Tethys Petroleum Limited

Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

Contents

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

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

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

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

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

We confirm that to the best of our knowledge:

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

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

We draw attention to the section entitled “Going concern” in note 1 to the Consolidated Financial Statements which describes the material uncertainties relating to the Company’s adoption of the going concern basis in preparing the Financial Statements for the year ended December 31, 2016 that may cast significant doubt about Tethys Petroleum Limited’s ability to continue as a going concern.

For and on behalf of the Board

W. Wells	**A. Ogunsemi**
Chairman	Director
March 31, 2017	March 31, 2017

Independent Auditor's Report

To the Shareholders of Tethys Petroleum Limited

We have audited the accompanying consolidated financial statements of Tethys Petroleum Limited and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015 and the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Tethys Petroleum Limited and its subsidiaries as at December 31, 2016 and December 31, 2015 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants
Calgary, Alberta, Canada
March 31, 2017

PricewaterhouseCoopers LLP
111 – 5th Avenue SW, Suite 3100, Calgary, Alberta, Canada, T2P 5L3
T: +1 403 509 7500, F: +1 403781 1825

Tethys Petroleum Limited

Consolidated Statements of Financial Position

As at December 31
(in thousands of US dollars)

	Note	2016	2015
Non-current assets			
Intangible assets	13	42,732	64,202
Property, plant and equipment	14	103,115	113,397
Restricted cash	15	2,238	2,233
Investment in joint arrangements	18	4	4
Trade and other receivables	16	1,237	2,457
Deferred tax	11	208	226
		149,534	**182,519**
Current assets			
Cash and cash equivalents	20	449	3,272
Trade and other receivables	16	6,532	3,710
Inventories		676	879
Restricted cash	15	2,713	215
		10,370	**8,076**
Total assets		**159,904**	**190,595**
Non-current liabilities			
Trade and other payables	22	44	133
Financial liabilities - borrowings	21	-	22,873
Deferred tax	11	11,913	10,792
Provisions	23	910	846
		12,867	**34,644**
Current liabilities			
Financial liabilities - borrowings	21	33,249	9,159
Derivative financial instruments	21	-	275
Current taxation		522	398
Trade and other payables	22	19,838	14,189
Provisions	9	200	360
		53,809	**24,381**
Total liabilities		**66,676**	**59,025**
Equity			
Share capital	24	5,081	33,696
Share premium	24	358,444	321,803
Other reserves	24	43,648	43,166
Accumulated deficit		(320,041)	(273,189)
Non-controlling interest	25	6,096	6,094
Total equity		**93,228**	**131,570**
Total equity and liabilities		**159,904**	**190,595**
Going concern	1		
Commitments and contingencies	28		

The notes on pages 7 to 55 form part of these consolidated financial statements. The consolidated financial statements were approved by the Board on March 31, 2017 and were signed on its behalf.

W. Wells
Chairman

A. Ogunsemi
Director

Tethys Petroleum Limited

Consolidated Statements of Comprehensive Income (Loss)

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

	Note	2016	2015
Sales and other revenues	7	11,734	22,135
Sales expenses	2	(2,443)	(4,210)
Production expenses		(5,285)	(10,232)
Depreciation, depletion and amortisation		(9,971)	(28,731)
Exploration and evaluation expenditure written off	13	(25,627)	(25,918)
Impairment charges	14	(1,176)	-
Administrative expenses	8	(5,461)	(9,492)
Restructuring costs	9	(1,915)	(3,247)
Transaction costs of assets held for sale	19	-	(1,065)
Share based payments	10	(482)	(450)
Profit on sale of fixed assets		-	53
Foreign exchange gain/(loss)		117	(1,715)
Fair value gain on derivative financial instrument		275	824
Loss from jointly controlled entity	17	-	(2,796)
Finance costs	21	(5,313)	(3,329)
		(57,281)	(90,308)
Loss before tax from continuing operations		**(45,547)**	**(68,173)**
Taxation	11	(1,303)	(6,430)
Loss for the year from continuing operations		**(46,850)**	**(74,603)**
Loss for the year from discontinued operations net of tax	5	**-**	**(28)**
Loss and total comprehensive income for the year		**(46,850)**	**(74,631)**
Loss and total comprehensive income attributable to:			
Shareholders		(46,852)	(74,629)
Non-controlling interest		2	(2)
Loss and total comprehensive income for the year		**(46,850)**	**(74,631)**
Loss per share attributable to shareholders:			
Basic and diluted - from continuing operations (USD)	12	(0.12)	(0.22)
Basic and diluted - from discontinued operations (USD)	12	-	-
Basic and diluted - Total loss per share (USD)		(0.12)	(0.22)

No dividends were paid or are declared for the year (2015: Nil).

The notes on pages 7 to 55 form part of these consolidated financial statements.

Tethys Petroleum Limited

Consolidated Statements of Changes in Equity

(in thousands of US dollars)

		Attributable to shareholders						
	Note	**Share capital**	**Share premium**	**Accumulated deficit**	**Option reserves**	**Warrant reserves**	**Non-controlling interest**	**Total equity**
At January 1, 2015		**33,645**	**321,724**	**(198,560)**	**26,244**	**16,601**	**6,096**	**205,750**
								-
Comprehensive loss for the year		-	-	(74,629)	-	-	(2)	(74,631)
Transactions with shareholders						-	-	-
Shares issued		51	79	-	-	-	-	130
Share-based payments		-	-	-	321	-	-	321
Total transactions with shareholders		51	79	-	321	-	-	451
At December 31, 2015	24	**33,696**	**321,803**	**(273,189)**	**26,565**	**16,601**	**6,094**	**131,570**
Comprehensive loss for the year		-	-	(46,852)	-	-	2	(46,850)
Transactions with shareholders								
Shares issued		7,385	641	-	-	-	-	8,026
Share-based payments		-	-	-	482	-	-	482
Par value reduction		(36,000)	36,000	-	-	-	-	-
Total transactions with shareholders		(28,615)	36,641	-	482	-	-	8,508
At December 31, 2016	24	**5,081**	**358,444**	**(320,041)**	**27,047**	**16,601**	**6,096**	**93,228**

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

The notes on pages 7 to 55 form part of these consolidated financial statements.

Tethys Petroleum Limited

Consolidated Statements of Cash Flows

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

	Note	2016	2015
Cash flow from operating activities			
Loss before tax from continuing operations		(45,547)	(68,173)
Loss before tax from discontinued operations[1]	5	-	(28)
		(45,547)	**(68,201)**
Adjustments for:			
Share based payments	10	482	450
Net finance cost		5,313	3,329
Depreciation, depletion and amortisation		9,971	28,731
Unsuccessful exploration and evaluation expenditures	13	25,627	25,918
Impairment charges	14	1,176	-
Profit on sale of fixed assets		-	(53)
Fair value gain on derivative financial instruments		(275)	(824)
Net unrealised foreign exchange gain		(318)	(114)
Loss from jointly controlled entity		-	2,796
Movement in provisions		(1,901)	(4,646)
Net change in working capital	27	1,249	752
Cash used in operating activities		**(4,223)**	**(11,862)**
Corporation tax paid		(33)	(136)
Net cash used in operating activities		**(4,256)**	**(11,998)**
Cash flow from investing activities			
Interest received		-	183
Expenditure on exploration and evaluation assets		(619)	(5,798)
Expenditure on property, plant and equipment		(789)	(2,495)
Proceeds from sale of fixed assets		23	121
Movement in restricted cash		(2,503)	214
Movement in advances to construction contractors		(47)	416
Movement in value added tax receivable		650	1,284
Net change in working capital	27	225	(1,275)
Net cash used in investing activities		**(3,060)**	**(7,350)**
Cash flow from financing activities			
Proceeds from issuance of borrowings, net of issue costs	21	7,930	28,107
Repayment of borrowings	21	(1,395)	(10,269)
Interest paid on borrowings		(3,369)	(1,448)
Proceeds from issuance of equity		1,400	-
Movement in other non-current liabilities		(114)	(313)
Net cash from financing activities		**4,452**	**16,077**
Effects of exchange rate changes on cash and cash equivalents		41	2,675
Net decrease in cash and cash equivalents		**(2,823)**	**(596)**
Cash and cash equivalents at beginning of the year		3,272	3,868
Cash and cash equivalents at end of the year		**449**	**3,272**

Note 1 Amounts related to discontinued operations are disclosed in note 5.

The notes on pages 7 to 55 form part of these consolidated financial statements.

1 General information and going concern

Tethys Petroleum Limited is incorporated in the Cayman Islands and the address of the Company's registered office is 89 Nexus Way, Camana Bay, Grand Cayman, Cayman Islands. Tethys is an oil and gas company operating within the Republic of Kazakhstan, Republic of Tajikistan and Georgia. Tethys' principal activity is the acquisition of and exploration and development of crude oil and natural gas fields.

