling in the short term, or if so designated by management. Transaction costs are expensed as incurred. On initial recognition, a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI may be irrevocably designated as FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. Financial assets measured at FVPL are measured at fair value with changes in fair value recognised in the consolidated statements of operations.

Financial assets at FVOCI

On initial recognition of an equity investment that is not held for trading, an irrevocable election is available to measure the investment at fair value upon initial recognition plus directly attributable transaction costs and at each period end, changes in fair value are recognised in other comprehensive income ("OCI") with no reclassification to the consolidated statements of earnings. The election is available on an investment-by-investment basis. Investments in equity securities, where the Company cannot exert significant influence, are designated as financial assets at FVOCI.

Financial assets at amortised cost

A financial asset is measured at amortised cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, and is not designated as FVPL. Financial assets classified as amortised cost are measured subsequent to initial recognition at amortised cost using the effective interest method. Cash, restricted cash, trade receivables and certain other assets are classified as and measured at amortised cost.

Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVPL. A financial liability is classified as at FVPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in net earnings when the liabilities are derecognised as well as through the amortisation process. Borrowing liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date. Accounts payable and accrued liabilities and finance leases are classified as and measured at amortised cost.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

Derivative instruments

Derivative instruments, including embedded derivatives, are measured at fair value on initial recognition and at each subsequent reporting period. Any gains or losses arising from changes in fair value on derivatives are recorded in net earnings.

Fair values

The fair value of quoted investments is determined by reference to market prices at the close of business on the statement of financial position date. Where there is no active market, fair value is determined using valuation techniques. These include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cashflow analysis; and, pricing models.

Financial instruments that are measured at fair value subsequent to initial recognition are grouped into a hierarchy based on the degree to which the fair value is observable as follows:

Level 1 fair value measurements are quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Impairment of financial assets

A loss allowance for expected credit losses is recognised in the Consolidated Statements of Loss and Comprehensive Loss for financial assets measured at amortised cost. At each balance sheet date, on a forward-looking basis, the Company assesses the expected credit losses associated with its financial assets carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The impairment model does not apply to investments in equity instruments. The expected credit losses are required to be measured through a loss allowance at an amount equal to the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date) or full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument). A loss allowance for full lifetime expected credit losses is required for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition.

Derecognition of financial assets and liabilities

A financial asset is derecognised when either the rights to receive cash flows from the asset have expired or the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party. If neither the rights to receive cash

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

flows from the asset have expired nor the Company has transferred its rights to receive cash flows from the asset, the Company will assess whether it has relinquished control of the asset or not. If the Company does not control the asset then derecognition is appropriate. A financial liability is derecognised when the associated obligation is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in net earnings.

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:

	2020	2019
Trade receivables , gross	134	1,826
Trade receivable, allowance for credit losses	(134)	(149)
Other receivables	502	247
Loan receivable from joint venture, gross	3,447	3,267
Loan receivable from joint venture, allowance for credit losses	(3,447)	(3,267)
Cash and cash equivalents	1,747	694
Restricted cash	93	76
	2,342	2,694

At December 31, 2020, the trade receivables amounted to \$134,000 (2019: \$1,826,000). Of this, \$134,000 of the trade receivables were overdue past 30 days (2019: \$745,000). The Company seeks to minimise credit risk from trade receivables by dealing with known counter-parties and invoicing and collecting payment in advance wherever possible.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

Deposits at financial institutions are not covered by bank guarantees. Whilst deposits are held with reputable banks of good standing, 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. The Company reported a loss of \$38.5 million for the year ended December 31, 2020 (2019: \$8.8 million loss) and an accumulated deficit as at that date of \$402.6 million (December 31, 2019: \$365.7 million) and negative working capital of \$11.8 million (December 31, 2019: negative \$47.1 million). In addition, the Company reported positive cash flow from operating activities of \$17.5 million for the year ended December 31, 2020 (2019: \$5.0 million), refer to note 1 - *Going concern* for further details.

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, 2020	Carrying amount	Contractual cash flows	Less than 1 year	1-3 years	4-5 years	Thereafter
Non-derivative financial liabilities:						
Trade and other payables	8,352	8,352	8,352	-	-	-
Financial liabilities - borrowings (note 13)	5,549	8,223	-	8,223	-	-
Provisions	1,706	2,541	-	630	-	1,911
Total	15,607	19,116	8,352	8,853	-	1,911

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 an adverse impact on the Company's financial condition, results of operations and prospects.

