Tethys Petroleum Limited

Condensed Consolidated Interim Financial Statements
(Unaudited)
September 30, 2020

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, 2020.

For and on behalf of the Board

W. Wells
Chairman
October 27, 2020

A. Ogunsemi
Director
October 27, 2020

Tethys Petroleum Limited

Condensed Consolidated Interim Statements of Financial Position (unaudited)

(in thousands of US dollars)

	Note	As at September 30, 2020	December 31, 2019
Non-current assets			
Intangible assets		29,886	32,034
Property, plant and equipment		53,302	70,953
Restricted cash		69	76
Trade and other receivables		920	1,279
		84,177	**104,342**
Current assets			
Cash and cash equivalents		4,575	694
Restricted cash		22	-
Trade and other receivables		3,200	3,234
Inventories		330	564
		8,127	**4,492**
Total assets		**92,304**	**108,834**
Non-current liabilities			
Financial liabilities - borrowings		7,572	-
Deferred tax		7,295	8,087
Provisions		1,765	1,689
		16,632	**9,776**
Current liabilities			
Financial liabilities - borrowings		2,000	40,196
Deferred revenue		10,337	-
Current taxation		744	1,041
Trade and other payables		5,193	10,367
		18,274	**51,604**
Total liabilities		**34,906**	**61,380**
Equity			
Share capital		10,496	6,832
Share premium		370,814	360,769
Other reserves		43,913	45,556
Accumulated deficit		(367,825)	(365,703)
Total equity		**57,398**	**47,454**
Total equity and liabilities		**92,304**	**108,834**
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The notes on pages 6 to 13 form part of these condensed consolidated interim financial statements. The condensed consolidated interim financial statements were approved by the Board on October ●, 2020 and were signed on its behalf.

W. Wells
Chairman
October ●, 2020

A. Ogunsemi
Director
October ●, 2020

Tethys Petroleum Limited

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

(in thousands of US dollars except per share information)

		Three months ended September 30		Nine months ended September 30	
	Note	**2020**	**2019**	**2020**	**2019**
Sales and other revenues	3	2,148	3,238	8,626	11,465
Production expenses		(581)	(523)	(2,038)	(2,227)
Depreciation, depletion and amortisation		(1,229)	(1,195)	(3,484)	(3,736)
Impairment charges	5	-	-	(15,280)	-
Administrative expenses		(738)	(733)	(2,193)	(2,120)
Other gains and losses	6	-	-	12,261	193
Foreign exchange loss		391	(42)	158	(281)
Finance costs		(440)	(1,461)	(2,320)	(4,636)
		(2,597)	(3,954)	(12,896)	(12,807)
Loss before tax from continuing operations		**(449)**	**(716)**	**(4,270)**	**(1,342)**
Taxation		208	220	505	55
Loss from continuing operations and total comprehensive loss		**(241)**	**(496)**	**(3,765)**	**(1,287)**
Loss per share:					
From continuing operations (USD) - basic	4	(0.00)	(0.01)	(0.04)	(0.02)

No dividends were paid or are declared for the period (2019: none).

The notes on pages 6 to 13 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				
	Share capital	Share premium	Accumulated deficit	Other reserves	Total equity
At January 1, 2019	**6,832**	**360,769**	**(356,900)**	**45,556**	**56,257**
Comprehensive income for the period	-	-	(1,287)	-	(1,287)
At September 30, 2019	**6,832**	**360,769**	**(358,187)**	**45,556**	**54,970**
At January 1, 2020	**6,832**	**360,769**	**(365,703)**	**45,556**	**47,454**
Comprehensive loss for the period	-	-	(3,765)	-	(3,765)
Compound instrument extinguished	-	-	1,643	(1,643)	-
Transactions with shareholders					
Shares issued	3,664	10,045	-	-	13,709
Total transactions with shareholders	3,664	10,045	-	-	13,709
At September 30, 2020	**10,496**	**370,814**	**(367,825)**	**43,913**	**57,398**