The Company has its primary listing on the Toronto Stock Exchange ("TSX") and a standard listing on the London Stock Exchange ("LSE"). The Company is also listed on the Kazakhstan Stock Exchange ("KASE").

Going concern

The Management and the Board has considered the Company's current activities, funding position and projected funding requirements for the period of at least twelve months from the date of approval of the consolidated financial statements in determining the ability of the Company to adopt the going concern basis in preparing the consolidated financial statements for the year ended December 31, 2016. The Company currently does not have sufficient funding to fund its obligations for the next twelve months.

Although these consolidated financial statements have been prepared on a going concern basis in accordance with IFRS, which contemplates the realisation of assets and settlement of liabilities in the normal course of business as they come due, events and uncertainties which are discussed below raise significant doubt about the Company's ability to continue as a going concern, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

The Company reported a loss of USD 46.8 million for the year ended December 31, 2016 (2015: USD74.6 million) and an accumulated deficit as at that date of USD320.0 million (2015: USD273.2 million) and negative working capital of USD43.4 million (2015: negative USD16.3 million). In addition, the Company reported negative cash flow from operating activities before tax of USD4.3 million for the year ended December 31, 2016 (2015: USD12.0 million).

The Company also has various commitments and contingencies as described in note 28. These include a Kazakhstan court imposed freezing order on the bank accounts, production assets, shares and subsoil use contracts of Tethys subsidiary Tethys Aral Gas LLP ("TAG") pending the outcome of a commercial claim which the Company considers to be without merit or substance.

In order to support the Company's short term liquidity position, which has been adversely affected by the decrease in world oil prices, management has been implementing a cost reduction programme with respect to its operating costs, administrative and capital expenditures.

On April 28, 2016 Tethys signed an amended and restated investment agreement ("Amended and Restated Investment Agreement") with Olisol Petroleum Limited and Olisol Investments Limited (together "Olisol") under which Olisol undertook by October 27, 2016 to provide equity investments to Tethys in the amount of USD7.5 million (USD equivalent of CDN9.8 million) and also extended a working capital loan in the amount of USD5.7 million which Olisol could convert into additional shares. It was expected that Olisol would acquire at least 42% of the ordinary shares of Tethys and become a good in-country partner for Tethys in Kazakhstan. Olisol did not provide any of the funds due on the closing date of the Amended and Restated Investment Agreement and has sought to terminate the Amended and Restated Investment Agreement and demand repayment of its loan. The Company does not believe that Olisol has the right to terminate the Amended and Restated Investment Agreement or that the loan is repayable.

On January 26, 2017 Tethys and each of its Kazakhstan subsidiaries commenced legal action against Olisol and certain of its principals and/or affiliates in the Court of Queen's Bench of Alberta seeking, among other things, damages arising from failure to meet contractual obligations under the Amended and Restated Investment Agreement.

On November 29, 2016 the Company announced that it had completed private placements with two investors who each acquired approximately 9.9% of the ordinary shares of the Company for proceeds of USD1.4 million. The investors have offered to work with Tethys to:

- Obtain a bank loan from a reputable bank in Kazakhstan for TAG to enable it to repay and restructure current loans and to fund operations;
- Market the Company's gas sales for export and improve the pricing of the Company's oil and gas products; and
- Engage with the Company's current corporate lenders with a view to restructuring existing loan terms in order to improve cash flow.

These efforts are ongoing. The Company is actively working to restructure existing loans and working with drilling companies who may be prepared to provide the funding to develop specific licence assets owned by the Company on a deferred payment or contingent production sharing basis. Three of the Company's loans falling due in 2017 have been restructured subsequent to December 31, 2016, refer to note 30 for further details and discussions with other lenders regarding restructuring is ongoing.

Tethys' future operations and earnings will depend upon the success of these efforts and the results of its operations in the Republic of Kazakhstan, Republic of Tajikistan and Georgia. There can be no assurance that Tethys will be able to successfully conduct such operations, and a failure to do so would have a material adverse effect on Tethys' financial position, results of operations and cash flows. Also, the success of Tethys' operations will be subject to numerous contingencies, some of which are beyond management's control. These contingencies include general and regional economic conditions, prices for crude oil and natural gas, competition and changes in regulation. Since Tethys is dependent on international operations, Tethys will be subject to various additional political, economic and other uncertainties. Among other risks, Tethys' operations may be subject to the risks and restrictions on transfer of funds, import and export duties, quotas and embargoes, domestic and international customs and tariffs, and changing taxation policies, foreign exchange restrictions, political conditions and regulations.

These circumstances indicate the existence of a material uncertainty related to events or conditions that may cast significant doubt about the Company's ability to continue as a going concern and accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

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

2 Summary of significant accounting policies

Basis of preparation

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

Statement of compliance

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

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

Discontinued operation

The results of the Uzbekistan segment have been disclosed as a discontinued operation and shown separately from the results of the Company's continuing operations in Kazakhstan, Tajikistan and Georgia. Further details are given in note 5.

New and amended accounting standards adopted by the Company

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

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

- IFRS 9 — Financial Instruments, addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In July 2014, the IASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard. The standard is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

- IFRS 15 — Revenue from contracts with customers ("IFRS 15"), has been issued as a new standard on revenue recognition and will supersede IAS 18, Revenue, IAS 11, Construction Contracts and related interpretations. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

- IFRS 16 — Issued as a new standard on leases and will supersede IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

- IAS 7 — Disclosure Initiative, amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments apply prospectively for annual periods beginning on or after January 1, 2017 with earlier application permitted. The Company does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

- IAS 12 — Recognition of Deferred Tax Assets for Unrealised Losses, the amendments clarify a number of technical issues. The amendments are effective for annual periods beginning on or after January 1, 2017. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

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 26, have been consolidated into the Company's consolidated financial statements.

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

Loss of control

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

Business combinations

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

Joint arrangements

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

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

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

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

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

Segment reporting

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

Foreign currency translation

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"), translated into USD where relevant. These consolidated financial statements are presented in USD, which is the Company's presentation currency.

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

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

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

Oil and gas exploration and evaluation expenditure

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

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

Farm-out arrangements

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

Test production and the appraisal and development phase

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

Oil and gas properties in the production phase

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

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

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

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

Other property, plant and equipment

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

Drilling rigs and related oil and gas equipment	Straight line	5 – 7 years
Smaller rig related equipment	Straight line	6 – 8 years
Vehicles	Straight line	4 years
Computer equipment	Straight line	3 years
Office equipment	Straight line	5 years

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

Impairment of non-financial assets

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

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

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

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

Asset retirement obligation (“ARO”)

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

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

Financial instruments

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

Restricted cash

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

Current restricted cash comprises monies placed on temporary deposit as security against corporate credit cards and a deposit with the Ministry of Finance in Dubai as fixed term deposits with banks.

Trade receivables, loans and other receivables

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

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

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income. When a trade receivable is not collectable, it is written off against the allowance account for trade receivables.

Cash and cash equivalents

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

Financial liabilities - borrowings

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

Trade payables

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

Equity instruments

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

Derivative financial instruments

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

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract.

Contracts are assessed for embedded derivatives when the Company becomes a party to them, including at the date of a business combination.

Inventories

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

Non-current assets held for sale and discontinued operations

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

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

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

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

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

Taxation including deferred taxation

The tax expense represents current tax and deferred tax.

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

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

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

Share–based payments

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

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

Warrants

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

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

Provisions

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

Revenue recognition

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

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

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

Sales expenses

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

Borrowing costs

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

Leases

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

Fair value

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

Amortised Cost

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

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

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 programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

The Executive 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:

	2016	2015
Trade receivables	2,241	918
Cash and cash equivalents	449	3,272
Restricted cash	4,951	2,448
	7,641	**6,638**

Concentration of credit risk associated with the above trade receivable balances in Kazakhstan is as a result of contracted sales to two customers during the year. The Company is dependent upon these customers for sales due to the location of oil production and the requirement to sell gas to the State Company. At December 31, 2016, the trade receivable amounted to USD2,241,000 (2015: USD918,000). Of this, USD1,454,000 of the trade receivables are overdue past 30 days (2015: USD nil), refer also to note 26.

Although a significant amount of the deposits at financial institutions are not covered by bank guarantees, the Company does not believe there to be a significant risk of credit loss as the majority of counterparty banks used are those with high credit ratings (A- or equivalent) assigned by international ratings agencies (Fitch and Standard and Poors). Banks used in Central Asia generally do not have credit ratings assigned by international ratings agencies, however, deposits held with these banks are kept to a minimum as much as possible.

The Company is exposed to credit risk in relation to its loans receivable from jointly controlled entities to the extent that the jointly controlled entities fail to meet their contractual obligations. The Company has impaired the balance due, to nil from jointly controlled entities at the reporting date.

