Tethys Petroleum Limited

Interim Financial Information
(Unaudited)
September 30, 2016

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

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

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

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

We draw attention to the section entitled "Going Concern" in Note 2 to the Condensed Consolidated Interim Financial Statements which describes the material uncertainties relating to the Company's adoption of the going concern basis in preparing the Financial Statements for the period ended September 30, 2016.

For and on behalf of the Board

W. Wells
Chairman
November 15, 2016

A. Ogunsemi
Director
November 15, 2016

Tethys Petroleum Limited

Condensed Consolidated Statements of Financial Position (unaudited)

(in thousands of US dollars)

		As at	
	Note	September 30, 2016	December 31, 2015
Non-current assets			
Intangible assets	7	67,227	64,202
Property, plant and equipment	8	105,699	113,397
Restricted cash	9	2,237	2,233
Investment in joint arrangements		4	4
Trade and other receivables		1,910	2,457
Deferred tax	5	211	226
		177,288	**182,519**
Current assets			
Cash and cash equivalents		1,800	3,272
Trade and other receivables		7,349	3,710
Inventories		821	879
Restricted cash	9	65	215
		10,035	**8,076**
Total assets		**187,323**	**190,595**
Non-current liabilities			
Trade and other payables		70	133
Financial liabilities - borrowings	10	1,811	22,873
Deferred tax	5	10,133	10,792
Provisions		894	846
		12,908	**34,644**
Current liabilities			
Financial liabilities - borrowings	10	32,356	9,159
Derivative financial instruments	11	-	275
Current taxation	5	491	398
Trade and other payables		18,133	14,189
Provisions		25	360
		51,005	**24,381**
Total liabilities		**63,913**	**59,025**
Equity			
Share capital	0	4,000	33,696
Share premium	0	357,803	321,803
Other reserves		43,349	43,166
Accumulated deficit		(287,838)	(273,189)
Non-controlling interest		6,096	6,094
Total equity		**123,410**	**131,570**
Total equity and liabilities		**187,323**	**190,595**
Going concern	2		
Commitments and contingencies	15		

The notes on pages 6 to 26 form part of these condensed consolidated interim financial statements. The condensed consolidated interim financial statements were approved by the Board on November 15, 2016 and were signed on its behalf.

W. Wells
Chairman
November 15, 2016

A. Ogunsemi
Director
November 15, 2016

Tethys Petroleum Limited

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

(in thousands of US dollars except per share information)

	Note	Three months ended September 30 2016	Three months ended September 30 2015	Nine months ended September 30 2016	Nine months ended September 30 2015
Sales and other revenues	3	3,119	5,736	10,103	18,528
Sales expenses		(665)	(1,182)	(2,132)	(3,563)
Production expenses		(1,979)	(1,811)	(4,503)	(8,578)
Depreciation, depletion and amortisation		(2,473)	(3,716)	(8,256)	(25,004)
Administrative expenses		(1,354)	(2,073)	(4,379)	(7,608)
Restructuring costs		23	(586)	(1,400)	(2,907)
Transaction costs of assets held for sale		-	-	-	(1,065)
Share based payments	4	(20)	(93)	(183)	(358)
Profit on sale of fixed assets		-	10	10	53
Foreign exchange gain/(loss)		20	(716)	141	(931)
Fair value gain/(loss) on derivative financial instrument	11	4	236	275	(233)
Profit/(loss) from jointly controlled entity		-	(15)	-	(250)
Finance costs		(893)	(321)	(4,835)	(2,848)
		(7,337)	(10,267)	(25,262)	(53,292)
Loss before tax from continuing operations		**(4,218)**	**(4,531)**	**(15,159)**	**(34,764)**
Taxation	5	182	833	512	3,754
Loss from continuing operations		**(4,036)**	**(3,698)**	**(14,647)**	**(31,010)**
Loss from discontinued operations net of tax		**-**	**(11)**	**-**	**(88)**
Loss and total comprehensive income		**(4,036)**	**(3,709)**	**(14,647)**	**(31,098)**
Loss and total comprehensive income attributable to:					
Shareholders		(4,196)	(3,711)	(14,649)	(31,097)
Non-controlling interest		160	2	2	(1)
Loss and total comprehensive income		**(4,036)**	**(3,709)**	**(14,647)**	**(31,098)**
Loss per share attributable to shareholders:					
Basic and diluted - from continuing operations (USD)	6	**(0.01)**	**(0.01)**	**(0.04)**	**(0.09)**
Basic and diluted - from discontinued operations (USD)	6	-	-	-	-

No dividends were paid or are declared for the period (2015: none).

The notes on pages 6 to 26 form part of these condensed consolidated interim financial statements.