Refer to note 20 – *Subsequent events*, for post balance sheet date events affecting financial liabilities.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

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 2020 average sales price, would result in a reduction of \$2.2 million in gas revenues based on the 2020 gas sales volume of 128,000 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 2020 average sales price, would result in a reduction of \$0.9 million in oil revenues based on the 2020 oil sales volume of 375,000 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, 2020 and 2019.

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, 2020 was \$123,000 (2019: \$20,000).

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

As at December 31, 2020	Fixed rate financial instruments	Variable rate financial instruments	Total
Restricted cash	-	93	93
Cash and cash equivalents	-	1,747	1,747
Financial liabilities - borrowings	(5,549)	-	(5,549)
Total	(5,549)	1,840	(3,709)

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

As at December 31, 2019	Fixed rate financial instruments	Variable rate financial instruments	Total
Restricted cash	-	76	76
Cash and cash equivalents	-	694	694
Financial liabilities - borrowings	(40,196)	-	(40,196)
Total	(40,196)	770	(39,426)

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, the majority of expenditures in Kazakhstan are denominated in local currency, Tenge. The Company also attempts to negotiate exchange rate stabilisation conditions in new local Tenge denominated service and supply contracts in Kazakhstan.

If the Company holds significant surplus funds these are usually held in \$ to minimise foreign exchange risk. 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 Kazakhstani Tenge denominated monetary assets and liabilities at the reporting dates are as follows:

In \$'000 equivalent	2020	2019
Cash and cash equivalents	1,308	524
Trade and other receivables	2,306	3,935
Trade and other payables	(8,048)	(9,927)
Net exposure	(4,434)	(5,468)

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	2020	2019
KZT	(443)	(547)

b) Capital risk management

The Company's capital structure is comprised of shareholders' equity and borrowings, net of cash and cash equivalents.

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.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

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.

The Company's capital structure is summarised in the table below:

	2020	2019
Total financial liabilities - borrowings (note 13)	5,549	40,196
Less: cash and cash equivalents	(1,747)	(694)
	3,802	39,502
Total equity	26,036	47,454
Total equity and borrowings, net of cash and cash equivalents	29,838	86,956

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

The Company regularly assesses whether projected cash flows are sufficient to service its borrowings and support ongoing operations. Consideration is given to reducing borrowings 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:

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

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, exchange rates and future development costs.

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

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

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, 2020. 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 responsible for a subsidiary's 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

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

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 and gas assets.

5 Segmental Reporting

Geographical segments

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

2020	Kazakhstan	Corporate	Total
Gas sales	11,045	-	11,045
Oil sales ²	1,992	-	1,992
Other revenue	3	-	3
Segment revenue and other income	13,040	-	13,040
(Loss)/income before taxation	(54,161)	12,294	(41,867)
Taxation	3,385	(39)	3,346
(Loss)/income for the year	(50,776)	12,255	(38,521)
Total assets ¹	53,602	102,116	53,817
Total liabilities ¹	125,434	5,364	28,897
Expenditure on exploration & evaluation assets, property, plant and equipment	6,958	-	6,958
Depreciation, depletion & amortisation	3,634	-	3,634
Finance costs	-	2,645	2,645

Note 1 – Total is after elimination of inter-segment items of \$101,901,000.

Note 2 – in accordance with the Company's accounting policy and industry practice, oil sales of \$2.6 million and oil production costs of \$0.2 million relating to test production from the KBD-02 well were capitalised to exploration & evaluation expenditure and not shown in the Company's income statement until 30 September 2020 when commercial reserves were determined.

In 2020, gas sales were made to one customer in Kazakhstan representing 85% of segment revenue. At December 31, 2020 an amount of \$7,963,000 had been paid in advance by this customer, refer to note 6 for further details. No borrowing costs or amortisation of assets were capitalised during the year.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

2019	Kazakhstan	Corporate	Total ¹
Gas sales	12,137	-	12,137
Oil sales	580	-	580
Segment revenue and other income	12,717	-	12,717
Inter-segment revenue	-	-	-
Segment revenue and other income from external customers	12,717	-	12,717
Loss before taxation	(1,083)	(7,402)	(8,485)
Taxation	(285)	(33)	(318)
Loss for the year	(1,368)	(7,435)	(8,803)
Total assets ¹	108,656	109,957	108,834
Total liabilities ¹	129,921	41,238	61,380
Expenditure on exploration & evaluation assets, property, plant and equipment	6,801	-	6,801
Depreciation, depletion & amortisation	4,533	-	4,533
Finance costs	-	6,401	6,401

Note 1 – Total is after elimination of inter-segment items of \$109,779,000.