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. This risk relates to the Company's ability to generate or obtain sufficient cash or cash equivalents to satisfy these financial obligations as they become due. Since inception, the Company has incurred significant consolidated losses from operations and negative cash flows from operating activities, and has an accumulated deficit at December 31, 2016. Refer also to note 1 - Going concern.

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

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

As at December 31, 2016	Carrying amount	Contractual cash flows	Less than 1 year	1-3 years	4-5 years	Thereafter
Non-derivative financial liabilities						
Trade and other payables	19,882	19,882	19,838	44	-	-
Financial liabilities - borrowings (note 21)	33,249	36,015	36,015	-	-	-
Total	**53,131**	**55,897**	**55,853**	**44**	**-**	**-**

As at December 31, 2015	Carrying amount	Contractual cash flows	Less than 1 year	1-3 years	4-5 years	Thereafter
Non-derivative financial liabilities						
Trade and other payables	14,322	14,322	14,189	133	-	-
Financial liabilities - borrowings (note 21)	32,032	37,772	11,924	25,848	-	-
Total	**46,354**	**52,094**	**26,113**	**25,981**	**-**	**-**

It is not expected that the cash flows included in the maturity schedule could occur significantly earlier, or at significantly different amounts. See note 30 – Subsequent events, for post balance sheet date update on the financial liabilities.

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

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 crude oil and gas. The marketability and price of natural gas and 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. The Company entered into a fixed price contract for sales of gas from the Akkulka and Kyzyloi fields in Kazakhstan for the year ended December 31, 2016. Contractual terms for 2017 have not yet been agreed. However, any material decline in natural gas prices could result in a reduction of Tethys' future net production revenues and impact on the commercial viability of the Company's existing and future oil and gas discoveries. It may become uneconomic to produce from some wells as a result of lower prices, which could result in a reduction in volumes and the value of Tethys' gas reserves, if the Company elected not to produce from certain wells at lower prices.

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

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, 2016 and 2015.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will be affected by changes in market interest rates. Existing long term debt is agreed at fixed interest rates and consequently has limited exposure to changes in market interest rates.

The Company is exposed to interest rate risk on short term deposits to the extent that reductions in market interest rates would result in a decrease in the interest earned by the Company. A decrease of 1% in the interest rate would have had minimal impact on the Company's results for the year (2015: USD nil).

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

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

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

As at December 31, 2015	Fixed rate financial instruments	Variable rate financial instruments	Total
Restricted cash	2,238	2,713	4,951
Cash and cash equivalents	-	449	449
Financial liabilities - borrowings	(33,249)	-	(33,249)
Total	**(31,011)**	**3,162**	**(27,849)**

Foreign exchange risk

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

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

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

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

In USD'000 equivalent as at December 31, 2015	GBP[1]	KZT[1]
Cash and cash equivalents	246	641
Trade and other receivables	166	4,513
Trade and other payables	(796)	(366)
Financial liabilities –borrowings	(2,170)	(2,571)
Net exposure	**(2,554)**	**2,217**

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

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

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

Effect to profit or (loss) before tax in USD'000	2016	2015
GBP	(161)	(255)
KZT	335	222
Total	**174**	**(33)**

A 10% strengthening of the USD against the currencies above at December 31, 2016 would have had an equal but opposite effect on the amounts shown above, assuming all other variables remained constant.

b) Capital risk management

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

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

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

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

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

	2016	2015
Total financial liabilities - borrowings (note 21)	33,249	32,032
Less: cash and cash equivalents	(449)	(3,272)
Net debt/(funds)	**32,800**	**28,760**
Total equity	93,228	131,570
Total capital	**126,028**	**160,330**

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

c) Fair value hierarchy

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities. The Company does not have any assets or liabilities that require Level 1 inputs.

Level 2: Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly. For the Company, Level 2 inputs include prices that can be corroborated with other observable inputs for substantially the complete term of the contract.

Level 3: Unobservable inputs. For the Company, Level 3 inputs include production and price assumptions that are not based on observable market data (unobservable inputs) or are reliant on adjustments or interpolations are made by management to an otherwise standard valuation model.

Warrants (note 21.2)	**2016**	**2015**
Level 1	-	-
Level 2	-	275
Level 3	-	-
Total	**-**	**275**

4 Critical judgements and accounting estimates

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

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

Critical accounting estimates and assumptions

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

Recoverability of asset carrying values

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

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

Oil and gas reserves

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

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

Functional currency

The Company has foreign operations, principally in Kazakhstan. Significant judgement 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.

Other significant areas of judgement

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, 2016. The assessment of the Company's ability to execute its strategy to meet its future funding requirements involves judgement.

Fair value of stock based compensation and warrants

The estimates and assumptions made in relation to the fair value of stock based compensation and warrants and the associated expense recognition are subject to measurement uncertainty.

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 judgement and interpretations with respect to the integration between assets, the existence of active markets, similar exposure to market risks, shared infrastructures, and the way in which management monitors its operations.

5 Discontinued operations

The Board formally decided in December 2013 to exit from Uzbekistan and the results of the Uzbekistan segment have been disclosed as a discontinued operation and shown separately from the results of the Company's continuing operations in Kazakhstan, Tajikistan and Georgia. The results from discontinued operation can be summarised as follows:

	2016	**2015**
Expenses	-	(28)
Loss after tax	-	(28)
Cash flows from the discontinued operation were as follows:		
Net cash used in operating activities	-	(307)
Net cash used in discontinued operations	-	(307)

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

6 Segmental Reporting

Geographical segments

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

The Board of Directors consider the business from predominantly a geographic perspective and the Company currently operates in three geographical markets: Kazakhstan, Tajikistan and Georgia. The company has discontinued operations in Uzbekistan and the results for the Uzbekistan segment have been shown separately from the rest of the Company.

In Kazakhstan, the Company is producing oil and gas from the Kyzyloi and Akkulka fields and is undertaking exploration and evaluation activity in the Kul-bas field. In Tajikistan and Georgia, the Company is currently undertaking exploration and evaluation activity.

The Company also operates a corporate segment which acquired several drilling rigs and related oil and gas equipment which are utilised in Kazakhstan according to operational requirements and which has provided loan funding for development activities in Kazakhstan.

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

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

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

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

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

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

There was no capitalisation of amortisation of assets held in the Corporate segment during the year.

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

2015	Kazakhstan	Tajikistan	Georgia	Corporate	Continuing operations	Uzbekistan[2]	Total
Gas sales	16,228	-	-	-	16,228	-	16,228
Oil sales	5,898	-	-	-	5,898	-	5,898
Other income	9	-	-	-	9	-	9
Other operating income	-	-	-	919	919	-	919
Segment revenue and other income	**22,135**	**-**	**-**	**919**	**23,054**	**-**	**23,054**
Inter-segment revenue	-	-	-	(919)	(919)	-	(919)
Segment revenue and other income from external customers	**22,135**	**-**	**-**	**-**	**22,135**	**-**	**22,135**
Loss from jointly controlled entity	(2,796)	-	-	-	(2,796)	-	(2,796)
Loss before taxation	**(26,842)**	**(25,934)**	**(4)**	**(15,393)**	**(68,173)**	**(28)**	**(68,201)**
Taxation	(6,234)	-	-	(196)	(6,430)	-	(6,430)
Loss for the year	**(33,076)**	**(25,934)**	**(4)**	**(15,589)**	**(74,603)**	**(28)**	**(74,631)**
Total assets[1]	137,733	22,026	12,944	126,804	299,507	-	190,369
Total liabilities[1]	126,588	9,160	1	32,098	167,847	90	58,799
Cash expenditure on exploration & evaluation assets, property, plant and equipment	2,754	4,631	908	-	8,293	-	8,293
Depreciation, depletion & amortisation	25,388	-	-	3,343	28,731	-	28,731

Note 1 – Total is after elimination of inter-segment items of USD109,138,000.

Note 2 - Discontinued operation in 2013 (note 5).

In Kazakhstan sales were made to two customers representing greater than 10% of total segment revenue of USD16,228,000 and USD5,898,000.

Borrowing costs of USD595,000 and USD724,000 incurred in the Corporate segment were capitalised in the Kazakhstan and Tajikistan segments respectively during the year.

There was no capitalisation of amortisation of assets held in the Corporate segment during the year.

Total assets and liabilities for Tajikistan include the underlying assets of SSEC, in which the Company has an 85% ownership interest, and its subsidiaries.