Tethys Petroleum Limited

Condensed Consolidated Statements of Changes in Equity (unaudited)

(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 period		-	-	(31,097)	-	-	(1)	(31,098)
Transactions with shareholders								
Shares issued		39	60	-	-	-	-	99
Share-based payments		-	-	-	259	-	-	259
Total transactions with shareholders		**39**	**60**	**-**	**259**	**-**	**-**	**358**
At September 30, 2015		**33,684**	**321,784**	**(229,657)**	**26,503**	**16,601**	**6,095**	**175,010**
At January 1, 2016	0	**33,696**	**321,803**	**(273,189)**	**26,565**	**16,601**	**6,094**	**131,570**
Comprehensive loss for the period		-	-	(14,649)	-	-	2	(14,647)
Transactions with shareholders								
Shares issued		6,304	-	-	-	-	-	6,304
Share-based payments		-	-	-	183	-	-	183
Par value reduction[1]		(36,000)	36,000	-	-	-	-	-
Total transactions with shareholders		(29,696)	36,001	-	183	-	-	6,488
At September 30, 2016	0	**4,000**	**357,803**	**(287,838)**	**26,748**	**16,601**	**6,096**	**123,410**

Note 1 - See note 12 for further details.

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

The notes on pages 6 to 26 form part of these condensed consolidated interim financial statements.

Tethys Petroleum Limited

Condensed Consolidated Statements of Cash Flows (unaudited)

(in thousands of US dollars)

	Note	Three months ended September 30 2016	Three months ended September 30 2015	Nine months ended September 30 2016	Nine months ended September 30 2015
Cash flow from operating activities					
Loss before tax from continuing operations		(4,218)	(4,531)	(15,159)	(34,764)
Loss before tax from discontinued operations[1]		-	(11)	-	(88)
Adjustments for:					
Share based payments		20	93	183	358
Net finance cost		893	321	4,835	2,848
Depreciation, depletion and amortisation		2,473	3,716	8,256	25,004
Profit on sale of fixed assets		-	(10)	(10)	(53)
Fair value gain on derivative financial instruments		(4)	(236)	(274)	233
Net unrealised foreign exchange loss/(gain)		109	(87)	(246)	(61)
Loss from jointly controlled entity		-	15	-	250
Movement in provisions		(100)	(1,308)	(1,736)	(3,298)
Net change in working capital	14	(883)	(3,085)	(1,099)	(970)
Cash used in operating activities		**(1,710)**	**(5,123)**	**(5,250)**	**(10,541)**
Corporation tax paid		(7)	-	(28)	(134)
Net cash used in operating activities		**(1,717)**	**(5,123)**	**(5,278)**	**(10,675)**
Cash flow from investing activities:					
Interest received		-	46	-	137
Expenditure on exploration and evaluation assets		(90)	(1,588)	(545)	(5,530)
Expenditure on property, plant and equipment		(228)	(350)	(509)	(2,389)
Proceeds from sale of fixed assets		-	8	33	121
Movement in restricted cash		(2)	(87)	146	(238)
Movement in advances to construction contractors		193	(11)	(6)	179
Movement in value added tax receivable		131	339	559	1,058
Net change in working capital	14	200	598	239	(924)
Net cash used in investing activities		**204**	**(1,045)**	**(83)**	**(7,586)**
Cash flow from financing activities:					
Proceeds from issuance of borrowings, net of issue costs		4,430	5,000	7,930	23,235
Repayment of borrowings		(715)	(288)	(1,289)	(4,953)
Interest paid on borrowings		(903)	(311)	(2,616)	(1,219)
Movement in other non-current liabilities		(22)	(27)	(90)	(83)
Net cash generated from financing activities		**2,790**	**4,374**	**3,935**	**16,980**
Effects of exchange rate changes on cash and cash equivalents		(177)	1,138	(46)	1,699
Net increase/(decrease) in cash and cash equivalents		**1,100**	**(656)**	**(1,472)**	**418**
Cash and cash equivalents at beginning of the period		700	4,942	3,272	3,868
Cash and cash equivalents at end of the period		**1,800**	**4,286**	**1,800**	**4,286**

Note 1 - The Company has elected to present a statement of cash flows that analyses cash flows for both continuing and discontinued operations.

The notes on pages 6 to 26 form part of these condensed consolidated interim financial statements.

1 General information

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").

2 Basis of preparation and accounting policies

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

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as applicable to interim financial reporting and do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual consolidated financial statements reported for the year ended December 31, 2015.

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 Condensed Consolidated Interim Financial Statements in determining the ability of the Company to adopt the going concern basis in preparing the Condensed Consolidated Interim Financial Statements for the nine months period ended September 30, 2016. The Company currently does not have sufficient funding to fund its obligations for the next twelve months.