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 13 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	
	2020	**2019**	**2020**	**2019**
Cash flow from operating activities				
Loss after tax from continuing operations	(241)	(496)	(3,765)	(1,287)
Adjustments for:				
Net finance cost	440	1,461	2,320	4,636
Depreciation, depletion and amortisation	1,229	1,195	3,484	3,736
Impairment charges	-	-	15,280	-
Other gains and losses	-	-	(12,261)	(193)
Taxation	(208)	(220)	(505)	(55)
Net change in working capital	5,672	92	10,427	(2,424)
Cash from operating activities	**6,892**	**2,032**	**14,980**	**4,413**
Tax paid	(5)	(2)	(584)	(4)
Net cash from operating activities	**6,887**	**2,030**	**14,396**	**4,409**
Cash flow from investing activities:				
Interest received	4	-	5	-
Expenditure on exploration assets (net of revenue receipts)	2,047	(1,059)	2,111	(1,065)
Expenditure on property, plant and equipment	(828)	(1,443)	(1,093)	(2,751)
Movement in restricted cash	4	(72)	(15)	(71)
Net change in working capital	(107)	(1,066)	(1,115)	(1,970)
Net cash from/(used in) investing activities	**1,120**	**(3,640)**	**(107)**	**(5,857)**
Cash flow from financing activities:				
Proceeds of new borrowings	-	-	4,800	-
Repayment of borrowings	(4,000)	-	(11,690)	-
DSFK settlement	-	-	(3,424)	-
Net cash used in financing activities	**(4,000)**	**-**	**(10,314)**	**-**
Effects of exchange rate changes	(82)	(24)	(94)	356
Net increase/(decrease) in cash and cash equivalents	**3,925**	**(1,634)**	**3,881**	**(1,092)**
Cash and cash equivalents at beginning of the period	650	4,002	694	3,460
Cash and cash equivalents at end of the period	**4,575**	**2,368**	**4,575**	**2,368**

The notes on pages 6 to 13 form part of these condensed consolidated interim financial statements.

1 General information and going concern

Tethys Petroleum Limited is incorporated in the Cayman Islands and the address of the Company's registered office is 190 Elgin Avenue, George Town, Grand Cayman, KY1-9005, Cayman Islands. Tethys is an oil and gas company operating within the Republic of Kazakhstan. Tethys' principal activity is the acquisition of and exploration and development of crude oil and natural gas fields.

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

Going concern

The Management and the Board has considered the Company's current activities, funding position and projected funding requirements for the period of at least twelve months from the date of approval of the consolidated financial statements in determining the ability of the Company to adopt the going concern basis in preparing the consolidated financial statements for the nine months ended September 30, 2020. The Company reported a loss of $3.8 million for the nine months ended September 30, 2020 (2019 year: $8.8 million loss) and an accumulated deficit as at that date of $367.8 million (December 31, 2019: $365.7 million) and negative working capital of $10.1 million (December 31, 2019: negative $47.1 million). In addition, the Company reported cash flow from operating activities before tax of $14.4 million for the nine months ended September 30, 2020 (2019 year: $5.0 million).

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

The Company's financial position has materially improved as a result of the Company's loan obligations being restructured, repaid and/or converted into Tethys ordinary shares during the period. Net debt has reduced from $39.5 million at December 31, 2019 to $5.0 million at September 30, 2020.

In addition, a settlement agreement was signed with Olisol Petroleum Limited ("Olisol") and DSFK Special Finance Company LLP ("DSFK") to resolve all disputed matters with those parties. In April 2020, the Company announced that it had completed the issuance of a $4.8 million convertible debenture and received the proceeds which were used to make the settlement payment to DSFK, reduce debt and for general working capital purposes. Further details of these transactions are provided in note 20 of the Company's 2019 consolidated financial statements – *Subsequent events.* Bet

Further, the Company's cash flow has benefitted in the period from oil sales of $2.5 million during the testing of the KBD-02 exploration well which has produced over 4,000 barrels of oil per day and over 200,000 barrels of oil.

Nevertheless, the Company may not have sufficient funding to fund its obligations for the next twelve months and may need to raise funds to meet any shortfall and to fund its planned capital expenditure program. The Company also has various commitments and contingencies as disclosed in note 19 of the 2019 consolidated financial statements. These circumstances indicate the existence of a material uncertainty which cast significant doubt on the Company's ability to continue as a going concern.

