

Tethys Petroleum Limited

Condensed Consolidated Interim Financial Statements
(Unaudited)
September 30, 2017

NOTICE OF NO AUDITOR REVIEW OF FINANCIAL STATEMENTS

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

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

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

We draw attention to the section entitled “Going Concern” in Note 1 to the condensed consolidated interim financial statements which describes the material uncertainties relating to the Company’s adoption of the going concern basis in preparing the condensed consolidated interim financial Statements for the period ended September 30, 2017.

For and on behalf of the Board

W. Wells

Chairman

November 14, 2017

A. Ogunsemi

Director

November 14, 2017

Tethys Petroleum Limited

Condensed Consolidated Interim Statements of Financial Position (unaudited)

(in thousands of US dollars)

		As at	
	Note	September 30, 2017	December 31, 2016
Non-current assets			
Intangible assets	7	42,893	42,732
Property, plant and equipment	8	97,079	103,115
Restricted cash	9	166	2,238
Investment in joint arrangements		4	4
Trade and other receivables		1,568	1,237
Deferred tax	5	95	208
		141,805	149,534
Current assets			
Cash and cash equivalents		186	449
Trade and other receivables		6,517	6,532
Inventories		562	676
Restricted cash	9	6	2,713
		7,271	10,370
Total assets		149,076	159,904
Non-current liabilities			
Trade and other payables		-	44
Financial liabilities - borrowings	10	5,808	-
Deferred tax	5	11,246	11,913
Provisions		997	910
		18,051	12,867
Current liabilities			
Financial liabilities - borrowings	10	26,712	33,249
Current taxation	5	560	522
Trade and other payables		21,515	19,838
Provisions		26	200
		48,813	53,809
Total liabilities		66,864	66,676
Equity			
Share capital	11	5,081	5,081
Share premium	11	358,444	358,444
Other reserves		43,806	43,648
Accumulated deficit		(331,215)	(320,041)
Non-controlling interest		6,096	6,096
Total equity		82,212	93,228
Total equity and liabilities		149,076	159,904
Going concern	1		
Commitments and contingencies	14		

The notes on pages 6 to 22 form part of these condensed consolidated interim financial statements. The condensed consolidated interim financial statements were approved by the Board on November 14, 2017 and were signed on its behalf.

W. Wells

Chairman

November 14, 2017

A. Ogunsemi

Director

November 14, 2017

Tethys Petroleum Limited

Condensed Consolidated Interim Statements of Comprehensive Income (Loss) (unaudited)
(in thousands of US dollars except per share information)

		Three months ended		Nine months ended	
	Note	September 30	September 30	September 30	September 30
		2017	2016	2017	2016
Sales and other revenues	3	2,593	3,119	5,928	10,103
Sales expenses		919	(665)	919	(2,132)
Production expenses		(1,004)	(1,979)	(3,112)	(4,503)
Depreciation, depletion and amortisation		(3,155)	(2,473)	(8,225)	(8,256)
Administrative expenses		(1,043)	(1,354)	(3,606)	(4,379)
Restructuring costs		-	23	(104)	(1,400)
Share based payments	4	(51)	(20)	(158)	(183)
Profit on sale of fixed assets		-	-	-	10
Foreign exchange gain		262	20	91	141
Fair value gain on derivative financial instruments		-	4	-	275
Finance costs		(1,322)	(893)	(3,402)	(4,835)
		(5,394)	(7,337)	(17,597)	(25,262)
Loss before tax from continuing operations		(2,801)	(4,218)	(11,669)	(15,159)
Taxation	5	(78)	182	495	512
Loss from continuing operations and total comprehensive income		(2,879)	(4,036)	(11,174)	(14,647)
Loss and total comprehensive income attributable to:					
Shareholders		(2,879)	(4,196)	(11,174)	(14,649)
Non-controlling interest		-	160	-	2
Loss and total comprehensive income		(2,879)	(4,036)	(11,174)	(14,647)
Loss per share attributable to shareholders:					
Basic and diluted - from continuing operations (USD)	6	(0.01)	(0.01)	(0.02)	(0.04)

No dividends were paid or are declared for the period (2016: none).