Although these Condensed Consolidated Interim 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 substantial 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 USD14.6m for the nine months period ended September 30, 2016 (year ended December 31, 2015: USD74.6m) and an accumulated deficit as at that date of USD287.8m (December 31, 2015: USD273.2m) and negative working capital of USD41.0m (December 31, 2015: negative USD16.3m). In addition, the Company reported negative cash flow from operating activities before tax of USD4.9m for the nine months period ended September 30, 2016 (year ended December 31, 2015: USD 11.6m).

[The Company also has various commitments and contingencies as described in note 15. 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 and a separate criminal case against TAG and allegations against its employees which the Company considers to be improper. Both of these have affected the Company's normal business operations in Kazakhstan.]

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 operational, G&A costs and capital expenditures.

On April 28, 2016 Tethys signed an 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 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"). 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 perform its financing obligations under the Investment Agreement and has sought to terminate the Investment Agreement and demand repayment of its loan. The Company does not believe that Olisol has the right to terminate the Investment Agreement or that the loan is repayable.

On November 6, 2016 the Company announced that it had received non-binding proposals from private investors, to acquire ordinary shares in the Company and that it expected the placings would close on or about November 11, 2016. The total proceeds would amount to approximately USD1.4 million. The investors have offered to work with Tethys to obtain a bank loan in Kazakhstan for TAG to enable it to repay and restructure current loans and to fund operations.

The Company is currently owed more than USD3 million owed by Inter Gas Central Asia, the Kazakhstan State gas company for gas sales and USD1.4 million owed by Eurasia Gas Group LLP for oil sales. The Company will be able to receive payments when the Court imposed freezing order over TAG's bank accounts referred to above have been lifted.

The Company is actively exploring other financing options including restructuring existing loans and the drilling companies providing the funding to develop specific licence assets owned by the Company on a contingent production sharing basis.

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

New accounting policies

The Company adopted the following revised standards as part of the 2012-2014 improvement cycle, along with any consequential amendments. These changes were made in accordance with applicable transitional provisions. 2012-2014 improvement cycle is effective for annual periods beginning on or after 1 January 2016. They include IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting. These amendments do not have any impact on the Company.

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

The following are standards that are being considered by the Group:

- IFRS 15, "Revenue from contracts with customers" deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard replaces IAS 18 "Revenue" and IAS 11 "Construction contracts" and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted. The Company is assessing the impact of IFRS 15.

- IFRS 16, "Leases" replaces IAS 17 and related interpretations. It introduces a new approach to lease accounting that requires a lessee to recognize assets and liabilities for the rights and obligations created by leases. It brings most leases on-balance sheet for lessees, eliminating the distinction between operating and finance leases. However, lessor accounting remains similar to previous guidance and the distinction between operating and finance leases is retained. The standard is effective for annual periods beginning on or after January 1, 2019. The Company is assessing the impact of IFRS 16.

(in thousands of US dollars)

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

3 Segmental Reporting

Geographical segments

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

The Directors consider the business from predominantly a geographic perspective and the Company currently operates in three geographical markets: Kazakhstan, Tajikistan and Georgia. 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 a number of drilling rigs and related oil and gas equipment which are utilised in Kazakhstan according to operational requirements.

The following is an analysis of the Company's revenue, results and assets by reportable segment for the nine months ended September 30, 2016:

	Kazakhstan	**Tajikistan**	**Georgia**	**Other and corporate**	**Total**
Gas sales	8,529	-	-	-	8,529
Oil sales	1,591	-	-	-	1,591
Other income	(18)	-	-	1	(17)
Other operating income	-	-	-	575	575
Segment revenue and other income	**10,102**	**-**	**-**	**576**	**10,678**
Inter-segment revenue	-	-	-	(575)	(575)
Segment revenue and other income from external customers	**10,102**	**-**	**-**	**1**	**10,103**
Loss before taxation	**(4,890)**	**1**	**9**	**(10,279)**	**(15,159)**
Taxation	627	-	-	(115)	512
Loss for the period	**(4,263)**	**1**	**9**	**(10,394)**	**(14,647)**
Total assets	134,860	24,171	13,189	15,103	187,323
Total liabilities	20,844	11,468	1	31,599	63,912
Cash expenditure on exploration & evaluation assets, property, plant and equipment	655	103	283	13	1,054
Depreciation, depletion & amortisation	6,252	1	-	2,003	8,256

Borrowing costs of USD227,000 incurred in the Corporate segment were capitalised in the Kazakhstan segment during the period.