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

7 Sales and other operating revenues

	2016	2015
Gas sales	9,772	16,228
Oil sales	1,977	5,898
Other revenue	(15)	9
Revenue from continuing operations	**11,734**	**22,135**

8 Administrative expenses

Administrative expense by nature	2016	2015
Staff expenses	2,886	4,458
Office costs	438	941
Professional fees	760	1,503
Travel expenses	385	828
Regulation costs	281	391
Directors costs	327	439
Other administrative expenses	384	932
Total	**5,461**	**9,492**

9 Restructuring costs

	2016	2015
Restructuring costs	1,950	3,247
Restructuring provision	200	360

On December 1, 2014 the Company announced a downsizing program with staff reductions and cost reductions in all key general and administrative expenses areas. The Company closed offices in Guernsey, Brussels, Maastricht, Beijing and Tbilisi in 2015 and offices in Washington, Toronto, Dushanbe and Dubai in 2016. The costs associated with this programme of restructuring have been shown in the Consolidated Statement of Comprehensive Income/(Loss) separately from administrative expenses to provide additional information in relation to these expenses.

10 Share-based payments

The Company has adopted a stock incentive plan referred to as the “2007 Long Term Stock Incentive Plan” pursuant to which the Company may grant stock options to any director, employee or consultant of the Company, (collectively, “Service Providers”).

The maximum number of ordinary shares reserved for issuance under the plan equals 12% (2015: 12%) of the outstanding ordinary shares. The plan is administered by the Compensation and Nomination Committee of the Board of Directors. Options may be granted pursuant to recommendations of the Compensation and Nomination Committee. The Compensation and Nomination Committee may determine the vesting schedule and term, provided that options may not have a term exceeding ten years. Subject to any resolution passed by the Compensation and Nomination Committee, options will terminate three months after an option holder ceases to be a Service Provider.

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

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

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

The following table lists the options outstanding at December 31, 2016 by exercise price:

Exercise price		Outstanding		Exercisable	
Local	**USD equivalent**	**No of options**	**Weighted average remaining term (in years)**	**No of options**	**Weighted average remaining term (in years)**
CAD 0.80	0.59	90,000	1.92	90,000	1.92
CAD 0.88	0.65	1,272,000	0.31	1,272,000	0.31
GBP 0.15	0.20	3,685,000	3.06	1,228,333	3.06
GBP 0.025	0.03	14,307,500	4.25	4,769,167	4.25
Total		**19,354,500**	**3.75**	**7,359,500**	**3.34**

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

	2016		2015	
	Number of options	**Weighted average exercise price (USD)**	**Number of options**	**Weighted average exercise price (USD)**
Outstanding at January 1	11,025,500	0.31	15,362,400	1.58
Granted	14,307,500	0.03	10,422,500	0.22
Forfeited	(3,015,000)	0.19	(1,545,000)	0.25
Expired	(2,963,500)	0.34	(13,214,400)	1.50
Outstanding at December 31	19,354,500	0.11	11,025,500	0.31
Exercisable at December 31	7,359,500	0.18	2,998,000	0.53

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

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

	2016	2015
Weighted average fair value	USD0.039	USD0.0635
Risk free rate	0.59%	1.15%
Expected term	3.50 years	3.39 years
Volatility	83.48%	66.8%
Dividend	Nil	Nil
Weighted average share price of options exercised in year	n/a	n/a

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

Warrants classified as derivative financial instruments

The Company has issued warrants which are classified as derivative financial instruments. Details of these are given in note 21.2.

Warrants issued in connection with loans

The following table summarises the warrant activity for the years ended December 31, 2016 and December 31, 2015.

	2016		2015	
	Number of warrants	Weighted average exercise price (USD)	Number of warrants	Weighted average exercise price (USD)
Outstanding at January 1	2,090,000	2.500	2,090,000	2.500
Granted	192,300,000	0.031	-	-
Outstanding at December 31	194,390,000	0.058	2,090,000	2.500
Exercisable at December 31	194,390,000	0.058	2,090,000	2.500

Of the warrants outstanding and exercisable at the end of the year, none relate to warrants granted to the Company’s officers (2015: 280,000).

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

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

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

The following table lists the warrants outstanding at December 31, 2016 by exercise price.

Exercise price (USD)	Warrants outstanding	Weighted average remaining term (in years)	Warrants exercisable	Weighted average remaining term (in years)
2.500	2,090,000	0.43	2,090,000	0.43
0.031	192,300,000	2.91	194,390,000	2.91

11 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:

	2016	2015
Loss before income taxes from continuing operations	(45,547)	(68,173)
Income tax rate	20%	20%
Expected income tax recovery	**9,109**	**13,635**
Decrease resulting from:		
Non-deductible expenses net of functional currency foreign exchange impact	(310)	(445)
Revisions in tax estimates and foreign exchange impact on tax pools	(1,838)	(11,565)
Impact of effective tax rates in other foreign jurisdictions	(7,683)	(8,385)
Losses and tax assets not utilised/recognised	(581)	330
	(1,303)	**(6,430)**
Current tax expense	(131)	(210)
Deferred tax expense	(1,172)	(6,220)
Total	**(1,303)**	**(6,430)**

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

	2016	2015
Tax losses	208	226
Deferred tax asset	**208**	**226**
Capital assets	11,845	13,008
Other	68	(2,216)
Deferred tax liability	**11,913**	**10,792**

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

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

	2016	2015
Capital assets	33,625	31,797
Tax losses	39,862	39,627
Other	588	639
Total	**74,075**	**72,063**

Earnings retained by subsidiaries amounted to USD12.1 million at December 31, 2016 (December 31, 2015 - USD12.8 million). No provision has been made for withholding and other taxes that would become payable on the distribution of these earnings as it is not expected that they will be remitted in the foreseeable future.

12 Loss per share

		2016		2015	
	Units	**Continuing operations**	**Discontinued operations**	**Continuing operations**	**Discontinued operations**
Loss for the purpose of basic and diluted loss attributable to ordinary shareholders	USD'000	(46,852)	-	(74,601)	(28)
Weighted average shares	000s	393,065	393,065	336,717	336,717
Per share amount	USD	(0.12)	-	(0.22)	-

Basic loss per share is calculated by dividing the loss attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year. Diluted per share information is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Potential dilutive shares, comprising share options and warrants, are currently anti-dilutive and therefore there is no difference between basic and diluted earnings per share. The number of potential dilutive shares excluded from the calculation is 201,749,500 (2015: 5,088,000).

13 Intangible assets

Exploration and evaluation assets	**Kazakhstan**	**Georgia**	**Tajikistan**	**Total**
January 1, 2015	-	11,996	35,634	47,630
Additions	129	909	12,284	13,322
Exploration and evaluation expenditure written off	-	-	(25,918)	(25,918)
Transfer from assets held for sale (note 19)	29,168	-	-	29,168
December 31, 2015	29,297	12,905	22,000	64,202
Additions	205	325	3,627	4,157
Exploration and evaluation expenditure written off	-	-	(25,627)	(25,627)
December 31, 2016	**29,502**	**13,230**	**-**	**42,732**

Borrowing costs of USD16,000 (2015: USD734,000) have been capitalised within exploration and evaluation assets during the year. The effective weighted average interest rate of the relevant borrowings was 15%

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

(2015: 16%). The effective interest rate is higher than the nominal rate due to the cost of associated warrants (note 21.2).

For the year ended December 31, 2016, USD102,000 (2015: USD1,739,000) was capitalised from staff costs and share-based payment expense.

Tajikistan – Impairment

The Company's exploration and evaluation assets in Tajikistan are held via an effective 28.33% participating interest in Bokhtar Production Sharing Contract ("PSC"), with its partners Total and CNPC. The Company ceased paying cash calls from September 2015 and due to the default was issued with a Notice to Withdraw from Total and CNPC. In 2015, the Company wrote off USD25,918,000 of its carrying value to an estimated recoverable amount of USD22,000,000 using the higher of fair value less cost of disposal ("FVLCD") or value-in-use ("VIU") method. In 2016, the Company wrote off the total carrying book value of USD25,627,000 on the basis that the Company has not budgeted or nor planned expenditure on further exploration for and evaluation of mineral resources in Tajikistan. Further, it is understood that the operator in Tajikistan has demobilised and the partners, whilst intending to do the minimum to fulfil the requirements of the PSC, do not intend to invest further in the asset at this time. In absence of any recent market transactions the recoverable amount of nil was determined using a VIU method.