In 2019, gas sales were made to one customer in Kazakhstan representing 95% of segment revenue. At December 31, 2019 an amount of \$1,081,000 was due from this customer which was received in full subsequent to the year end. No borrowing costs or amortisation of assets were capitalised during the year.

6 Sales revenues and deferred revenue

6.1 Sales revenues

	2020	2019
<i>Kazakhstan:</i>		
Gas sales	11,047	12,137
Oil sales	1,993	580
Revenue	13,040	12,717

6.2 Deferred revenue

	2020	2019
<i>Kazakhstan:</i>		
Gas sales	7,963	-
Oil sales	174	-
Deferred revenue	8,137	-

The Company has received payments in advance from customers for future deliveries of oil and gas. These amounts are recognised as revenue when control of the oil or natural gas is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for the oil and natural gas.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

7 Administrative expenses

Administrative expense by nature	2020	2019
Staff expenses	1,611	1,271
Non-executive director fees	257	220
Professional fees	507	690
Other administrative expenses ¹	714	735
Total	3,089	2,916

Note 1 – includes travel, office, regulatory, insurance, vehicle, investor relations, socio-economic program contributions and bank charges.

8 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:

	2020	2019
Loss before income taxes	41,867	8,485
Income tax rate	20%	20%
Expected income tax recovery	8,373	1,697
Decrease resulting from:		
Non-deductible expenses net of functional currency foreign exchange impact	(67)	(1,156)
Revisions in tax estimates and foreign exchange impact on tax pools	(2,740)	574
Impact of effective tax rates in other foreign jurisdictions	1,832	(528)
Losses and tax assets not utilised/recognised	(4,052)	(905)
	3,346	(318)
Current tax expense	(273)	(437)
Deferred tax recovery	3,619	119
Total	3,346	(318)

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

The temporary differences comprising the deferred income tax liability are as follows:

	2020	2019
Capital assets	3,511	7,059
Other	1,101	1,028
Deferred tax liability	4,612	8,087

Deferred tax liability includes a withholding tax liability of \$1,470,000 (2018: \$1,236,000) that would become payable on the remittance of amounts owed by subsidiaries.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

The movement in deferred income tax liability in each year was as follows:

	2020	2019
Deferred tax liability at January 1	8,087	8,214
Recognised in profit or loss	(3,619)	(119)
Reclassification from current income tax liability	406	-
Tax paid	(262)	(8)
Deferred tax liability	4,612	8,087

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:

	2020	2019
Capital assets	67,937	39,518
Tax losses	21,507	20,540
Other	938	1,141
Total	90,382	61,199

9 Loss per share

	Units	2020	2019
Loss for the purpose of basic and diluted loss attributable to ordinary shareholders	\$'000	(38,521)	(8,803)
Weighted average shares – basic and diluted	000s	96,355	68,324
Per share amount – basic and diluted	\$	(0.40)	(0.13)

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. As the Company is loss making there is no difference between basic and diluted earnings per share.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

10 Intangible assets

Exploration and evaluation assets	Kazakhstan
January 1, 2019	29,423
Additions	2,611
January 1, 2020	32,034
Additions	409
Oil sales receipts in testing phase	(2,557)
Transfer to property, plant and equipment	(29,886)
December 31, 2020	-

Note – commercial reserves for the Klymene field were determined on September 30, 2020. In accordance with the Company’s accounting policies and industry practice, (i) prior to this date oil sales of \$2.6 million and oil production costs of \$0.2 million relating to test production from the KBD-02 well were capitalised to exploration & evaluation expenditure, and (ii) upon this determination exploration and evaluation assets were transferred to property, plant and equipment.