(in thousands of US dollars)

The following is an analysis of the Company's revenue, results and assets by reportable segment for the nine months ended September 30, 2015:

	Kazakhstan	Tajikistan	Georgia	Other and corporate	Continuing operations	Uzbekistan[1]	Total
Gas sales	13,636	-	-	-	13,636	-	13,636
Oil sales	4,884	-	-	-	4,884	-	4,884
Other income	8	-	-	-	8	-	8
Other operating income	-	-	-	726	-	-	-
Segment revenue and other income	**18,528**	**-**	**-**	**726**	**19,254**	**-**	**19,254**
Inter-segment revenue	-	-	-	(726)	(726)	-	(726)
Segment revenue and other income from external customers	**18,528**	**-**	**-**	**-**	**18,528**	**-**	**18,528**
							-
Loss from jointly controlled entity	(250)	-	-	-	(250)	-	(250)
							-
Loss before taxation	**(20,979)**	**(14)**	**(2)**	**(13,769)**	**(34,764)**	**(88)**	**(34,852)**
Taxation	3,881	-	-	(127)	3,754	-	3,754
Loss for the period	**(17,098)**	**(14)**	**(2)**	**(13,896)**	**(31,010)**	**(88)**	**(31,098)**
Total assets	145,781	43,781	12,828	22,780	225,170	-	225,170
Total liabilities	9,824	6,050	1	34,134	50,009	151	50,160
Cash expenditure on exploration & evaluation assets, property, plant and equipment	2,563	4,561	795	-	7,919	-	7,919
Depreciation, depletion & amortisation	22,355	1	-	2,648	25,004	-	25,004

Note 1 - Discontinued operation in 2013.

Borrowing costs of USD250,000 and USD536,000 incurred in the Corporate segment were capitalised in the Kazakhstan and Tajikistan segments respectively during the period.

The following is an analysis of the Company's revenue, results and assets by reportable segment for the three months ended September 30, 2016:

	Kazakhstan	Tajikistan	Georgia	Other and corporate	Total
Gas sales	2,659	-	-	-	2,659
Oil sales	459	-	-	-	459
Other income	2	-	-	(1)	1
Other operating income	-	-	-	193	193
Segment revenue and other income	**3,120**	**-**	**-**	**192**	**3,312**
Inter-segment revenue	-	-	-	(193)	(193)
Segment revenue and other income from external customers	**3,120**	**-**	**-**	**(1)**	**3,119**
Loss before taxation	(2,023)	1	7	(2,203)	(4,218)
Taxation	218	-	-	(36)	182
Loss for the period	**(1,805)**	**1**	**7**	**(2,239)**	**(4,036)**
Total assets	134,860	24,171	13,189	15,103	187,323
Total liabilities	20,844	11,468	1	31,599	63,912
Cash expenditure on exploration & evaluation assets, property, plant and equipment	252	22	44	-	318
Depreciation, depletion & amortisation	1,877	-	(7)	603	2,473

(in thousands of US dollars)

Borrowing costs of USD204,000 incurred in the Corporate segment were capitalised in the Kazakhstan and segment respectively during the period.

The following is an analysis of the Company's revenue, results and assets by reportable segment for the three months ended September 30, 2015:

	Kazakhstan	Tajikistan	Georgia	Other and corporate	Continuing operations	Uzbekistan[1]	Total
Gas sales	4,103	-	-	-	4,103	-	4,103
Oil sales	1,631	-	-	-	1,631	-	1,631
Refined product sales	(6)	-	-	-	(6)	-	(6)
Other income	8	-	-	(533)	(525)	-	(525)
Other operating income	-	-	-	726	726	-	726
Segment revenue and other income	**5,736**	**-**	**-**	**193**	**5,929**	**-**	**5,929**
Inter-segment revenue	-	-	-	-	(193)	-	(193)
Segment revenue and other income from external customers	**5,736**	**-**	**-**	**193**	**5,736**	**-**	**5,736**
Loss from jointly controlled entity	(15)	-	-	-	15	-	15
							-
Profit/ (loss) before taxation	**(1,807)**	**1**	**-**	**(2,725)**	**(4,531)**	**(11)**	**(4,542)**
Taxation	868	-	-	(35)	833	-	833
Profit/ (loss) the period	**(939)**	**1**	**-**	**(2,760)**	**(3,698)**	**(11)**	**(3,709)**
Total assets	145,781	43,781	12,828	22,780	225,170	-	225,170
Total liabilities	9,824	6,050	1	34,134	50,009	151	50,160
Cash expenditure on exploration & evaluation assets, property, plant and equipment	2,563	4,561	795	-	7,919	-	7,919
Depreciation, depletion & amortisation	2,998	-	-	718	3,716		3,716

Note 1 - Discontinued operation in 2013.

Borrowing costs of USD434,000 and USD408,000 incurred in the Corporate segment were capitalised in the Kazakhstan and Tajikistan segments respectively during the period.

4 Share based payments

Share options

Full details of the share options and stock incentive plan are outlined in the Company's annual consolidated financial statements for the year ended December 31, 2015. The options under the plan vest in three tranches over either two or three years. These options are equity settled share based payment transactions.