The notes on pages 6 to 22 form part of these condensed consolidated interim financial statements.

Tethys Petroleum Limited

Condensed Consolidated Interim Statements of Changes in Equity (unaudited)

(in thousands of US dollars)

	Note	Attributable to shareholders					Non-controlling interest	Total equity
		Share capital	Share premium	Accumulated deficit	Option reserves	Warrant reserves		
At January 1, 2016	11	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		(36,000)	36,000	-	-	-	-	-
Total transactions with shareholders		(29,696)	36,001	-	183	-	-	6,488
At September 30, 2016		4,000	357,803	(287,838)	26,748	16,601	6,096	123,410
At January 1, 2017	11	5,081	358,444	(320,041)	27,047	16,601	6,096	93,228
Comprehensive loss for the period		-	-	(11,174)	-	-	-	(11,174)
Transactions with shareholders								
Share-based payments		-	-	-	158	-	-	158
Total transactions with shareholders		-	-	-	158	-	-	158
At September 30, 2017	11	5,081	358,444	(331,215)	27,205	16,601	6,096	82,212

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

The notes on pages 6 to 22 form part of these condensed consolidated interim financial statements.

Tethys Petroleum Limited

Condensed Consolidated Interim Statements of Cash Flows (unaudited)

(in thousands of US dollars)

	Note	Three months ended September 30		Nine months ended September 30	
		2017	2016	2017	2016
Cash flow from operating activities					
Loss before tax from continuing operations		(2,801)	(4,218)	(11,669)	(15,159)
Adjustments for:					
Share based payments		51	20	158	183
Net finance cost		1,322	893	3,402	4,835
Depreciation, depletion and amortisation		3,155	2,473	8,225	8,256
Profit on sale of fixed assets		-	-	-	(10)
Fair value gain on derivative financial instruments		-	(4)	-	(274)
Net unrealised foreign exchange gain		32	109	99	(246)
Movement in provisions		(3)	(100)	(278)	(1,736)
Net change in working capital	13	(2,115)	(883)	416	(1,099)
Cash generated from/(used in) operating activities		(359)	(1,710)	353	(5,250)
Corporation tax paid		(4)	(7)	(22)	(28)
Net cash generated from/(used in) operating activities		(363)	(1,717)	331	(5,278)
Cash flow from investing activities:					
Expenditure on exploration and evaluation assets		(57)	(90)	(161)	(545)
Expenditure on property, plant and equipment		(408)	(228)	(1,412)	(509)
Proceeds from sale of fixed assets		-	-	-	33
Movement in restricted cash		1,991	(2)	4,779	146
Movement in advances to construction contractors		96	193	96	(6)
Movement in value added tax receivable		433	131	391	559
Net change in working capital	13	161	200	(67)	239
Net cash generated/(used in) from investing activities		2,216	204	3,626	(83)
Cash flow from financing activities:					
Proceeds from issuance of borrowings, net of issue costs		-	4,430	-	7,930
Repayment of borrowings		(2,079)	(715)	(2,823)	(1,289)
Interest paid on borrowings		(61)	(903)	(815)	(2,616)
Movement in other non-current liabilities		(22)	(22)	(43)	(90)
Net cash (used in)/generated from financing activities		(2,162)	2,790	(3,681)	3,935
Effects of exchange rate changes on cash and cash equivalents		(322)	(177)	(539)	(46)
Net (decrease)/increase in cash and cash equivalents		(631)	1,100	(263)	(1,472)
Cash and cash equivalents at beginning of the period		817	700	449	3,272
Cash and cash equivalents at end of the period		186	1,800	186	1,800

The notes on pages 6 to 22 form part of these condensed consolidated interim financial statements.