14 Property, plant and equipment

	Oil and gas properties			Oil and gas equipment			Other fixed assets[1]			Total net book amount
	Cost	Amortisation	Total	Cost	Depreciation	Total	Cost	Depreciation	Total	
January 1, 2015	**-**	**-**	**-**	**22,184**	**(8,882)**	**13,302**	**1,690**	**(1,188)**	**502**	**13,804**
Additions	2,113	-	2,113	-	-	-	94	-	94	2,207
Transfer from assets held for sale (note 19)	166,069	(43,367)	122,702	3,159	(696)	2,463	3,785	(2,764)	1,021	126,186
Disposals	-	-	-	-	-	-	(474)	405	(69)	(69)
Amortisation and depletion	-	(24,870)	(24,870)	-	(2,976)	(2,976)	-	(885)	(885)	(28,731)
December 31, 2015	**168,182**	**(68,237)**	**99,945**	**25,343**	**(12,554)**	**12,789**	**5,095**	**(4,432)**	**663**	**113,397**
Additions	872	-	872	-	-	-	57	-	57	929
Disposals	-	-	-	-	-	-	(846)	782	(64)	(64)
Amortisation and depletion	-	(6,838)	(6,838)	-	(2,773)	(2,773)	-	(360)	(360)	(9,971)
Impairment charges	(1,176)		(1,176)	-	-	-	-	-	-	(1,176)
December 31, 2016	**167,878**	**(75,075)**	**92,803**	**25,343**	**(15,327)**	**10,016**	**4,306**	**(4,010)**	**296**	**103,115**

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

Borrowing costs of USD69,000 have been capitalised to oil and gas properties in the current year (2015: USD585,000). The effective weighted average interest rate of the relevant borrowing was 15%, (2015: 16%). The effective interest rate is higher than the nominal rate due to the cost of associated warrants (note 21.2).

For the year ended December 31, 2016, USD236,000 (2015: USD627,000) was capitalised to oil and gas properties from staff costs and share-based payment expense.

"Oil and gas properties" assets with a net book value amounting to USD9,447,000 (2015: USD9,571,000) have been pledged by Tethys Aral Gas LLP ("TAG") as security for the bank loan facility (note 21.1).

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

Oil and gas properties – Impairment

As of December 31, 2016, the Company performed an assessment for impairment on the carrying value of its oil and gas assets. The recoverable amount was determined using the higher of FVLCD or VIU. As a result, the Company impaired USD1,176,000 of its oil and gas assets in relation to the Akkulka oil field cash generating unit.

Due to continuing depressed global oil prices and since the oil and gas carrying amount of assets is higher than the Company's market capitalisation, indicators of impairment were noted for the Kazakhstan Cash Generating Units ("CGUs"). Based on the impairment tests performed by management, the recoverable amount of all CGUs exceeded their carrying values except for the Company's oil and gas properties in Kazakhstan. The FVLCD was calculated using a discounted cash flow model based on the proved plus probable reserves using forecast oil and gas prices and an after-tax discount rate of 13% for all CGUs. The cash flow model used is considered a level 3 fair value technique based on the unobservable inputs used. An increase of 1% to the discount rate would have increased the impairment by USD2,329,000, while a 1% decrease to the discount rate would have decreased the impairment to nil.

FVLCD calculation assumes the following forecast oil and gas sales prices in USD/bbl and USD/Mcm, respectively, which was based on the December 31, 2016 price decks prepared by the Company's independent reserve evaluator.

Year	Domestic gas Mcm	Export gas Mcm	Domestic oil bbl	Export oil bbl
2017	44.99	167.12	12.50	40.37
2018	51.04	198.69	14.82	47.70
2019	54.53	216.92	16.15	51.93
2020	57.31	231.42	17.21	55.30
2021	60.39	247.54	18.40	59.04
2022	62.95	260.88	19.37	62.14
2023	64.18	267.31	19.85	63.64
2024	65.46	274.02	20.34	65.19
2025	66.80	281.01	20.85	66.82
2026	68.15	282.10	21.37	68.45
2027	69.48	282.10	21.87	70.06
2028 and thereafter	75.95	282.10	21.87	70.06

15 Restricted Cash

	2016	2015
Non-current	2,238	2,233
Current	2,713	215
Total	4,951	**2,448**

Non-current amounts consist of interest bearing deposits held in Kazakhstan that have been placed to satisfy local Kazakh requirements in respect of asset retirement obligations.

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

Current amounts consist of USD2,648,000 cash balance held by Tethys subsidiary, TAG. The amount was deemed restricted due to a Kazakhstan court order as described in note 28. On December 26, 2016 the count order was lifted and the Company gained access to the funds in late January 2017. The remainder of the current balance of USD65,000, comprises monies placed on temporary deposit as security against corporate credit cards and a deposit with the Ministry of Finance in Dubai.

16 Trade and other receivables

	2016	2015
Non-current		
Value added tax receivable	1,073	2,457
Other	164	-
	1,237	**2,457**
Current		
Trade receivables	2,241	918
Prepayments	414	319
Other receivables	1,971	1,097
Value added tax receivable	1,906	1,376
	6,532	**3,710**

Current trade and other receivables are unsecured and non-interest bearing. Normal payment terms for the Company are 30 days. Prepayments primarily relate to corporate operating expense items. As at December 31, 2016, USD1,454,000 of trade receivables are overdue past 30 days (2015: USD nil). The other classes within trade and other receivables do not contain impaired assets.

17 Loan receivable from jointly controlled entity

Joint Venture – 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 terminal was used to deliver and sell oil for the Akkulka block. In conjunction with the Company's oil production facilities at the Akkulka field which enable the processing of oil to refinery specification, the Terminal significantly reduced trucking distances and provides storage capacity and unloading/loading facilities.

The following amounts represent the movements in the loan receivable:

	2016	2015
Transfer from assets of a disposal group held for sale (note 19)	-	1,500
Reclassification from investment in joint arrangements	-	867
Finance income on loan receivable	180	180
Provision made against loan receivable	(180)	(2,547)
Balance, end of year	-	-

The loan bears interest at 10% per annum, is unsecured and repayable on demand. At December 31, 2016, the Company recognised full impairment of the loan receivable from AOT due to the losses incurred by the terminal.

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

18 Investment in joint arrangements

Aral Oil Terminal (Kazakhstan)

As discussed in note 17, in 2011, the Company entered into a Joint Venture agreement with Olisol under which it has a 50% interest in the jointly controlled entity, AOT. At December 31, 2016, investment in the joint venture was USD nil (2015: nil). The Company has classified the arrangement as a joint venture and it is accounted for using the equity method of accounting. The key risk faced by AOT is its reliance on a single customer as currently only the oil produced by the Company is processed at the facility.

The net book value of the joint venture's assets amounting to USD3,137,000 (2015: USD3,358,800) has been pledged by the Joint Venture as security for a bank loan facility.

Bokhtar Operating Company (Tajikistan)

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

19 Assets and liabilities of disposal group held for sale

On November 1, 2013 Tethys announced the sale of a 50% interest in its Kazakhstan businesses to SinoHan Oil and Gas Investment Number 6 B.V. As the sale did not take place in 2015, the Company announced on May 1, 2015 that the sale would not be taking place. As a result the assets and liabilities of the Company's Kazakhstan businesses were therefore reclassified in the Consolidated Statement of Financial Position on that date from "assets of a disposal group held for sale" shown as current assets and "liabilities of a disposal group held for sale" shown as current liabilities to their previous categories.

20 Cash and cash equivalents

	2016	**2015**
Cash at bank and in hand	449	3,272
	449	**3,272**

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

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

21 Financial liabilities

21.1 Borrowings

	Contractual interest rate per annum	Effective interest rate per annum	Maturity date	2016	2015
Current					
Rig loans	12.0%	14.8%	2017	3,724	1,386
Kazakh loan KZT	22.0%	23.6%	2019	2,823	2,571
Kazakh loan USD	11.0%	12.3%	2017	1,010	-
Corporate loans					
- USD6 million loan financing	10.5%	24.4%	2017	7,301	-
- USD3.5 million loan financing	8.0%	20.5%	2017	3,248	-
Convertible loans	9.0%	10.6%	2017	9,270	-
Olisol loan	9.0%	9.0%	2017	5,873	5,202
				33,249	**9,159**
Non-current					
Rig loans	12.0%	14.8%	2017	-	3,995
Corporate loans					
- USD6 million loan financing	10.5%	24.4%	2017	-	6,885
- USD3.5 million loan financing	8.0%	20.5%	2017	-	2,961
Convertible loans	9.0%	10.6%	2017	-	9,032
				-	**22,873**

The fair value of financial liabilities held at amortised cost approximates the carrying value.

None of the loan agreements contains financial covenants. The Company is not aware of any non-compliances with the terms of the above loan agreements as at December 31, 2016.

Rig loans

On February 13, 2014, the Company entered into a loan agreement to borrow up to USD12 million. The loan is secured by the shares of the borrower, a wholly owned subsidiary of the Company, which in turn owns two drilling rigs and other equipment. At December 31, 2016, loans with a face value of USD4.7 million and GBP2.1 million have been borrowed under the agreement.

The lenders receive an initial repayment followed by 34 equal monthly instalments, incorporating interest and capital, together with a single balloon repayment of half of the principal amount at the maturity date. Interest is as shown in the table above.

See note 30 – Subsequent events, for post balance sheet date update on the loans.

Kazakh loan

On June 29, 2012, the Company announced that it had secured a loan facility from a Kazakh bank to fund capital expenditures in Kazakhstan (the "bank loan facility").