In respect of both share options and in the prior period shares issued a charge for the value of services of USD183,000 (2015: USD358,000) was recorded for the period. No amounts were capitalised in the current or prior periods.

(in thousands of US dollars)

The following tables summarise the stock option activity for the periods ended September 30, 2016 and September 30, 2015.

	Nine months ended September 30			
	2016		2015	
	Number of options	Weighted average exercise price ($)	Number of options	Weighted average exercise price ($)
Outstanding at January 1	11,025,500	0.31	15,362,400	1.58
Granted	14,307,500	0.03	10,422,500	0.23
Forfeited	(2,910,000)	0.18	(1,077,500)	0.28
Expired	(2,624,500)	0.33	(9,588,400)	1.80
Outstanding at September 30	**19,798,500**	**0.12**	**15,119,000**	**0.60**
Exercisable at September 30	**3,062,667**	**0.42**	**6,594,000**	**1.08**

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 11.

Warrants issued in connection with loans

The following table summarises the warrant activity for the periods ended September 30, 2016 and September 30, 2015.

	Nine months ended September 30			
	2016		2015	
	Number of warrants	Weighted average exercise price ($)	Number of warrants	Weighted average exercise price ($)
Outstanding at January 1	2,090,000	2.50	2,090,000	2.50
Expired				
Outstanding at September 30	**2,090,000**	**2.50**	**2,090,000**	**2.50**
Exercisable at September 30	**2,090,000**	**2.50**	**2,090,000**	**2.50**

(in thousands of US dollars)

5 Taxation

Tethys is domiciled in the Cayman Islands which has no Company 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:

	Nine months ended September 30	
	2016	**2015**
Loss before income taxes from continuing operations	(15,159)	(34,764)
Income tax rate	20%	20%
Expected income tax recovery	**3,032**	**6,953**
Decrease resulting from:		
Non-deductible expenses net of functional currency foreign exchange impact	(234)	8,046
Revisions in tax estimates and foreign exchange impact on tax pools	357	(6,338)
Impact of effective tax rates in other foreign jurisdictions	(1,919)	(2,433)
Losses and tax assets not utilised/recognised	(724)	(2,474)
	512	**3,754**
Current tax (expense)/credit	(100)	134
Deferred tax credit	612	3,830
Total	**512**	**3,754**

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

	As at	
	September 30, 2016	**December 31, 2015**
Tax losses	211	226
Deferred tax asset	**211**	**226**
Capital assets	12,403	13,008
Other	(2,270)	(2,216)
Deferred tax liability	**10,133**	**10,792**

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

6 Loss per share

Continuing operations	Units	Three months ended September 30 2016	Three months ended September 30 2015	Nine months ended September 30 2016	Nine months ended September 30 2015
Loss for the purpose of basic and diluted loss attributable to ordinary shareholders	$'000	(4,196)	(3,700)	(14,649)	(31,009)
Weighted average shares	000s	400,005	336,785	379,262	336,653
Per share amount	$	(0.01)	(0.01)	(0.04)	(0.09)

Loss from discontinued operations was nil cents per share in each period.

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 ordinary shares, comprising share options and warrants, are currently anti-dilutive and therefore there is no difference between basic and diluted earnings per share.

7 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	29,168	-	-	29,168
December 31, 2015	**29,297**	**12,905**	**22,000**	**64,202**
Additions	188	282	2,555	3,025
September 30, 2016	**29,485**	**13,187**	**24,555**	**67,227**

8 Property, plant and equipment

	Oil and gas properties			Oil and gas equipment			Other fixed assets[1]			Total net
	Cost	Amortisation	Total	Cost	Depreciation	Total	Cost	Depreciation	Total	book amount
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 (see note 2)	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	558	-	558	-	-	-	55	-	55	613
Disposals	-	-	-	-	-	-	(846)	791	(55)	(55)
Amortisation and depletion	-	(5,861)	(5,861)	-	(2,080)	(2,080)	-	(315)	(315)	(8,256)
September 30, 2016	**168,740**	**(74,098)**	**94,642**	**25,343**	**(14,634)**	**10,709**	**4,304**	**(3,956)**	**348**	**105,699**

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

(in thousands of US dollars)

9 Restricted cash

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. Current amounts consist of monies placed on temporary deposit as security against corporate credit cards and a deposit with the Ministry of Finance in Dubai.

10 Financial liabilities

	Effective interest rate per annum	Maturity date	As at September 30, 2016	As at December 31, 2015
Current				
Rig loans	14.80%	2017	4,157	1,386
Kazakh loan	11.0%-15.9%	2019	2,035	2,571
Corporate loans	22.60%	2017	12,577	-
Convertible loans	10.60%	2017	7,842	-
Olisol loan	8.20%	2016	5,745	5,202
			32,356	**9,159**
Non-current				
Rig loans	14.80%	2017	-	3,995
Kazakh loan	11.0%-15.9%	2019	1,811	-
Corporate loans	22.60%	2017	-	9,846
Convertible loans	10.60%	2017		9,032
			1,811	**22,873**
Total			**34,167**	**32,032**

The fair value of financial liabilities held at amortised cost approximates the carrying value. As at September 30, 2016, the Company is in compliance with all debt covenants relating to all borrowing contracts.