Tethys Petroleum Limited

Notes to Condensed Consolidated Interim Financial Statements (unaudited)

(in thousands of US dollars)

1 General information and going concern

Tethys Petroleum Limited is incorporated in the Cayman Islands and the address of the Company's registered office is 190 Elgin Avenue, George Town, Grand Cayman, KY1-9007, 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 had a standard listing on the London Stock Exchange ("LSE") until May 2, 2017 when it cancelled its UK listing. 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 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 ended September 30, 2017. 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 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 USD11.2 million for the period ended September 30, 2017 (year ended December 31, 2016: USD46.9 million) and an accumulated deficit as at that date of USD331.2 million (December 31, 2016: USD320.0 million) and negative working capital of USD41.5 million (December 31, 2016: negative USD43.4 million). In addition, the Company reported positive cash flow generated from operating activities before tax of USD0.3 million for the period ended September 30, 2017 (year ended December 31, 2016: negative USD4.2 million).

The Company also has various commitments and contingencies as described in note 14. These include commitments and contingencies in relation to assets of Tethys subsidiary Tethys Aral Gas LLP ("TAG") pending the outcome of a commercial claim which the Company is contesting in the Kazakhstan courts.

Tethys Petroleum Limited

Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)

(in thousands of US dollars)

In order to support the Company's short term liquidity position and improve the Company's financial situation, management's focus in the short term is to:

- Resolve the Company's current issues in Kazakhstan, including disputes with Eurasia Gas Group LLP ("EGG"), Olisol Petroleum Limited and Olisol Investments Limited (together "Olisol");
- Work with the Company's other major shareholders in Kazakhstan to market the Company's oil and gas for better pricing, including potential export pricing for gas, and obtain direct funding from a Kazakh bank to restructure loans and fund operations;
- Complete the process of restructuring the Company's loans;
- Increase gas production from the new shallow gas well drilling programme, well work-overs and tie-in of already drilled wells;
- Seek drilling company partners, or other investors, to fund other drilling activities in the Company's Kazakhstan licence areas, for example on a deferred payment or contingent production sharing basis. These include Akkulka enhanced oil recovery and the Klymene exploration well on the Kul-bas licence;
- Continue to evaluate farm-out or other value realisation opportunities with respect to the Tajikistan and Georgia assets; and
- Implement further restructuring and cost optimisation across the business.

Three of the Company's loans falling due in 2017 were restructured in 2016, negotiations are ongoing with certain other lenders and others are the subject of counterclaims by the Company against lenders which will be resolved through the courts.

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 the outcomes of various legal disputes in which the Company is involved, 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 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

Tethys Petroleum Limited

Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)

(in thousands of US dollars)

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 Basis of preparation and accounting policies

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

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” as applicable to interim financial reporting and do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual consolidated financial statements reported for the year ended December 31, 2016.

The condensed consolidated interim financial statements are presented in United States Dollars (“USD”).

New accounting policies

There were no new and revised standards adopted by the Company during the financial period ended September 30, 2017 that had an impact on the condensed consolidated interim financial statements.

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

There are no significant new or amended standards that are not yet effective have not been early adopted by the Company.

3 Segmental Reporting

Geographical segments

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

The Board of Directors consider the business from predominantly a geographical perspective and the Company currently operates in three geographical markets: Kazakhstan, Tajikistan and Georgia.

Tethys Petroleum Limited

Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)

(in thousands of US dollars)

In Kazakhstan, the Company is producing oil and gas from the Kyzylai 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 for the nine months ended September 30, 2017 are as follows:

	Kazakhstan	Tajikistan	Georgia	Corporate	Total
Gas sales	3,602	-	-	-	3,602
Oil sales	2,283	-	-	-	2,283
Other income	43	-	-	-	43
Other operating income	-	-	-	81	81
Segment revenue and other income	5,928	-	-	81	6,009
Inter-segment revenue	-	-	-	(81)	(81)
Segment revenue and other income from external customers	5,928	-	-	-	5,928
Loss before taxation	(4,259)	(32)	-	(7,378)	(11,669)
Taxation	531	-	-	(36)	495
Loss for the period	(3,728)	(32)	-	(7,414)	(11,174)
Total assets ¹	124,242	8	13,381	115,236	149,076
Total liabilities ¹	125,545	12,686	-	32,424	66,864
Cash expenditure on exploration & evaluation assets, property, plant and equipment	510	-	151	912	1,573
Depreciation, depletion & amortization	6,268	-	-	1,957	8,225

Note 1 – Total is after elimination of inter-segment items of USD103,791,000.