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

11 Property, plant and equipment

	Oil and gas properties			Other fixed assets ¹			Total net book amount
	Cost	Amortisation	Total	Cost	Depreciation	Total	
January 1, 2019	159,133	(88,130)	71,003	1,170	(990)	180	71,183
Additions	4,197	-	4,197	36	-	36	4,233
Depletion and depreciation	-	(4,314)	(4,314)	-	(149)	(149)	(4,463)
January 1, 2020	163,330	(92,444)	70,886	1,206	(1,139)	67	70,953
Additions	8,884	-	8,884	80	-	80	8,964
Transfer of exploration & evaluation assets	29,886	-	29,886	-	-	-	29,886
Depletion and depreciation	-	(3,653)	(3,653)	-	19	19	(3,634)
Impairment	(100,158)	42,528	(57,630)	-	-	-	(57,630)
December 31, 2020	101,942	(53,569)	48,373	1,286	(1,120)	166	48,539

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

Oil and gas properties – impairment assessment

As of December 31, 2020, the Company performed an assessment for impairment on the carrying value of its oil and gas assets. The recoverable amount was determined using the higher of Fair Value Less Cost of Disposal (“FVLCD”) or Value in Use.

The Company drilled and tested the AKD-12 deep well in the Akkulka Exploration Contract area during 2020, however, unfortunately commercial quantities of oil were not found. The Company has decided not to drill further wells in the Akkulka area at this time and instead focus its efforts in the Kul-bas Exploration Contract area where the Company successfully tested the recently drilled KBD-02 exploration well. Due to the absence of a development plan for the Akkulka area and assessed potential the Company’s independent reserves evaluator McDaniel Associates did not attribute any reserves to the Akkulka contract area at December 31, 2020. Accordingly, the property, plant and equipment (oil and gas assets) relating to the area have been fully impaired in the amount of \$57,630,00.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

The Companies other Cash Generating Units (“CGU”), were tested for impairment at December 31, 2020. The recoverable amount was determined using the higher of Fair Value Less Cost of Disposal (“FVLCD”) or Value in Use. Based on the impairment test performed by management, the recoverable amount of the CGUs was higher than their carrying values. 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 14.6%.

The cash flow model used is considered a Level 3 fair value technique based on the unobservable inputs used. The FVLCD of the Company’s CGUs at December 31, 2020 was not sensitive to a reasonably possible change in the discount rate.

The FVLCD calculation assumes forecast oil and gas sales prices in \$/bbl and \$/Mcf, which are the December 31, 2020 price forecasts made by the Company’s independent reserve evaluator, McDaniel Associates, as shown in the table below.

	Brent Crude Oil Price (\$/bbl)	Export Crude Oil Price (\$/bbl)	Domestic Crude Oil Price (\$/bbl)	Domestic Gas Price (\$/Mcf)	Inflation rate %/year
Forecast					
2021	49.50	30.78	21.04	2.79	2.00%
2022	53.55	34.19	22.76	2.85	2.00%
2023	54.62	35.26	23.21	2.90	2.00%
2024	55.71	35.72	23.68	2.96	2.00%
2025	56.83	36.84	24.15	3.02	2.00%
2026	57.96	37.97	24.63	3.08	2.00%
2027	59.12	39.13	25.13	3.14	2.00%
2028	60.31	39.68	25.63	3.20	2.00%
2029	61.51	40.88	26.14	3.27	2.00%
2030	62.74	42.11	26.67	3.33	2.00%
2031	64.00	43.37	27.20	3.40	2.00%
2032	65.28	44.01	27.74	3.47	2.00%
2033	66.58	45.32	28.30	3.54	2.00%
2034	67.91	46.65	28.86	3.61	2.00%
2035	69.27	48.01	29.44	3.68	2.00%
2036	70.66	48.76	30.03	3.75	2.00%
2037	72.07	50.17	30.63	3.83	2.00%
2038	73.51	51.61	31.24	3.91	2.00%
2039	74.98	53.08	31.87	3.98	2.00%
2040	76.48	53.95	32.51	4.06	2.00%

An approximate 10% reduction in gas prices from those used in the cash flow model, as shown in the table above, would give rise to an impairment to the Kyzylol Gas CGU. For every further 1% reduction in prices an impairment of \$0.3 million would need to be recorded. For the Akkulka Gas CGU the equivalent figures are 15% and \$0.3 million.

An approximate 27% reduction in oil prices from those used in the cash flow model, as shown in the table above, would give rise to an impairment to the Klymene Oil CGU. For every further 1% reduction in prices an impairment of \$4.5 million would need to be recorded.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

12 Trade and other receivables and joint arrangements

12.1 Trade and other receivables

	2020	2019
Non-current		
VAT recoverable	-	1,264
Advances to construction contractors and other receivables	14	15
	14	1,279
Current		
Trade receivables, gross	134	1,826
Trade receivable, allowance for credit losses	(134)	(149)
Prepayments	513	320
Other receivables	422	247
VAT and other taxes	2,171	990
	3,106	3,234

Current trade and other receivables are unsecured and non-interest bearing. Normal payment terms for the Company are 30 days. As at December 31, 2020, \$134,000 of trade receivables were overdue past 30 days (2019: \$745,000). An allowance for credit losses has been made for \$134,000 (2019: \$149,000).