The bank loan facility was arranged by Eurasia Gas Group LLP, with the Company's consent, and is a bank loan to Eurasia Gas Group LLP, the Company's principal oil buyer and customer of the AOT, whereby Eurasia Gas Group LLP draws down on the bank loan facility with the approval of the Company and funds are transferred to the Company's subsidiary, TAG. The bank loan facility had an initial term of up to four years depending on the Company's requirements, now extended to February 2019.

In January 2013, the Kazakh loan arrangement was terminated and replaced with an arrangement whereby funds are advanced to the Company and repaid as a deduction against oil sales. Terms of the arrangement were principally the same (i.e. the same principal repayment on maturity with the same monthly repayments of both principal and interest) and therefore, under IFRS, the amounts advanced continue to be treated as a loan.

A total of 1.9 billion KZT (USD12.9 million) of funds were advanced to the Company under the loan agreement, with the outstanding balance of the loan at December 31, 2016 is shown in the table above.

In the event that oil production is suspended for more than 30 days, the outstanding amount is to be repaid to Eurasia Gas Group LLP within 30 days from the receipt of its notice of return.

On April 29, 2016 the maturity date was extended to February 2019 and the interest rate was increased to 22%.

Certain oil and gas property assets have been pledged by TAG to the bank as security for funds advanced.

On September 7, 2016, the Company received an additional USD1.0m drawdown denominated in USD. The interest on this advance is 11% and the maturity date is July 2017 with principal payments due monthly.

Corporate - USD6.0 million loan financing

On January 16, 2015, the Company announced that it had secured a new USD6.0 million unsecured loan facility. The principal is due at the end of two years with interest payments at the rate of 8% per annum being due every 6 months. The loan has been fully drawn down by the Company.

In connection with the loan financing, the Company issued the lender with 35,600,000 warrants over the Company's shares with a price of CAD0.19. The Company valued these warrants at initial recognition at USD2.1 million. The warrants were surrendered during 2015 for the surrender value of USD2.1 million which has been added to the principal amount and is repayable on the two-year maturity date.

On March 12, 2016, certain terms of the loan were amended including a change in the interest rate from 8.0% to 10.5% per annum payable every three months.

See note 30 – Subsequent events, for post balance sheet date update on the loans.

Corporate - USD3.5 million loan financing

On March 10, 2015, the Company secured a new USD3.5 million unsecured loan facility from Annuity and Life Reassurance Ltd ("ALR"), a company controlled by Pope Asset Management, the Company's largest shareholder. The principal is due at the end of two years with interest payments due every 6 months at the rate shown in the table above.

In connection with the loan financing, the Company issued the lender with 23,333,333 warrants over the Company's shares with a price of CAD0.19. The Company valued these warrants at initial recognition at USD0.8 million.

See note 30 – Subsequent events, for post balance sheet date update on the loan.

Unsecured convertible loan facility from AGR Energy No. 1

On May 15, 2015, the Company issued USD7.5 million aggregate principal amount of convertible debentures (the "AGR Debentures") to AGR Energy Limited No. 1. The AGR Debentures are convertible into ordinary shares, subject to customary adjustment provisions, at a conversion price of USD0.10 per share for an aggregate of up to 75,000,000 ordinary shares. The conversion option has been accounted for as an embedded derivative and was valued by the Company at initial recognition at USD180,000.

The AGR Debentures mature on June 30, 2017 and pay interest every six months at the interest rate shown in the table above.

Unsecured convertible loan facility from ALR

On June 1, 2015, the Company issued USD1,760,978 aggregate principal amount of convertible debentures to ALR (the "ALR Debentures") a company controlled by Pope Asset Management, the Company's largest shareholder. The ALR Debentures are convertible into ordinary shares at a conversion price of USD0.10 per share for an aggregate of up to 17,609,780 Ordinary Shares. The conversion option has been accounted for as an embedded derivative and was valued by the Company at initial recognition at USD70,000.

The ALR Debentures mature on June 30, 2017 and pay interest every six months at the interest rate shown in the table above.

See note 30 – Subsequent events, for post balance sheet date update on the loans.

Olisol loan

On November 19, 2015, the Company announced that it had entered into an interim convertible financing facility of up to USD15 million (the "Interim Financing Facility") with Olisol. The Interim Financing Facility was convertible into Tethys ordinary shares at CDN0.17 per share. The Interim Financing Facility had a maturity date of August 31, 2016 and bears interest at a rate of 9% per annum which together with the principal is payable at the maturity date.

On March 2, 2016, the Company announced that it had signed an amendment to the Interim Financing Facility (the "Facility Agreement Amendment") under which Olisol agreed, subject to certain approvals, to convert all but USD1 million of the outstanding amount of principal and accrued interest under the Interim Financing Facility (approximately USD6.25 million) into ordinary shares at a price of USD0.10 per share.

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

On March 21, 2016, Olisol converted USD3.7 million of the outstanding amount into 37,440,042 shares. On April 15, 2016, Olisol converted a further USD2.6 million of the outstanding amount into 25,604,419 shares.

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

Olisol did not perform its financing obligations under the Amended and Restated Investment Agreement by the October 27, 2016 Closing Date and has sought to terminate the Amended and Restated Investment Agreement and demand repayment of its loan.

21.2 Derivative financial instrument

Warrants

	2016	2015
Balance, beginning of year	275	-
Issued during the year	-	2,949
Fair value loss	(275)	(573)
Surrender of warrants (see note 21.1)	-	(2,101)
Balance, end of year	-	**275**

The warrant liability represents the financial liability relating to share warrants where the shares are denominated in a currency that is not the Company's functional currency. These warrants were issued in connection with the two corporate loans described in note 21.1.

As the warrants are denominated in foreign currency, there is a written option for the holder to exchange the foreign currency denominated warrant for a fixed number of functional currency denominated shares. This option is a derivative financial instrument and was initially recognised as a liability at fair value and subsequently measured at fair value through income.

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

The fair value of the liability is estimated using the Black-Scholes pricing model using the following average assumptions:

	2016	2015
Weighted average fair value	USD0.001	USD0.01
Risk free rate	0.74%	0.48%
Expected term	0.2 years	1.2 years
Volatility	87.32%	108.00%
Dividend	Nil	Nil

The following table summarises the warrant activity for the years ended December 31, 2016 and December 31, 2015.

	Number of warrants	Weighted average exercise price USD
Outstanding at January 1, 2015	-	-
Issued	58,933,333	0.15
Surrender of warrants (see note 21.1)	(35,600,000)	0.15
Outstanding at December 31, 2015	**23,333,333**	**0.15**
Outstanding and exercisable at December 31, 2016	**23,333,333**	**0.15**

There are no performance conditions attached to the warrants and all the granted warrants were immediately vested. Warrants are equity settled share based payment transactions.

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

Convertible loans

In May and June 2015 the Company issued two convertible loans, the terms of which are described in note 21.1. The AGR Debentures contain a cash settlement feature which does not meet the conditions for compound instrument treatment in accordance with IAS 32.25 and/or IAS 32.26. As a result, the instrument is a hybrid instrument containing an embedded derivative conversion feature. The ALR Debentures contains a separate cash settlement feature, which requires the Company to indemnify the holder for the offer amount. This is treated as a contingent settlement provision under IAS 32.25. Accordingly, the instrument is a hybrid instrument containing an embedded derivative feature. The embedded derivative has been valued at inception and revalued at the period end and details are provided below.

	2016	2015
Issued during the year	-	250
Fair value gain	-	(250)
Balance, end of year	-	**-**

The fair value of the liability was estimated using a valuation model using the following assumptions:

	2016	2015
Credit spread	9.94%	9.94%
Volatility	70.00%	70.00%

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

21.3 Finance costs / (income)

The net finance cost / (income) comprises:

	2016	2015
Finance costs	5,495	3,513
Finance income	(182)	(184)
Total	**5,313**	**3,329**

22 Trade and other payables

	2016	2015
Current		
Trade payables	785	366
Accruals	17,076	11,710
Other creditors	1,977	2,113
	19,838	**14,189**
Non-current		
Other non-current payables	44	133
Total	**19,882**	**14,322**

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 liquidity issues in 2016 payments have been made on average in excess of the contractual payment terms. Accruals mainly comprise cash calls outstanding to the Bokhtar Operating Company BV joint venture in Tajikistan.

23 Asset retirement obligations

	2016	2015
Balance, beginning of year	846	-
Transfer from liabilities of disposal group held for sale (note 19)	-	966
Change in estimated cash flow	-	(168)
Unwinding of discount due to passage of time	64	48
Balance, end of year	**910**	**846**

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 2017 and 2029. The provision has been estimated using existing technology at current prices, escalated at 5.4% (2015: 5.4%) and discounted at 7.4% (2015: 7.4%). The economic life and the timing of the asset retirement obligation are dependent on Government legislation, commodity prices and the future production profiles of the projects. In addition, the estimated cash outflows are subject to inflationary and/or deflationary pressures in the cost of third party service provision. The undiscounted amount of liability at December 31, 2016 is USD1,704,000 (2015: USD1,797,000).