No borrowing costs were capitalised during the period.

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

	Kazakhstan	Tajikistan	Georgia	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 ¹	134,860	24,171	13,189	121,518	187,323
Total liabilities ¹	127,259	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

Note 1 – Total is after elimination of inter-segment items of USD106,415,000.

Tethys Petroleum Limited

Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)

(in thousands of US dollars)

Borrowing costs of USD227,000 incurred in the Corporate segment were capitalised in the Kazakhstan 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, 2017 are as follows:

	Kazakhstan	Tajikistan	Georgia	Corporate	Total
Gas sales	1,092	-	-	-	1,092
Oil sales	1,474	-	-	-	1,474
Other income	27	-	-	-	27
Other operating income	-	-	-	27	27
Segment revenue and other income	2,593	-	-	27	2,620
Inter-segment revenue	-	-	-	(27)	(27)
Segment revenue and other income from external customers	2,593	-	-	-	2,593
Loss before taxation	(168)	(8)	-	(2,625)	(2,801)
Taxation	(78)	-	-	-	(78)
Loss for the period	(246)	(8)	-	(2,625)	(2,879)
Total assets ¹	124,242	8	13,381	115,236	149,076
Total liabilities ¹	125,545	12,686	-	32,424	66,864
Cash expenditure on exploration & evaluation assets, property, plant and equipment	413	-	52	-	465
Depreciation, depletion & amortisation	2,476	-	-	679	3,155

Note 1 – Total is after elimination of inter-segment items of USD103,791,000.

No borrowing costs were capitalised 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 are as follows:

	Kazakhstan	Tajikistan	Georgia	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 ¹	134,860	24,171	13,189	121,518	187,323
Total liabilities ¹	127,259	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

Note 1 – Total is after elimination of inter-segment items of USD106,415,000.

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

Tethys Petroleum Limited

Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)
(in thousands of US dollars)

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, 2016. 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 share options a charge for the value of services of USD158,000 (2016: USD183,000) was recorded for the period. No amounts were capitalised in the current or prior periods.

The following tables summarise the stock option activity for the periods ended September 30, 2017 and September 30, 2016.

	Nine months ended September 30			
	2017		2016	
	Number of options	Weighted average exercise price (\$)	Number of options	Weighted average exercise price (\$)
Outstanding at January 1	19,354,500	0.31	11,025,500	0.31
Granted	-	n/a	14,307,500	0.03
Forfeited	(918,750)	0.15	(2,910,000)	0.18
Expired	(2,046,375)	0.50	(2,624,500)	0.33
Outstanding at September 30	16,389,375	0.06	19,798,500	0.12
Exercisable at September 30	6,331,458	0.08	3,062,667	0.42

Warrants issued in connection with loans

The following table summarises the warrant activity for the periods ended September 30, 2017 and September 30, 2016.

	Nine months ended September 30			
	2017		2016	
	Number of warrants	Weighted average exercise price (\$)	Number of warrants	Weighted average exercise price (\$)
Outstanding at January 1	194,390,000	0.058	2,090,000	2.50
Expired	(2,090,000)	2.500	-	-
Outstanding at September 30	192,300,000	0.031	2,090,000	2.50
Exercisable at September 30	192,300,000	0.031	2,090,000	2.50

There are no performance conditions attached to the warrants and all the warrants granted vested at the date of grant. 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.

