

Tethys Petroleum Limited

Condensed Consolidated Interim Financial Statements
(Unaudited)
September 30, 2019

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

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

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

We draw attention to the section entitled “Going Concern” in Note 1 to the condensed consolidated interim financial statements which describes the material uncertainties relating to the Company’s adoption of the going concern basis in preparing the condensed consolidated interim financial Statements for the period ended September 30, 2019.

For and on behalf of the Board

W. Wells

Chairman

October 25, 2019

A. Ogunsemi

Director

October 25, 2019

Tethys Petroleum Limited

Condensed Consolidated Interim Statements of Financial Position (unaudited)

(in thousands of US dollars)

| | Note | As at September 30, 2019 | December 31, 2018 |
|-------------------------------------|------|--------------------------------|-------------------|
| Non-current assets | | | |
| Intangible assets | | 30,366 | 29,423 |
| Property, plant and equipment | | 70,252 | 71,183 |
| Restricted cash | | 75 | 3 |
| Trade and other receivables | | 1,540 | 1,423 |
| | | 102,233 | 102,032 |
| Current assets | | | |
| Cash and cash equivalents | | 2,368 | 3,460 |
| Trade and other receivables | | 4,637 | 2,932 |
| Inventories | | 475 | 307 |
| Restricted cash | | - | 1 |
| | | 7,480 | 6,700 |
| Total assets | | 109,713 | 108,732 |
| Non-current liabilities | | | |
| Financial liabilities - borrowings | | - | 5,281 |
| Deferred tax | | 8,155 | 8,214 |
| Provisions | | 1,568 | 1,402 |
| | | 9,723 | 14,897 |
| Current liabilities | | | |
| Financial liabilities - borrowings | | 38,459 | 28,604 |
| Current taxation | | 604 | 604 |
| Trade and other payables | | 5,957 | 8,370 |
| | | 45,020 | 37,578 |
| Total liabilities | | 54,743 | 52,475 |
| Equity | | | |
| Share capital | | 6,832 | 6,832 |
| Share premium | | 360,769 | 360,769 |
| Other reserves | | 45,556 | 45,556 |
| Accumulated deficit | | (358,187) | (356,900) |
| Total equity | | 54,970 | 56,257 |
| Total equity and liabilities | | 109,713 | 108,732 |
| Going concern | 1 | | |

The notes on pages 6 to 9 form part of these condensed consolidated interim financial statements. The condensed consolidated interim financial statements were approved by the Board on October 25, 2019 and were signed on its behalf.

W. Wells

Chairman

October 25, 2019

A. Ogunsemi

Director

October 25, 2019

Tethys Petroleum Limited

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

| | Note | Three months ended September 30 | | Nine months ended September 30 | |
|---|------|------------------------------------|--------------|-----------------------------------|----------------|
| | | 2019 | 2018 | 2019 | 2018 |
| Sales and other revenues | 3 | 3,238 | 2,511 | 11,465 | 6,444 |
| Production expenses | | (523) | (996) | (2,227) | (3,176) |
| Depreciation, depletion and amortisation | | (1,195) | (1,690) | (3,736) | (5,859) |
| Administrative expenses | | (733) | (325) | (2,120) | (2,224) |
| Share based payments | | - | (11) | - | (44) |
| Other gains | | - | - | 193 | - |
| Gains on assets held for sale | | - | 419 | - | 419 |
| Foreign exchange (loss)/gain | | (42) | 196 | (281) | 489 |
| Finance costs | | (1,461) | (830) | (4,636) | (3,821) |
| | | (3,954) | (3,237) | (12,807) | (14,216) |
| Loss before tax from continuing operations | | (716) | (726) | (1,342) | (7,772) |
| Taxation | | 220 | 403 | 55 | 1,219 |
| Loss from continuing operations and total comprehensive loss | | (496) | (323) | (1,287) | (6,553) |
| Loss per share attributable to shareholders: | | | | | |
| Basic - from continuing operations (USD) | 4 | (0.01) | (0.01) | (0.02) | (0.13) |
| Diluted - from continuing operations (USD) | 4 | (0.01) | (0.01) | (0.02) | (0.13) |

No dividends were paid or are declared for the period (2018: none).

The notes on pages 6 to 9 form part of these condensed consolidated interim financial statements.