The other classes within trade and other receivables do not contain impaired assets.

12.2 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, 2020, the carrying value of the Company’s investment in the joint venture was \$ nil (2019: nil) and the carrying value of loans made to the joint venture was also \$ nil (2019: nil) after full impairment in prior years.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

13 Financial liabilities

13.1 Borrowings

	Interest rate per annum	Maturity date	2020	2019
Current				
Corporate loan financing	20%	2020	-	14,103
AGR Energy Limited No.1 loan	18%	2020	-	12,059
Annuity loans	9%	2020	-	6,637
Olisol loan	9%	2020	-	7,397
			-	40,196
Non-current				
Gemini convertible debenture	4-9%	2023	3,019	-
Gemini unsecured loan	6%	2022	2,530	-
			5,549	-
			5,549	40,196

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

Gemini convertible debenture

On April 16, 2020, the Company announced that it had completed the issuance of a convertible debenture to Gemini IT Consultants DMCC ("Gemini") in the amount of \$4.8 million. The debenture has a three year term and both interest and principal are due at maturity. The interest rate is 9% payable if held to maturity or 4% if converted prior to maturity. The amount outstanding on the debenture can be converted at the option of the holder, in whole or in part, at a price of \$0.31 per Tethys Petroleum Limited share on or before the maturity date.

The convertible debenture with Gemini 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 \$2,279,000 and shown within *Other reserves*. The fair value of the loan upon initial recognition 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 91.4% and a risk free rate of 0.4%.

Gemini unsecured loan

On October 27, 2020, the Company announced that it had completed the issuance of an unsecured loan to Gemini in the amount of \$2.5 million. The loan has a two year term and both interest and principal are due at maturity. The interest rate is 6% and can be repaid early at the option of the Company without penalty.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

Corporate loan financing

On January 6, 2020, the Company announced that it had agreed with one of its lenders (Khan Energy (Cayman) SPV Limited) to restructure its loan with 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 was payable 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 two hundred thousand dollars (\$200,000) per month, to repay a portion of the outstanding balance;
- (6) The interest rate was 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.

On April 16, 2020, the Company announced that it had fully repaid the loan by remitting a total of \$7,690,000 million. The above-mentioned loan modification and early repayment resulted in total gains of \$6,935,000 being recognised by the Company.

AGR Energy Limited No.1 loan

On January 17, 2020, the Company announced that it had signed a loan amendment agreement ("Amendment Agreement") with another of its lenders to restructure the loan originally made to the Company by AGR Energy Limited No. 1 (the "Loan") with 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 would be due commencing July 31, 2020.

The monetary claims under the Loan were assigned by AGR Energy Limited No. 1 to a private individual in 2016. In conjunction with the Amendment Agreement, further assignments were made. The Amendment Agreement can be terminated if any of these assignments is declared by a court of competent jurisdiction as invalid, void or is otherwise terminated, in which case the Amendment Agreement would have no effect and the original loan agreement signed with AGR Energy Limited No. 1, as assigned to this individual, would continue in force and effect as if never amended by the Amendment Agreement.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

On May 7, 2020, the Company announced a Second Amendment Agreement relating to the Loan whereby the outstanding loan balance became repayable in three instalments of \$3.0 million on December 31, 2020, June 30, 2021 and December 31, 2021.

On August 25, 2020, the Company entered into a further amendment of the Loan. The amendment included an option to make a repayment of \$4 million by August 31, 2020, which the Company duly made, and a repayment of \$3 million by December 31, 2020 as full repayment of the loan.

On October 14, 2020, the Company announced that a further agreement had been signed allowing Tethys to receive a discount of \$70,000 if it repaid the remaining \$3 million prior to October 19, 2020. Tethys took advantage of this opportunity and retired the Loan from cash on hand. The above-mentioned loan modification and early repayment resulted in total gains of \$6,114,000 being recognised by the Company.