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Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)
(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	
	2017	2016
Loss before income taxes from continuing operations	(11,669)	(15,159)
Income tax rate	20%	20%
Expected income tax recovery	2,334	3,032
Decrease resulting from:		
Non-deductible expenses net of functional currency foreign exchange impact	(128)	(234)
Revisions in tax estimates and foreign exchange impact on tax pools	1,874	357
Impact of effective tax rates in other foreign jurisdictions	(954)	(1,919)
Losses and tax assets not utilised/recognised	(2,631)	(724)
	495	512
Current tax expense	(32)	(100)
Deferred tax expense	527	612
Total	495	512

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

	As at	
	September 30, 2017	December 31, 2016
Tax losses	95	208
Deferred tax asset	95	208
Capital assets	10,895	11,845
Other	351	68
Deferred tax liability	11,246	11,913

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.

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Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)
(in thousands of US dollars)

6 Loss per share

Continuing operations	Units	Three months ended September 30		Nine months ended September 30	
		2017	2016		
Loss for the purpose of basic and diluted loss attributable to ordinary shareholders	\$'000	(2,879)	(4,196)	(11,174)	(14,649)
Weighted average shares	000s	508,136	400,005	508,136	379,262
Per share amount	\$	(0.01)	(0.01)	(0.02)	(0.04)

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, 2016	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
Additions	11	150	-	161
September 30, 2017	29,513	13,380	-	42,893

8 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, 2016	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
Additions	1,294	-	1,294	906	-	906	10	-	10	2,210
Disposals	-	-	-	-	-	-	(283)	262	(21)	(21)
Amortisation and depletion	-	(5,911)	(5,911)	-	(2,193)	(2,193)	-	(121)	(121)	(8,225)
September 30, 2017	169,172	(80,986)	88,186	26,249	(17,520)	8,729	4,033	(3,869)	164	97,079

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

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9 Restricted cash

Non-current amounts consist of interest bearing deposits held in Kazakhstan that have been placed to satisfy Republic of Kazakhstan requirements in respect of asset retirement obligations. Current restricted cash comprises monies placed on temporary deposit as security against corporate credit cards and in the prior period also included cash which was the subject of court imposed restrictions.

10 Financial liabilities

	Contractual interest rate per annum	Effective interest rate per annum	Maturity date	September 30, 2017	December 31, 2016
Current					
Rig loans	12.0%	14.8%	2018	2,704	3,724
Kazakh loan KZT	22.0%	23.6%	2019	866	2,823
Kazakh loan USD	11.0%	12.3%	2017	815	1,010
Corporate loans					
- USD6 million loan financing	10.5%	24.4%	2017	8,105	7,301
- AGR Energy No.1	9.0%	20.5%	2017	7,969	7,429
ALR loans	9.0%	10.6%	2020	-	5,089
Olisol loan	9.0%	9.0%	Note 1	6,253	5,873
				26,712	33,249
Non -current					
Rig loans	12.0%	14.8%	2018	339	-
ALR loans	9.0%	10.6%	2020	5,469	-
				5,808	-
Total				32,520	33,249

Note 1 - Subject to litigation as described below.

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

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. Loans with a face value of USD4.7 million and GBP2.1 million were borrowed under the agreement.

During Q1 2017, the Company agreed amendments to the loan agreement which had various maturity dates between February and June 2017 i.e. three years after the receipt of each lender's tranche.

The lenders agreed to an extension of the maturity dates by 18 months. They are due 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.

On November 13, 2017 the Company signed an agreement to sell the drilling rigs and equipment and upon receipt of the sale proceeds these will be applied to repay the rig loans in full.

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Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)
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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 (“EGG”), with the Company’s consent, and is a bank loan to EGG, the Company’s previous oil buyer, whereby EGG drew down on the bank loan facility with the approval of the Company and funds were transferred to the Company’s subsidiary, TAG. The bank loan facility had an initial term of up to four years, since extended to February 2019.

In January 2013, the Kazakh loan arrangement was terminated and replaced with an arrangement whereby funds were 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 September 30, 2017 as shown in the table above.

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.