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 September 30, 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.

These borrowings are held at amortised cost with interest payable of 12% per annum and an effective interest rate of 14.8% per annum.

Kazakh loan

On September 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 has a term of up to four years depending on the Company's requirements and bears an interest rate of between 12% and 15% per annum on sums drawn down.

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 are principally the same (i.e. the principal repayment to be completed by April 2016 with 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 have been advanced to the Company under the loan agreement, with monthly repayments of both principal and interest (at a weighted average effective interest rate of between 14.0% and 15.9%). The outstanding balance of the loan at September 30, 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.

Certain oil and gas property assets have been pledged by TAG as security for the above-mentioned bank loan facility.

On September 7, 2016, the Company received an additional USD1.0 million drawdown. The loan interest on the initial USD1.0 million is 11%, maturing in July 2017 and also includes a nine month principal grace period.

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.

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 an Amended and Restated Investment Agreement ("Investment Agreement"). Olisol is obliged under the legally binding terms of the 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 US$10 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 Investment Agreement by the October 27, 2016 Closing Date and has sought to terminate the Investment Agreement and demand repayment of its loan. The Company does not believe that Olisol has the right to terminate the Investment Agreement or that the loan is repayable.

Corporate - New 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 was due at the end of two years with interest payments at the rate of 8% per annum being due every six 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 CDN0.19. The Company valued these warrants at initial recognition at USD2.1 million. The warrants were surrendered during the prior year 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 to 10.5% per annum being due every three months.

Corporate - New 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 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 has issued the lender with 23,333,333 warrants over the Company's shares with a price of CDN0.19. The Company has valued these warrants at initial recognition at USD0.8 million.

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 ("AGR Energy 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 valued by the Company at initial recognition at USD180,000.

The AGR Debentures mature on September 30, 2017 and pay interest at a rate of 9% per annum.

Unsecured convertible loan facility from ALR

On September 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

(in thousands of US dollars)

Management, the Company's largest shareholder. The ALR 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 17,609,780 Ordinary Shares. The conversion option has been accounted for as an embedded derivative and valued by the Company at initial recognition at USD70,000.

The ALR Debentures pay interest at a rate of 9% per annum and mature on September 30, 2017.

11 Derivative financial instruments

Warrants

	As at September 30, 2016	December 31, 2015
Balance, beginning of period	275	-
Issued during the period	-	2,949
Fair value gain	(275)	(573)
Surrender of warrants (see note 10)	-	(2,101)
Balance, end of period	**-**	**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 10.

The liability was initially recognised at fair value. As the warrants are denominated in a 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 at fair value and subsequently measured at fair value through income.

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

	As at September 30, 2016	December 31, 2015
Weighted average fair value	USD0.01	USD0.01
Risk free rate	0.52%	0.48%
Expected term	0.8 years	1.2 years
Volatility	94.79%	108.00%
Dividend	Nil	Nil

(in thousands of US dollars)

The following table summarises the warrant activity for the year ended December 31, 2015 and the period ended September 30, 2016.

	Number of warrants	Weighted average exercise price $
Outstanding at January 1, 2015	-	-
Issued	58,933,333	0.15
Surrender of warrants (see note 10)	(35,600,000)	0.15
Outstanding and exercisable at December 31, 2015	**23,333,333**	**0.15**
Outstanding and exercisable at September 30, 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 September 2015 the Company issued two convertible loans, the terms of which are described in note 10. 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.

	As at	
	September 30, 2016	December 31, 2015
Balance, beginning of period	-	250
Fair value gain	-	(250)
Balance, end of period	**-**	**-**

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

	As at	
	September 30, 2016	December 31, 2015
Credit spread	9.94%	9.94%
Volatility	70.00%	70.00%

(in thousands of US dollars)

12 Share capital

Share capital and share premium

	Number of shares
Authorised as at December 31, 2015:	
Ordinary shares with a par value of $0.10 each	700,000,000
Preference shares with a par value of $0.10 each	50,000,000
Authorised as at September 30, 2016:	
Ordinary shares with a par value of $0.01 each	1,450,000,000
Preference shares with a par value of $0.01 each	50,000,000

Ordinary equity share capital **Allotted and fully paid**	**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**
Issued during the year (see note 10):			
Debt conversion by Olisol – March 21, 2016	37,440,042	3,744	-
Debt conversion by Olisol – April 15, 2016	25,604,419	2,560	-
Par value reduction – August 31, 2016	-	(36,000)	36,000
At September 30, 2016	**400,004,848**	**4,000**	**357,803**

On August 31, 2016, to facilitate the Olisol private placement transaction (see note 13), the Company reduced the par value of its ordinary shares from USD0.10 to USD0.01 per share.