Tethys Petroleum Limited

Condensed Consolidated Interim Statements of Changes in Equity (unaudited)

(in thousands of US dollars)

| | Attributable to shareholders | | | | Non-controlling interest | Total equity |
|---------------------------------------|------------------------------|----------------|---------------------|----------------|--------------------------|---------------|
| | Share capital | Share premium | Accumulated deficit | Other reserves | | |
| At January 1, 2018 | 5,081 | 358,444 | (357,357) | 43,856 | (2,082) | 47,942 |
| Comprehensive loss for the period | - | - | (6,553) | - | - | (6,553) |
| Transactions with shareholders | | | | | | |
| Ordinary shares issued | 26 | 2,560 | - | - | - | 2,586 |
| Share-based payments | - | - | - | 44 | - | 44 |
| Total transactions with shareholders | 26 | 2,560 | - | 44 | - | 2,630 |
| At September 30, 2018 | 5,107 | 361,004 | (363,910) | 43,900 | (2,082) | 44,019 |
| At January 1, 2019 | 6,832 | 360,769 | (356,900) | 45,556 | - | 56,257 |
| Comprehensive loss for the period | - | - | (1,287) | - | - | (1,287) |
| At September 30, 2019 | 6,832 | 360,769 | (358,187) | 45,556 | - | 54,970 |

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

The notes on pages 6 to 9 form part of these condensed consolidated interim financial statements.

Tethys Petroleum Limited

Condensed Consolidated Interim Statements of Cash Flows (unaudited)

(in thousands of US dollars)

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|------------------------------------|--------------|-----------------------------------|--------------|
| | 2019 | 2018 | 2019 | 2018 |
| Cash flow from operating activities | | | | |
| Loss before tax from continuing operations | (716) | (726) | (1,342) | (7,772) |
| Adjustments for: | | | | |
| Share based payments | - | 11 | - | 44 |
| Other gains | - | - | (193) | 1 |
| Gains on assets held for sale | - | (419) | - | (419) |
| Net finance cost | 1,461 | 830 | 4,636 | 3,821 |
| Depreciation, depletion and amortisation | 1,195 | 2,038 | 3,736 | 6,207 |
| Net change in working capital | 222 | (1,835) | (2,293) | (1,394) |
| Cash from/(used in) operating activities | 2,162 | (101) | 4,544 | 487 |
| Corporation tax paid | (2) | - | (4) | - |
| Net cash from/(used in) operating activities | 2,160 | (101) | 4,540 | 487 |
| Cash flow from investing activities: | | | | |
| Proceeds from assets held for sale | - | 393 | - | 3,891 |
| Expenditure on exploration and evaluation assets | (1,059) | (8) | (1,065) | (309) |
| Expenditure on property, plant and equipment | (1,443) | (85) | (2,751) | (946) |
| Movement in restricted cash | (72) | - | (71) | 2 |
| Movement in advances to construction contractors | - | 47 | - | 49 |
| Movement in value added tax receivable | (130) | 333 | (131) | 504 |
| Net change in working capital | (1,066) | (105) | (1,970) | 297 |
| Net cash (used in)/from investing activities | (3,770) | 575 | (5,988) | 3,488 |
| Cash flow from financing activities: | | | | |
| Proceeds from shares issued | - | 2,586 | - | 2,586 |
| Repayment of borrowings | - | 73 | - | (2,791) |
| Interest paid on borrowings | - | (73) | - | (357) |
| Net cash from/(used in) financing activities | - | 2,586 | - | (562) |
| Effects of exchange rate changes on cash and cash equivalents | (24) | (727) | 358 | (690) |
| Net (decrease)/increase in cash and cash equivalents | (1,634) | 2,333 | (1,090) | 2,723 |
| Cash and cash equivalents at beginning of the period | 4,002 | 467 | 3,460 | 77 |
| Cash and cash equivalents at end of the period | 2,368 | 2,800 | 2,368 | 2,800 |

The notes on pages 6 to 9 form part of these condensed consolidated interim financial statements.

Tethys Petroleum Limited

Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)
(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, KY1-9005, Cayman Islands. Tethys is an oil and gas company operating within the Republic of Kazakhstan. Tethys' principal activity is the acquisition of and exploration and development of crude oil and natural gas fields.

The Company has its primary listing on the NEX Board of the Toronto Venture Exchange. The Company is also listed on the Kazakhstan Stock Exchange ("KASE").

Going concern

The Management and the Board has considered the Company's current activities, funding position and projected funding requirements for the period of at least twelve months from the date of approval of the 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, 2019. The Company reported a loss of \$1.3 million for the nine months ended September 30, 2019 (2018 full year: \$4.5 million) and an accumulated deficit as at that date of \$358.2 million (December 31, 2018: \$356.9 million) and negative working capital of \$37.5 million (December 31, 2018: negative \$30.9 million). In addition, the Company reported cash flow from operating activities of \$4.5 million for the nine months ended September 30, 2019 (2018 full year: \$1.0 million).

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

The Company currently does not have sufficient funding to fund its obligations for the next twelve months should all lenders call in their debts at once. The Company is currently in default on loan obligations as disclosed further in note 15 of the 2018 consolidated financial statements and has various commitments and contingencies as disclosed in note 21 of the 2018 consolidated financial statements. The Company has been in discussions and negotiations with the related counterparties to restructure the repayments that are currently due. In order to continue as a going concern, the Company will need to agree adequate terms with counterparties to restructure repayments. There is material uncertainty about the outcome of these negotiations which casts significant doubt on the Company's ability to continue as a going concern.