As a consequence of the legal disputes between the Company and EGG described below under “Olisol loan” and also in note 14 the Company has not received confirmation from EGG that it has continued to make payments due to the bank and has had discussions with the Kazakh bank, and more recently initiated legal proceedings, with regard to restructuring the loan so that it becomes a direct loan to TAG.

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 was due at the end of two years with interest payments at the rate of 8% per annum being due every 6 months.

In connection with the loan financing, the Company issued the lender 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 by the borrower after surrender conditions were met during 2015 for the surrender value of USD2.1 million which was added to the principal amount and was 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. The loan fell due on January

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30, 2017 and the Company has been in discussions with the lender regarding the terms of a proposed two year extension to the loan maturity date although at the date of this report these have not been finally agreed.

Annuity and Life Reassurance Ltd (“ALR”) loans

The Company entered into two loan agreements in 2015 with ALR, a company controlled by Pope Asset Management, the Company’s largest shareholder:

a) Corporate – USD3.5 million loan financing:

On March 10, 2015, the Company obtained a USD3.5 million unsecured loan facility from ALR. The principal was due at the end of two years with interest payments due every 6 months at 8% per annum. In connection with the loan financing, the Company issued the lender with 23,333,333 warrants over the Company’s shares with an exercise price of CAD0.19 which expired during the period.

b) 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”). The ALR Debentures were due to mature September 30, 2017 and paid interest every six months at 9% per annum.

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

- (i) extend the maturity dates to January 27, 2020;
- (ii) provide that the loans are convertible in whole, or in part, at ALR's option at any time prior to the extended maturity date at a conversion price of 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%.

Unsecured convertible loan facility from AGR Energy Limited 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 were 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 was accounted for as an embedded derivative and was valued by the Company at initial recognition at USD180,000.

The AGR Debentures pay interest every six months at the interest rate shown in the table above. The maturity date was September 30, 2017 and the Company has been in discussions

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with the lender regarding the terms of a proposed restructuring of the loan although at the date of this report these have not been finally agreed.

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.

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 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 (the "TAG Loan"), however, Olisol did not complete the TAG Loan.

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

At the date of this report the action is continuing and is expected to take some time to resolve through the Court process. Whilst it is not possible at this time to predict the outcome with any degree of certainty the Company believes in the merits of its case and is hopeful of a judgment in its favour for substantial damages in due course.

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11 Share capital

Share capital and share premium

	September 30, 2017	December 31, 2016
Authorised		
Ordinary shares with a par value of \$0.01 each	1,450,000,000	1,450,000,000
Preference shares with a par value of \$0.01 each	50,000,000	50,000,000

Ordinary equity share capital				
Allotted and fully paid	Date	Number	Share Capital	Share Premium
At January 1, 2016		336,960,387	33,696	321,803
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
Private placement	November 29, 2016	87,903,396	879	521
Debt conversion by ALR	December 20, 2016	20,227,854	202	120
At December 31, 2016		508,136,098	5,081	358,444
At September 30, 2017		508,136,098	5,081	358,444

12 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. There are no other related party transactions requiring disclosure.

13 Change in working capital

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Condensed Statement of Financial Position:				
Trade and other receivables	(188)	(2,602)	15	(3,639)
Inventories	49	83	114	58
Trade and other payables	(898)	2,351	1,638	3,882
Change in working capital	(1,037)	(168)	1,767	301
Non-cash transactions	(917)	(515)	(1,418)	(1,161)
Net changes in working capital	(1,954)	(683)	349	(860)
Condensed Statement of Cash Flows:				
Operating activities	(2,115)	(883)	416	(1,099)
Investing activities	161	200	(67)	239
Net changes in working capital	(1,954)	(683)	349	(860)

14 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

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Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)

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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 it had been 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.

Since the claim on October 27, 2016 there have been a number of appeals, counter appeals and an amended claim made by EGG.

As a result of EGG's latest claim against TAG, restrictions remain in place over TAG's bank accounts at the date of this report. Whilst the Company is hopeful of a satisfactory resolution it is not possible at this time to predict the outcome with any degree of certainty.