Annuity loans

On January 27, 2020, the Company announced that holders of the loans originally made to Annuity and Life Reassurance Ltd had elected to convert in full, the principal and accrued interest outstanding on the Loans of \$5,776,000 into 18,631,569 Tethys ordinary shares at a price of \$0.31 per share. The loans had been accruing interest at 9% per annum, compounded semi-annually which would have been due on maturity, although, in accordance with the agreements this rate was reduced to 4% per annum as a result of the conversion. The above-mentioned loan conversion resulted in total gains of \$903,000 being recognised by the Company.

The Annuity loans were treated as a compound instrument in accordance with IAS 32 – *Financial instruments: Presentation*. The conversion option was treated on initial recognition as a component of equity measured at its fair value of \$1,643,000 and shown within *Other reserves*. Upon conversion of the loans into Tethys ordinary shares this amount has been transferred from *Other reserves* to the *Accumulated deficit*.

Olisol loan

On February 8, 2020 the Company announced that it had reached a legally binding settlement agreement with Olisol Petroleum Limited (“Olisol”) and certain of its affiliated companies and their principals and DSFK Special Finance Company (“DSFK”), (hereinafter the “Settlement Agreement”).

The key terms of the Settlement Agreement, insofar as they affect Tethys, are:

- (1) Tethys and Olisol agreed to discontinue the Canadian lawsuit commenced by Tethys on January 27, 2017 with no order as to costs and the parties agreed not to bring any further claims in respect of the disputed matters in the Canadian lawsuit;
- (2) Tethys agreed to issue 18,000,000 ordinary shares to Olisol in full satisfaction, and in exchange for full repayment, of all amounts owing under the facility agreement between the parties. Based on the amount claimed by Olisol to be owing at December 31, 2019 of \$7,397,000 this equated to a price of

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

\$0.41 per ordinary share There was no gain or loss arising from this element of the Settlement Agreement;

- (3) Olisol agreed to sell a total of 2,809,036 Tethys ordinary shares to existing shareholder Gemini IT Consultants DMCC (“Gemini”) for an aggregate of \$1,151,705, at a price of \$0.41 per Share. The proceeds of the sale were to be delivered by Olisol to DSFK;
- (4) Olisol agreed, for a period of three years, to always exercise the voting rights attaching to its ordinary shares in Tethys in accordance with the recommendation of the Tethys Board of Directors;
- (5) Tethys subsidiary, Tethys Aral Gas LLP (“TAG”), agreed to pay DSFK a settlement payment of KZT 1,434,692,762 (approximately \$3.4 million) to cancel and release TAG from all obligations under the pledge agreements under which TAG’s gas transportation assets were pledged to DSFK;
- (6) The settlement payment referred to in (5) above was to be funded from the proceeds of a convertible debenture which Tethys agreed to issue to Gemini and which Gemini agreed to subscribe for (the “Debenture”). The Debenture would be for an amount of no less than \$4.6 million with a three year term, interest and principal due at maturity, interest rate of 9% payable if held to maturity or 4% if converted prior to maturity. The issuance of the Debenture would be subject to the approval of the TSXV, assuming that Tethys was able to move its listing from the NEX to the TSXV;
- (7) Olisol agreed to pay TAG KZT 227,223,284 (approximately \$0.6 million) to settle unpaid oil sales debts owing to TAG;
- (8) DSFK and Olisol agreed to release Tethys and TAG from all claims, and not to sue Tethys and TAG, in respect of the disputed matters, and vice versa; and
- (9) Those parties to the Settlement Agreement, which are also parties to Kazakhstan court proceedings brought by DSFK, would seek to execute a mediation agreement reflecting their rights and obligations under the Settlement Agreement and have this approved by the Republic of Kazakhstan Court.

The obligation of Tethys and TAG to complete the transactions contemplated by the Settlement Agreement were subject to prior receipt of any approvals required by relevant securities laws or stock exchange rules, Gemini having subscribed and paid for the Debenture and Tethys satisfaction that all necessary DSFK corporate approvals have been obtained. Whilst not part of the Settlement Agreement, Gemini planned to grant William Wells a six month option to purchase 50% of the Debenture at cost, plus accrued interest.

On June 8, 2020, the Company announced that the Kazakhstan Supreme court had ratified the agreement effective May 26, 2020. The Company subsequently made the required financial payment of 1,434,692,762 Tenge, equivalent to \$3,424,000, and issued the 18 million shares necessary to complete and finalise the agreement. At the date of these Consolidated Financial Statements DSFK has not yet released TAG from all obligations under the pledge agreements under which TAG’s gas transportation assets were pledged to DSFK.