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

24 Capital and reserves

Share capital and share premium

	Number of shares
Authorised as at December 31, 2015:	
Ordinary shares with a par value of USD0.10 each	700,000,000
Preference shares with a par value of USD0.10 each	50,000,000
Authorised as at December 31, 2016:	
Ordinary shares with a par value of USD0.01 each	1,450,000,000
Preference shares with a par value of USD0.01 each	50,000,000

Ordinary equity share capital Allotted and fully paid	**Date**	**Number**	**Share Capital**	**Share Premium**
At January 1, 2015		**336,452,667**	**33,645**	**321,724**
Issued during the year		507,720	51	79
At December 31, 2015		**336,960,387**	**33,696**	**321,803**
Debt conversion by Olisol[1]	March 21, 2016	37,440,042	3,744	-
Debt conversion by Olisol[2]	April 15, 2016	25,604,419	2,560	-
Par value reduction[3]	August 31, 2016	-	(36,000)	36,000
Private placement[4]	November 29, 2016	87,903,396	879	521
Debt conversion by ALR[5]	December 20, 2016	20,227,854	202	120
At December 31, 2016		**508,136,098**	**5,081**	**358,444**

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

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

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

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

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

As at December 31, 2016, a total of 40,374,320 (2015: 40,374,320) ordinary shares were reserved under the Company’s Long Term Stock Incentive Plan. The number of options outstanding as at December 31, 2016 is 19,354,500 of which 7,359,000 were exercisable and the number of warrants outstanding is 217,723,333 all of which were exercisable. Loan facilities are in place which are convertible into a total of 234,316,677 ordinary shares, excluding accrued interest. Details of the options and warrants are given in notes 10 and 21.

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;

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

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

There are currently no preference shares outstanding (2015: None).

Other reserves

Other reserves comprise of option reserves and warrant reserves as set out in the Statement of Changes in Equity. The option and warrant reserves relate to stock options issued to employees under the Long Term Incentive Plan and issuance of warrants, details of which are disclosed in note 10.

25 Non-controlling interest

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

2016	**Seven Stars Energy Corporation**	**Tethys Services Tajikistan Limited**	**Kulob Petroleum Limited**
Non-current assets	-	-	11,984
Current assets	36,282	8	5,552
Non-current liabilities	-	-	-
Current liabilities	(1,117)	(1,133)	(46,796)
Net assets	**35,165**	**(1,125)**	**(29,260)**
Revenue	-	-	-
Profit/(loss) after tax	-	(1)	1
Cash balance at beginning of year	-	-	12
Cash balance at end of year	-	-	1

2015	**Seven Stars Energy Corporation**	**Tethys Services Tajikistan Limited**	**Kulob Petroleum Limited**
Non-current assets	-	1	9,582
Current assets	36,282	8	5,641
Non-current liabilities	-	-	-
Current liabilities	(1,118)	(1,133)	(44,488)
Net assets	**35,164**	**(1,124)**	**(29,265)**
Revenue	-	-	-
Profit/(loss) after tax	(2)	(16)	(25,916)
Cash balance at beginning of year	-	19	262
Cash balance at end of year	-	-	12

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

During 2016, Tethys Services Tajikistan Limited and Kulob Petroleum Limited had cash outflows in respect of operating costs and capitalised exploration and evaluation expenditure and cash inflows in the form of funding from Tethys companies.

26 Related party transactions

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

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

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

Olisol Investments Limited and Olisol Petroleum Limited

Alexander Abramov, former Chairman and Non-Executive Director of Tethys Petroleum Limited, and Alexander Skripka, the Company's former Chief Commercial Officer are controlling parties of Olisol Investments Limited and its wholly owned subsidiary Olisol Petroleum Limited (together "Olisol"). Olisol and the Company are:

(i) Equal partners in the Aral Oil Terminal ("AOT"), a limited liability partnership in Kazakhstan. All of the oil produced and sold by the Company is trans-shipped through the AOT. At December 31, 2016, AOT had a loan owing to Olisol, including accrued interest, of USD3,278,000 (2015: USD3,063,000) and a loan owing to the Company of USD2,727,000 (2015: USD2,547,000);

(ii) Parties to the Interim Financing Facility and Facility Amendment Agreement, details of which are given in note 21;

(iii) Parties to the Amended and Restated Investment Agreement under which Olisol undertook by October 27, 2016 to provide equity investments to Tethys in the amount of CDN9.8 million and also extended a working capital loan in the amount of USD5.7 million which Olisol could convert into additional shares ("Investment Agreement"). Olisol did not perform its financing obligations under the Amended and Restated Investment Agreement and has sought to terminate the Amended and Restated Investment Agreement and demand repayment of its loan. The Company does not believe that Olisol has the right to terminate the Amended and Restated Investment Agreement or that the loan is repayable.

Eurasia Gas Group

Alexander Skripka, the former Company’s Chief Commercial Officer, is the controlling party of Eurasia Gas Group LLP (“EGG”). EGG is the sole customer for oil produced by the Company and purchases the oil at the wellhead. In 2016 oil sales of USD1,977,000 were made by the Company to EGG (2015: USD5,898,000). At December 31, 2016 amounts owing to the Company by EGG for oil sales amounted to USD1,454,000 (2015: USD566,000).

EGG has arranged a loan for the Company from a Kazakh bank which is repaid as a deduction from oil sales. Further details of this arrangement are given in note 21.

EGG is also the sole customer of the AOT. In the six months to June 30, 2016 (latest date information has been made available to the Company) EGG paid trans-shipment fees of USD228,000 to the AOT (December 31, 2015: USD1,196,000). At June 30, 2016 the AOT had a loan owing to EGG, including accrued interest, of USD2,596,000 (December 31, 2015: USD2,592,000).

Pope Asset Management and Annuity and Life Reassurance Ltd

Pope Asset Management (“PAM”), together with Annuity and Life Reassurance Ltd (“ALR”) and other PAM affiliates own or controls 17.3% of the Company’s shares as a result of which they considered to be related parties of the Company. The Company has received two loans from ALR, further details of which are disclosed in note 21.

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

Remuneration of key management personnel

Key management personnel have been identified as five Vice Presidents, the CEO, one Executive Director and the Non-Executive Directors (2015: five Vice Presidents, three Executive Directors 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.

	2016	**2015**
Salaries and short-term employee benefits	2,006	2,931
Share-based payments	402	386
Termination payments	584	168
Total	2,992	**3,485**

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

27 Changes in working capital

	2016	**2015**
Trade and other receivables	(2,822)	2,431
Inventories	203	479
Trade and other payables	5,564	4,582
Change in working capital	2,945	7,492
Non-cash transactions	(1,471)	(8,015)
Net changes in working capital	**1,474**	**(523)**

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

	2016	**2015**
Operating activities	1,249	752
Investing activities	225	(1,275)
Balance	**1,474**	**(523)**

28 Commitments and contingencies

Litigation, claims and assessments

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

Contingent liability - Claim against the Company by EGG

On October 27, 2016, the Company announced that on October 26, 2016 the Company was notified of a claim lodged by EGG in the Almaty City Court against the Company's subsidiary TAG. EGG is seeking an award equivalent to USD2.6 million at current exchange rates for the alleged failure by TAG to deliver certain minimum volumes of crude oil to EGG. EGG is a company whose principal is also a principal of Olisol. EGG's claim followed TAG's formal notification to EGG requiring it to settle long overdue unpaid oil sales debts of USD1.3 million within 10 days or TAG would take Court action against EGG to recover those debts.

The Company's view is that EGG's claim is without merit or substance as TAG has no contractual obligation to deliver minimum volumes of crude oil to EGG, nor is there any penalty clause in contracts entered into between TAG and EGG for failure to deliver minimum volumes of crude oil. The Company is also of the view that EGG has not followed correct legal process which requires it to notify the Company at least 30 days prior to filing a claim with the Court.

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

As a result of EGG's claim against TAG, restrictions have been in place over TAG's bank accounts pending the hearing of EGG's appeal. Following the rejection of EGG's appeal, TAG applied to the court to have these restrictions removed which the court approved and were implemented. A few days later EGG submitted an amended claim to the Court which resulted in new restrictions being imposed on most of TAG's bank accounts.

Kazakhstan

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

General background

Work programmes for exploration and production contracts agreed with the Kazakh State 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 programme commitments and against which the Company is mainly measured by the relevant Kazakh State authorities along with production volumes in the production contracts.