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

- Resolve the disputed matters with DSFK Special Finance Company LLP and obtain a release of Tethys' pledged assets;
- Return to full gas production and gas sales;
- Complete the drilling of the Klymene well in the Kul-bas contract area and renew the contract which expires on November 11, 2019; and
- Agree repayment terms for overdue loans.

Tethys Petroleum Limited

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

(in thousands of US dollars)

The Company's ability to continue as a going concern is dependent upon its ability to secure and deliver 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 oil & gas 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 realise its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2 Basis of preparation and accounting policies

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

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as applicable to interim financial reporting and do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual consolidated financial statements reported for the year ended December 31, 2018.

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

New accounting policies

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

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

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

3 Segmental Reporting

Geographical segments

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

Tethys Petroleum Limited

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

(in thousands of US dollars)

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

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. The Company also operates a corporate segment which provides loan funding for development activities in Kazakhstan.

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

| | Kazakhstan | Corporate | Total | Eliminations | Group |
|---|---------------|----------------|----------------|--------------|----------------|
| Gas sales | 10,885 | - | 10,885 | - | 10,885 |
| Oil sales | 580 | - | 580 | - | 580 |
| Segment revenue and other income | 11,465 | - | 11,465 | - | 11,465 |
| Loss before taxation | 3,931 | (5,273) | (1,342) | - | (1,342) |
| Taxation | 55 | - | 55 | - | 55 |
| Loss for the period | 3,986 | (5,273) | (1,287) | - | (1,287) |
| Total assets | 109,521 | 109,716 | 219,237 | (109,524) | 109,713 |
| Total liabilities | 124,930 | 39,337 | 164,267 | (109,524) | 54,743 |
| Expenditure on exploration & evaluation assets, property, plant & equipment | 3,816 | - | 3,816 | - | 3,816 |
| Depreciation, depletion & amortization | 3,736 | - | 3,736 | - | 3,736 |

The following is an analysis of the Company's revenue, results and assets by reportable segment for the nine months ended September 30, 2018:

| | Kazakhstan | Corporate | Total | Eliminations | Group |
|---|----------------|----------------|----------------|--------------|----------------|
| Gas sales | 4,537 | - | 4,537 | - | 4,537 |
| Oil sales | 1,893 | - | 1,893 | - | 1,893 |
| Other income | 14 | - | 14 | - | 14 |
| Other operating income | - | 81 | 81 | (81) | - |
| Segment revenue and other income | 6,444 | 81 | 6,525 | (81) | 6,444 |
| Loss before taxation | (4,257) | (3,515) | (7,772) | - | (7,772) |
| Taxation | 1,232 | (13) | 1,219 | - | 1,219 |
| Loss for the period | (3,025) | (3,528) | (6,553) | - | (6,553) |
| Total assets | 102,576 | 114,343 | 216,919 | (104,668) | 112,251 |
| Total liabilities | 127,881 | 45,019 | 172,900 | (104,668) | 68,232 |
| Expenditure on exploration & evaluation assets, property, plant & equipment | 1,255 | - | 1,255 | - | 1,255 |
| Depreciation, depletion & amortization | 6,177 | 30 | 6,207 | - | 6,207 |

4 Loss per share

| Continuing operations | Units | Three months ended September 30 | | Nine months ended September 30 | |
|--|--------|---------------------------------|--------|--------------------------------|---------|
| | | 2019 | 2018 | 2019 | 2018 |
| Loss for the purpose of basic and diluted loss attributable to ordinary shareholders | \$'000 | (496) | (323) | (1,287) | (6,553) |
| Weighted average shares - basic | 000s | 68,324 | 53,230 | 68,324 | 51,628 |

Tethys Petroleum Limited

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

(in thousands of US dollars)

| | | | | | |
|-----------------------------------|------|--------|--------|--------|--------|
| Loss per share - basic | \$ | (0.01) | (0.01) | (0.02) | (0.13) |
| Weighted average shares - diluted | 000s | 68,324 | 53,230 | 68,324 | 51,628 |
| Loss per share - diluted | \$ | (0.01) | (0.01) | (0.02) | (0.13) |

Basic loss per share is calculated by dividing the loss attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year. Diluted per share information is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

5 Subsequent events

On October 2, 2019 the Company announced that, following letters received from DSFK Special Finance Company LLP, its gas customer in Kazakhstan had notified the Company of its intention to start restricting gas transportation. Production from a total of thirteen of the twenty-two gas wells was stopped and overall gas production reduced from approximately 373 thousand cubic metres per day to approximately 114 thousand cubic metres per day.