13.3 Other gains and losses

Other gains and losses of \$15,030,000 includes gains of \$13,952,000 (2019: \$4,109,000) arising from early settlement of borrowings at less than carrying value, refer to note 13.2 above for further details. The prior

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

year amount includes an amount of \$3.8 million accrued to settle the DSFK legal dispute relating to the former Kazakhstan loan. The liability was settled in 2020 by payment of the required Kazakhstan Tenge amount, equivalent to \$3,424,000 at the payment date rate of exchange.

13.3 Finance costs

The net finance cost comprises:

	2020	2019
Finance costs - borrowings	2,609	6,311
Finance costs – discount on asset retirement obligation	159	110
Finance income	(123)	(20)
Total	2,645	6,401

14 Trade and other payables

	2020	2019
Current		
Trade payables	4,120	1,817
Accruals	2,189	6,295
Other creditors	2,043	2,255
	8,352	10,367

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 2020 and 2019 supplier payments were made on average later than the contractual payment terms.

15 Asset retirement obligations

	2020	2019
Balance, beginning of year	1,689	1,402
Additions/change in estimated liability	(142)	181
Unwinding of discount	159	106
Balance, end of year	1,706	1,689

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 2022 and 2029 and on average have been estimated to cost \$35,000 per well (2019: \$32,500). The provision has been estimated using existing technology at current prices, escalated at 5.3% (2019: 5.4%) and discounted at 9.7% (2019: 7.4%) representing the rate of return on Republic of Kazakhstan government securities with a similar term to the asset retirement obligations. 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

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

of third party service provision. The undiscounted amount of liability at December 31, 2020 is \$2,541,000 (2018: \$2,426,000).

16 Capital and reserves

Share capital and share premium

		Number of shares		
Authorised as at December 31, 2020:				
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, 2019:				
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		
Ordinary equity share capital				
Allotted and fully paid	Date	Number	Share Capital	Share Premium
At January 1, 2019 and December 31, 2019		68,324,430	6,832	360,769
Jaka Partners loan conversion	27 January 2020	4,657,892	466	978
Annuity & Life loan conversion	27 January 2020	13,973,677	1,397	2,935
Olisol Petroleum loan conversion	29 May 2020	18,000,000	1,800	6,132
At December 31, 2020		104,955,999	10,495	370,814

The Gemini convertible debenture, including interest accruing to the maturity date, is convertible into a total of up to 16,487,858 (2019 Annuity loans: 18,631,606) ordinary shares, refer to note 13 for further details.

Preference shares

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.

No preference shares have been issued by the Company.

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 below.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

Share options and warrants

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.

The following table lists the options outstanding at December 31, 2020 by exercise price:

Local	Exercise price	Outstanding	Weighted average	Exercisable	Weighted average
	\$ equivalent				
GBP0.25	0.33	1,128,438	5.25	-	5.25

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

	2020		2019	
	Number of options	Weighted average exercise price (\$)	Number of options	Weighted average exercise price (\$)
Allotted at January 1	1,362,188	0.43	1,362,188	0.42
Expired	(233,750)	0.92	-	-
Allotted at December 31	1,128,438	0.34	1,362,188	0.43
Exercisable at December 31	-	-	-	-

Warrants issued

The following table summarises the warrant activity for the years ended December 31, 2020 and December 31, 2019.

	2020		2019	
	Number of warrants	Weighted average exercise price (\$)	Number of warrants	Weighted average exercise price (\$)
Allotted at January 1	-	-	14,422,500	0.31
Granted	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	(14,422,500)	0.31
Allotted and exercisable at December 31	-	-	-	-

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

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

17 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
Tethyda Limited	100%	Group financing	Cyprus	Cyprus
TPL Holdings Limited	100%	Inactive	Cyprus	Cyprus
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%	Inactive	Kazakhstan	Kazakhstan
Asia Oilfield Equipment BV	100%	Inactive	Netherlands	Kazakhstan
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") is a Registered Investment Advisor managed by William P. Wells (Executive Chairman of Tethys). PAM clients own approximately 28.4% of the Company's shares at December 31, 2020. The Company had two loans from Annuity (a Pope Asset client) outstanding at December 31, 2019, further details of which are disclosed in note 13. These loans were converted in January 2020.

Jaka Partners FZC

Jaka Partners FZC ("Jaka") owned 16.6% of the Company's shares at December 31, 2020. Jaka acquired a 25% interest in the two loans originally made by Annuity which were outstanding at December 31, 2019, further details of which are disclosed in note 13. These loans were converted in January 2020.