13 Related party transactions

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 Directors 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 September 30, 2016, AOT had a loan owing to Olisol, including accrued interest, of USD3,224,000 (September 30, 2015: USD2,989,000) and a loan owing to the Company of USD2,681,000 (September 30, 2015: USD2,501,000);

(ii) Parties to the Interim Financing Facility and Facility Amendment Agreement, details of which are given in note 10;

(iii) Parties to 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 Investment Agreement and has sought to terminate the Investment Agreement and demand repayment of its loan. The Company does not believe that Olisol has the right to terminate the Investment Agreement or that the loan is repayable.

(in thousands of US dollars)

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 the nine months to September 30, 2016 oil sales of USD1,591,000 were made by the Company to EGG (2015: USD4,884,000). At September 30, 2016 amounts owing to the Company by EGG for oil sales amounted to USD1,341,000.

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 10.

EGG is also the sole customer of the AOT. In the nine months to September 30, 2016 EGG paid trans-shipment fees of USD342,000 to the AOT (2015: USD1,042,000). At September 30, 2016 the AOT had a loan owing to EGG, including accrued interest, of USD2,596,000 (September 30, 2015: USD3,328,000).

14 Change in working capital

	Three months ended September 30		Nine months ended September 30	
	2016	**2015**	**2016**	**2015**
Condensed Statement of Financial Position:				
Trade and other receivables	(2,602)	132	(3,639)	(2,882)
Inventories	83	79	58	382
Trade and other payables	2,351	1,532	3,882	4,464
Change in working capital	(168)	1,743	301	1,964
Non-cash transactions	(515)	(4,230)	(1,161)	(3,858)
Net changes in working capital	**(683)**	**(2,487)**	**(860)**	**(1,894)**
Condensed Statement of Cash Flows:				
Operating activities	(883)	(3,085)	(1,099)	(970)
Investing activities	200	598	239	(924)
Net changes in working capital	**(683)**	**(2,487)**	**(860)**	**(1,894)**

15 Commitment and contingencies

Litigation, claims and assessments

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

Kazakhstan regulatory and legal environment

The regulatory and legal 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.

Disputes with Eurasia Gas Group LLP ("EGG")

EGG is the sole buyer of oil produced by the Company's subsidiary Tethys Aral Gas LLP ("TAG").

EGG has not paid in full for oil purchases from TAG for more than 10 months. More than US$1.4 million is now owed by EGG and, after exhausting other efforts to secure payment, TAG wrote to EGG on October 13, 2016 demanding repayment within 10 days or that it would be forced to take court action to recover the amounts owed by EGG.

On October 26, 2016 the Company was notified of a claim lodged by EGG in the Almaty City Court against TAG. EGG is seeking an award equivalent to US$2.6 million for the alleged failure by TAG to deliver certain minimum volumes of crude oil to EGG. The Company's view is that the 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.

Despite the Company only being notified of the claim on October 26, 2016 the Statement of Claim was filed on October 21, 2016 and on October 24, 2016 the Judge issued a freezing order on the bank accounts, production assets, shares and subsoil use contracts of TAG.
We have serious concerns about these actions as the lawsuit was accepted by the Court in breach of the statutory pre-trial dispute resolution procedure which requires a 30 day negotiation period prior to filing a lawsuit.

The Judge's ruling also prohibited general meetings of the shareholders of TAG and the management of the company was prohibited from issuing certain resolutions and orders. In other words, the management of TAG is restricted from performing some of its functions according to its Charter. The freezing order was imposed on all bank accounts, and the company is unable to pay salaries to employees, suppliers or taxes due to Government authorities until the accounts are unblocked. It is also unable to receive payment of the more than US$3 million owed by ICA for gas sales and the US$1.4 million owed by EGG for oil sales.

A Court hearing date was set for November 1, 2016, however, EGG's legal representatives failed to appear and the hearing was delayed for a week.

Criminal case against Tethys Aral Gas LLP and allegations against its employees. Searches and seizures at the office of Tethys Aral Gas LLP, Tethys Services Kazakhstan LLP and Kul-Bas LLP

On November 1, 2016 a judge of a regional court of Almaty issued a resolution to execute searches at the office of TAG as a result of a criminal case against TAG and its employees alleging theft. The Company understands that the case was initiated by the Company's now former Chairman Mr. Alexander Abramov. On November 2, 2016 the investigation division of the Internal Affairs Department of Almaty conducted searches of the Company's offices.