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

Failure by the Company to meet the required level of Investments could put the Company's licences at risk of forfeiture or give rise to penalties for non-fulfillment. The Company has accrued in 2016 for penalties of USD592,000 relating to the under fulfillment of financial commitments under the agreed Kazakh work programmes. The Company has been working with the authorities to have these withdrawn or reduced due to mitigating circumstances. Under Kazakh regulations two or more contractual violations, e.g. significant non-fulfillment of financial obligations which are not remedied by a sub-soil user or waived by the authorities, gives the Kazakh authorities the right to unilaterally terminate a sub-soil user's licence. In the event of a contractual violation the Company actively engages with the authorities in order to agree to a remedy or waiver to mitigate the risk of termination. At the date of this report the Company had not received any notifications from the authorities that they were intending to cancel or suspend any of the Company's sub-soil licences.

In addition, an assumed level of other costs forms part of the overall work programme (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 above.

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

		Kazakhstan Work Programme Commitments		
	Expiry date	Program 2016	Spend to date 2016	Program 2017 & later
Akkulka Production Contract (Gas)	2018			
Financial obligations, total		5,661	1,570	8,840
Investments		2,452	565	3,806
Kyzyloi Production Contract (Gas)	2029			
Financial obligations, total		1,565	1,484	10,751
Investments		1,162	748	9,631
Akkulka Exploration Contract (Oil)	2019			
Financial obligations, total		5,270	3,478	11,156
Investments		4,143	1,599	8,460
Kul-Bas Exploration Contract	2017			
Financial obligations, total		410	146	6,471
Investments		386	89	6,119
Total				
Financial obligations, total		**12,906**	**6,678**	**37,218**
Investments (subset of Financial obligations)		**8,143**	**3,001**	**28,016**

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

Akkulka Production Contract

On December 23, 2009, the Company and the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan signed the Akkulka Production Contract giving the Company exclusive rights to produce gas from the Akkulka Block for a period of nine years. Contingent upon commencement of commercial production on the Akkulka contractual territory, an amount of USD3,500,000 was due to the Kazakh State as a reimbursement of historical costs previously incurred in relation to the contractual territory. For that part of the contractual territory from which production commenced in 2010, staged payments over a period of nine years totalling approximately USD933,997 are to be paid in equal quarterly instalments from the commencement of production until full reimbursement. To December 31, 2016, the Company had reimbursed the Kazakh State USD702,144 in respect of the Akkulka Field.

Kul-Bas Exploration and Production Contract

The Kazakhstan Government is to be compensated for the historical costs related to the contractual territory in the amount of USD3,275,780. To date, the Company has paid two amounts of USD49,137 each in relation to this balance. If and when commercial production commences, USD80,666 is due in quarterly instalments until the remaining historical costs of USD3,177,506 have been paid in full.

This contract expired on November 11, 2015 and on December 29, 2015 the Company announced it had been granted a two year extension to November 11, 2017 subject to approval of an appraisal extension project and work programme, which has been done and subsequent registration of a suitable addition to the contract which is awaiting signing.

Tajikistan

The Company has an effective 28.33% interest (33.33% interest via its 85% owned subsidiary) in the Bokhtar Production Sharing Contract with partners Total and CNPC (the “Partners”) each having a 33.33% interest. Under the terms of the farm-out agreement entered into on September 18, 2013 with the Partners the Company was only required to contribute 11.11% or USD9.0 million of the first USD80.0 million of the initial work programme. As at December 31, 2016, the Company and the Partners had contributed in excess of USD100.0 million to the Bokhtar Operating Company of which the Company’s share was USD16.3 million. Apart from cash call request the Company has not been provided with information by the joint operating company since August 2015 as a result of being in default of cash calls in the amount of USD12.7 million.

The Company’s indirectly held subsidiary, Kulob Petroleum Limited, (“KPL”) the contracting partner in the Bokhtar Production Sharing Contract, has been informed by legal counsel representing the Partners, that on May 19, 2016, the Partners had filed for arbitration proceedings at the International Court of Arbitration seeking to enforce KPL’s withdrawal from the project and assignment of its interest to the Partners, as well as payment of outstanding cash calls of USD9 million (and continuing) plus an award of costs. KPL has submitted its answer to the request for arbitration to the court setting out its arguments against the Partners’ claim and its counter-claim which is the first stage of the arbitration proceedings. The costs of the arbitration could be significant, although KPL has actively sought to reach an amicable resolution with the Partners and will continue to do so. There is no guarantee in place of KPL’s obligations by the Company.

Total informed the Company in May 2016 that it has been required to pay the equivalent of USD5.0 million to the tax authorities in Tajikistan in relation to the farm-out of the Company’s interest to Total in 2013. Total is seeking to have the Company indemnify it for these taxes under the terms of the farm-out agreement. The Company does not agree with Total’s interpretation of the farm-out agreement or that it is liable to indemnify Total for these taxes. No similar claim has been received from CNPC although the terms of the farm-out with CNPC were the same for Total and CNPC.

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

Georgia

The Company has a 49% interest in three blocks in Eastern Georgia (XIA, XIN and XIM) and is responsible for funding its percentage interest share in the work programmes. During 2015 the joint venture completely redefined the work obligations and cost of exploration. The forward work programme was reduced and deferred on all 3 blocks. This involved ground based gravity work which was completed in Q3 2015 at a net cost to Tethys of USD0.6m and required focused 2D seismic acquisition in 2016 at a cost to Tethys of USD0.9m after which the joint venture would be required to make an informed decision in 2017 whether to drill or cease further activity with contingent drilling of any wells in 2018.

On January 16, 2017 the Company was notified that it will not be required to complete the previously agreed work programme commitment to conduct 50 km of 2D seismic acquisition in Block XIN by June 30, 2017 which would have cost Tethys approximately USD700,000. Instead of the previously agreed commitment the agency will evaluate whether the partners should instead conduct 50 km of 2D seismic acquisition over an alternative prospective area. The deadline for any such work has not yet been determined.

Uzbekistan

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

29 Operating leases

Leases as a lessee:

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

	2016	2015
Less than 1 year	230	611
1 – 3 years	135	722
Greater than 3 years	-	75

In February 2017, the lease for the group's London office was terminated by mutual agreement of the parties. As a result, lease commitments less than 1 year were reduced from USD230,000 to USD159,000 and lease commitments between 1 to 3 years were reduced to nil. 2016 expenditure on lease commitments included in the consolidated statement of comprehensive income amounted to USD541,000 (2015: USD1,060,000).

30 Subsequent events

Georgia work programme commitments

On January 16, 2017 the Company announced that Tethys' partner in Georgia, Georgia Oil and Gas Limited ("GOG"), has been notified by the Georgian State Agency of Oil and Gas that GOG and Tethys will not be required to complete the previously agreed work programme commitment to conduct 50 km of 2D seismic acquisition in Block XIN by June 30, 2017 which would have cost Tethys approximately USD700,000.

Had the minimum commitments previously agreed not been met then Tethys may have been subject to penalties of up to USD2 million.

Instead of the previously agreed commitment the agency will evaluate whether the partners should instead conduct 50 km of 2D seismic acquisition over an alternative prospective area. The deadline for any such work has not yet been determined.

Loan restructuring amendments

On January 27, 2017 shareholders at the Company's Extraordinary General Meeting approved the amendments to the two loan agreements between the Company and Annuity and Life Reassurance Limited which had been entered into on December 20, 2016. The main changes to the loan agreements are to:

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

Rig loan extension of maturity dates

The Company has agreed amendments to the loan agreement entered into on February 13, 2014 by a wholly owned subsidiary of the Company as borrower, the Company as guarantor and a group of lenders and which had various maturity dates between February and June 2017 i.e. three years after the receipt of each lender's tranche.

The loan, which bears interest at 12% per annum and has a principal amount currently outstanding of approximately USD3.5 million, is secured by the shares of the borrower, which in turn owns two drilling rigs and related equipment.
The lenders have agreed to an extension of the maturity dates by 18 months. They will continue to receive the same equal monthly payments as before, incorporating interest and capital, together with a single balloon repayment of the remaining amount due at the new maturity dates.

The Company retains the option to repay the loan early, without penalty, and may choose to do so if it is able to secure a buyer for one or both of the drilling rigs or a bank loan which would provide the funds to repay the lenders. Refer also to note 21.

Corporate - USD6.0 million loan financing extension of maturity dates

The Company has agreed amendments to the loan agreement which had a maturity date on January 28, 2017. The loan bears interest at 10.5% per annum and has a principal amount currently outstanding of approximately USD7.9 million. The lender has agreed to an extension of the maturity date by two years to January 28, 2019. The interest rate on the loan has been increased to 12% and there are scheduled quarterly repayments of principal as well as a requirement for additional principal repayments in certain circumstances. The Company can also choose to repay the loan prior to the maturity date without penalty. Refer also to note 21.

Tethys Petroleum Limited to cancel listing in the United Kingdom

On March 24, 2017 the Company announced that it had applied to the United Kingdom Listing Authority ("UKLA") to cancel the standard listing of the Company's ordinary shares (the "Shares") from the Official List of the UKLA and the cancellation of trading in the Shares on the Main Market of the London Stock Exchange.