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 Republic of Kazakhstan ("RoK") authorities 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 RoK authorities along with production volumes in the production contracts.

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Failure by the Company to meet the required level of Investments could put the Company's licences at risk of forfeiture or give rise to penalties for non-fulfilment. The Company accrued in 2016 for penalties of USD592,000 relating to the under fulfillment of financial commitments under the agreed work programmes for 2015 and 2016. The Company has been working with the RoK authorities to have these withdrawn or reduced due to mitigating circumstances. Under RoK regulations two or more contractual violations, e.g. significant non-fulfilment of financial obligations which are not remedied by a sub-soil user or waived by the authorities, gives the RoK 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 RoK 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 RoK 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 shown in the table below.

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

	Kazakhstan Work Programme Commitments			
	Expiry date	Program 2017	Spend to date 2017	Program 2018 & later
Akkulka Production Contract (Gas)	2018			
Financial obligations, total		5,074	496	3,562
Investments		2,068	200	1,650
Kyzyloi Production Contract (Gas)	2029			
Financial obligations, total		6,213	1,032	4,289
Investments		5,704	881	3,704
Akkulka Exploration Contract (Oil)	2019			
Financial obligations, total		6,268	1,516	4,630
Investments		5,040	1,011	3,224
Kul-Bas Exploration Contract	2017			
Financial obligations, total		3,304	79	4,492
Investments		3,122	-	4,321
Financial obligations, total		20,859	3,123	16,973
Investments, total (forms part of Financial obligations)		15,934	2,092	12,899

Apart from the Company's work programme commitments, other amounts may become payable to the RoK authorities 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 RoK 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 RoK 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

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production until full reimbursement. To September 30, 2017, the Company had reimbursed the RoK USD728,088 in respect of the Akkulka Field.

Kul-Bas Exploration and Production Contract

The RoK 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.

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. Apart from cash call requests, 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 which now stand at USD12.7 million.

The Company's indirectly held subsidiary, Kulob Petroleum Limited ("KPL"), the contracting partner in the Bokhtar PSC, was informed by legal counsel representing the Partners in May 2016 that 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 KPL's outstanding cash calls of USD9.0 million (now USD12.7 million) plus an award of costs. The Company has defended its interests in the arbitration proceedings with a view to trying to sell its interest in the Bokhtar PSC, however, this has not proven possible. The arbitration hearings were due to commence on November 13, 2017 and the Company has decided not to incur additional expense by contesting the claims.

In a separate matter, 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 claimed the Company should 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 two blocks in Eastern Georgia (Blocks XI^M and XI^N).

On January 16, 2017 the Company announced that Tethys partner in Georgia, Georgia Oil and Gas Limited ("GOG"), had been notified by the State Agency of Oil and Gas in the Ministry of Energy of Georgia (the "Agency") that GOG and Tethys would not be required to complete the previously agreed 50 km of 2D seismic acquisition in Block XI^N by July 1, 2017. Instead, the Agency will evaluate whether the Tethys and GOG should conduct 50 km of 2D seismic acquisition over an alternative prospective area.

Tethys and GOG wrote to the Agency in June 2017 seeking to retain Block XI^N subject to the Agency agreeing to a new minimum work programme and confirming it would not levy any

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Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)

(in thousands of US dollars)

penalties for any past non-compliances (for which Tethys would be liable) and to retain Block XI^M subject to the Agency agreeing amendments to the production sharing contract. In respect of Block XI^M Tethys has agreed to fund the cost of 30 km of seismic which is expected to be in the range of USD650,000-700,000. Tethys and GOG also wrote to the Agency to relinquish Block XI^A as work performed on the block indicates it has low prospectivity and Tethys and GOG do not wish to commit to further investment.

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.

15 Operating leases

Leases as a lessee:

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

	September 30, 2017	December 31, 2016
Less than 1 year	32	230
1 – 3 years	-	135
Greater than 3 years	-	-

16 Subsequent events

There are no material subsequent events to disclose.