Gemini IT Consultants DMCC

Gemini IT Consultants DMCC ("Gemini") owned 7.6% of the Company's shares at December 31, 2020. Gemini made two loans to the Company during the year, details of which are given in note 13.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

Olisol Petroleum Limited

Olisol Petroleum Limited (“Olisol”) owned 23.2% of the Company’s shares at December 31, 2020. On May 29, 2020, 18 million shares were issued to Olisol as part of a settlement agreement, including settling a loan with estimated outstanding balance of \$7,932,000.

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.

	2020	2019
Salaries and short-term employee benefits	551	530
Total	551	530

18 Notes to the Consolidated Statements of Cash Flow

18.1 Changes in working capital

	2020	2019
Trade and other receivables	9	(302)
Inventories	241	(257)
Trade and other payables	3,233	1,997
Unearned income	8,137	-
Change in working capital	11,620	1,438
Non-cash transactions	1,002	(4,099)
Net changes in working capital	12,622	(2,661)

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

	2020	2019
Operating activities	11,260	(1,448)
Investing activities	1,362	(1,213)
Balance	12,622	(2,661)

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

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

	Financial liabilities			Equity	Total
	Non-current borrowings	Current borrowings	Non-current trade & other payables	Net interest	
January 1, 2019	5,281	28,604	-	-	33,885
Reclassification	(5,281)	5,281	-	-	-
Interest expense (note 13.2)	-	6,311	-	-	6,311
January 1, 2020	-	40,196	-	-	40,196
Repayment of current borrowings	-	(14,620)	-	-	(14,620)
New borrowings	7,304	-	-	-	7,304
Net cash used in financial activities	7,304	(14,620)	-	-	(7,316)
Interest expense (note 13.2)	524	2,085	-	-	2,609
Equity related changes	(2,279)	(25,576)	-	-	(29,940)
December 31, 2020	5,549	-	-	-	5,549

19 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.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

Exploration and Production Contract Work Programs

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-fulfilment. 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:

	Kazakhstan Work Program Commitments			
	Expiry date	Program 2020	Spend to date 2020	Program 2021 & later
Akkulka Production Contract (Gas)	2026			
Financial obligations, total		1,578	4,063	9,415
Investments		552	2,078	4,558
Kyzyloi Production Contract (Gas)	2029			
Financial obligations, total		5,606	5,021	44,472
Investments		3,514	2,384	21,457
Akkulka Exploration Contract (Oil)	2022			
Financial obligations, total		7,088	2,689	3,800
Investments		6,452	1,427	3,090
Kul-Bas Exploration Contract	2019			
Financial obligations, total		4,098	6,016	7,845
Investments		4,098	5,589	7,845
Total				
Financial obligations, total		18,370	17,789	65,532
Investments (subset of Financial obligations)		14,616	11,478	36,950

The amounts shown in the table above under ‘Spend to date’ have been incurred in 2020 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 Statements of Loss and Comprehensive 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 2021 & 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.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

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.

Tajikistan

In May 2016, the Company's former 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 a final arbitration award in respect of Kulob's interest in the Bokhtar Production Sharing Contract and Joint Operating Agreement and Shareholders' Agreement 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") ordered, inter alia, that Kulob should pay Total and CNPC an amount of damages amounting to approximately \$13.9 million.

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 it was not a party to the arbitration, does not believe it is responsible for the obligations of Kulob and has not provided any guarantees on behalf of Kulob. Total and CNPC have asserted that the Company should be responsible for Kulob's liabilities however the Company does not believe there is any basis for this claim.

Tethys Petroleum Limited

Notes to Consolidated Financial Statements

For the year ended 31 December 2020

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

20 Subsequent events

The following subsequent events have been treated as non-adjusting as so have not been reflected in these consolidated financial statements, except where noted below.

Private placement

In order to fund short term cash obligations, the Company completed a private equity placement for 2,592,115 ordinary shares at 0.67 CAD per share (C\$1,736,717), approximately \$1.4 million. These proceeds will be used to fund previously incurred drilling expenses, 3D and 2D seismic expenses as well as general and administrative expenses. The placement is to Pope Investments II, LLC, an investment fund managed by Pope Asset Management, LLC. William Wells, the Chairman of Tethys Petroleum is the President of Pope Asset Management, LLC and has a minority ownership interest in Pope Investments II, LLC.