The Company is informed by legal counsel in Kazakhstan that a freezing order of the sort described above imposed by a special inter-district economic court of Almaty in a simple civil case is quite unusual and that the involvement of armed law enforcement authorities to quickly conduct investigations in a case of this nature is highly unusual.

As a result of the searches and seizures, accounting documents, contracts, computers and servers of TAG were seized. Moreover, documents, computers and servers of Tethys Services Kazakhstan LLP and Kul-Bas LLP, companies affiliated with TAG, were also seized.

Furthermore, members of TAG management were required to attend interrogation on November 4, 2016 and this process is ongoing. The Company is concerned that if the management of TAG is arrested, TAG risks being deprived of its management.

Tethys is concerned that the actions described above may deprive the Company of control over TAG, Tethys Services Kazakhstan LLP and Kul-Bas LLP.

Tethys, as the sole shareholder of TAG, Tethys Services Kazakhstan LLP and Kul-Bas LLP, will seek to protect its rights and legitimate interests through all legal means and will incur all commercially reasonable legal fees and expenses necessary to protect its investment, its management and employees from what it believes to be improper allegations.

Tethys will also take all reasonable steps at its disposal to return to normal business operations at the earliest time.

(in thousands of US dollars)

Kazakhstan work programmes

The work programme commitments Kazakhstan businesses 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		5,633	1,257	8,797
Investments		2,440	481	3,788
Kyzyloi Production Contract (Gas)	2029			
Financial obligations, total		8,407	1,218	46,957
Investments		3,515	658	8,619
Akkulka Exploration Contract (Oil)	2019			
Financial obligations, total		6,993	2,467	9,353
Investments		5,497	1,019	7,044
Kul-Bas Exploration Contract	2015			
Financial obligations, total		-	145	-
Investments		-	100	-
Financial obligations, total		**21,033**	**5,087**	**65,107**
Investments, total		**11,452**	**2,258**	**19,451**
Total		**32,485**	**7,345**	**84,558**

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. 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.

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.

In July 2016 the Company received a penalty notice from the authorities for under-fulfilment of its 2015 work programme commitments in relation to the Kyzyloi and Akkulka contracts in the amount of USD775,000. The Company does not agree with the basis of the penalty levied and is in discussions with the authorities to have the penalty withdrawn or reduced. The State could also seek to impose penalties on the Company for under-fulfilment of its 2015 work programme commitments in relation to the Kul-bas contract of up to USD1.4 million on the same basis as for the Kyzyloi and Akkulka contracts, however, no penalty notices have yet been received by the Company. At the end of Q2 2016 the Company (and Akkulka Exploration Contract) was behind the annual commitments in some of the categories that make up the annual work programme for the Kyzyloi and Akkulka Production Contracts mainly in "Investments" (comprising largely CAPEX and OPEX) and in "Financial Obligations" (comprising Investments plus Indirect/Overhead costs and taxes), the reasons for this are mainly lack of funding of CAPEX in the year to date and also operational efficiency with respect to operations (OPEX and some overheads). For Kyzyloi the company is in the process of submitting a project to the State authorities to rationalize the forward production profile and hence the work programme commitments.

For Kul-Bas the company awaits the ratification of the extension before the draft work programme can be made final and expenditure offset against it. 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 September 30, 2016, the Company had reimbursed the Kazakh State USD676,200 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 an extension subject to approval of an appraisal extension project and work programme and subsequent registration of a suitable addition to the contract.

Tajikistan

The Company has an effective 28.33% interest (33.33% interest via its 85% owned subsidiary) in Bokhtar Operating Company BV with partners Total and CNPC each having a 33.33% interest. Under the terms of the farm-out agreement entered into on September 18, 2013 with Total and CNPC 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 September 30, 2016, the joint venture partners had contributed in excess of USD100.0 million to the Bokhtar Operating Company of which the Company's share was USD16.3 million. At September 30, 2016, Bokhtar had contractual commitments not yet incurred or accrued relating to seismic acquisition of which Tethys share is 33.33%. The Company has not been provided with this information by the joint operating company since August 2015 as a result of being in default of cash calls in the amount of USD11.5 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 Total and CNPC (the "Partners"), that on 19 May, 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 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.

(in thousands of US dollars)

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.

Georgia

The Company has a 49% interest in three blocks in Eastern Georgia 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 has also been reduced and deferred on all 3 blocks: XIA, XIN and XIM. For 2016 this involves focused 2D seismic acquisition at a cost to Tethys of USD0.9m after which the Joint Venture will make an informed decision in 2017 whether to drill or cease further activity with contingent drilling of any wells in 2018.

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, after taking professional advice, believes the claim is without foundation or merit and have 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.

16 Operating leases

Leases as a lessee:

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

	As at September 30, 2016	As at December 31, 2015
Less than 1 year	137	611
1 – 3 years	171	722
Greater than 3 years	-	75