Possible adverse effects from the Covid-19 pandemic could include lower oil & gas prices received by the Company due to lower demand for oil & gas, customers not paying for oil & gas delivered, planned oil & gas development activities becoming uneconomic due to lower prices, difficulty in obtaining future financing, failure of suppliers who are no longer be able to supply goods and services and employees becoming unavailable due to sickness or quarantine measures. However, the Company's oil & gas operations are in a remote region of Kazakhstan and the Company is taking precautions to prevent personnel from becoming infected and to identify infections at any early stage should they occur. At the time of writing, the Company has not suffered any significant adverse effect from Covid-19 and, at this time, it is not possible to determine what effect, if any, Covid-19 will have on the Company's operations over the next twelve months.

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

- Complete testing of the newly drilled KBD-02 ("Klymene") 2,750m exploration well, obtain the necessary approvals and move from the testing phase to commercial oil production;

- Drill new oil & gas wells to increase production levels and revenues; and

- Secure funding required to meet capital expenditure plans to the extent that these cannot be funded from existing cash generation.

The Company's ability to continue as a going concern is dependent upon its ability to secure and deliver the above-described additional funding required to meet its planned capital expenditure program including its contractual obligations, and ability to generate positive cash flows from operations. These 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, 2019.

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

(in thousands of US 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.

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 ("Corporate").

In Kazakhstan, the Company is producing gas from the Kyzyloi and Akkulka fields and oil from 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, 2020:

	Kazakhstan	**Corporate**	**Total[1]**
Gas sales	8,626	-	8,626
Oil sales[2]	-	-	-
Segment revenue and other income	**8,626**	**-**	**8,626**
Loss before taxation	(13,539)	9,269	(4,270)
Taxation	534	(29)	505
Loss for the period	**(13,005)**	**9,240**	**(3,765)**
Total assets	92,228	102,857	92,304
Total liabilities	126,931	10,756	34,906
Expenditure on exploration & evaluation assets, property, plant and equipment, net of revenue receipts	(1,018)	-	(1,018)
Depreciation, depletion & amortization	3,484	-	3,484

Note 1 – Total is after elimination of inter-segment items of $102,781,000.

Note 2 – Oil revenue from test production of $2,548,000 from the KBD-02 well in the Kul-bas contract area has been offset against capitalised exploration & evaluation expenditure.

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

Note 1 – Total is after elimination of inter-segment items of $109,524,000.

4 Loss per share

		Three months ended September 30		Nine months ended September 30	
Continuing operations	**Units**	**2020**	**2019**	**2020**	**2019**
Loss for the purpose of basic loss attributable to ordinary shareholders	$'000	(241)	(496)	(3,765)	(1,287)
Weighted average shares - basic	000s	104,956	68,324	93,467	68,324
Loss per share - basic	$	(0.00)	(0.01)	(0.04)	(0.02)

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.

5 Oil and gas properties – Impairment

Brent and Kazakhstan domestic spot and future oil prices fell significantly during the period due to world-wide over-supply and low demand for oil as a result of the Covid-19 pandemic. As of March 31, 2020, the Company identified this decline in oil prices as an impairment indicator and performed an assessment for impairment on the carrying value of its Akkulka Oil assets. The recoverable amount was determined using the higher of Fair Value Less Cost of Disposal ("FVLCD") or Value in Use. As a result, the Company impaired $15,280,000 of its oil assets in relation to the Akkulka Oil Cash Generating Unit ("CGU")

Based on the impairment test performed by management, the recoverable amount of the Akkulka Oil was lower than its carrying value. The FVLCD was calculated using a discounted cash flow model based on the proved plus probable reserves using forecast oil and gas prices and an after-tax discount rate of 13%. The cash flow model used is considered a level 3 fair value technique based on the unobservable inputs used. An increase of 1% to the discount rate would have increased the impairment by $2.3 million, while a 1% decrease to the discount rate would have decreased the impairment by $2.5 million.

(in thousands of US dollars)

FVLCD calculation assumes the following forecast oil and gas sales prices in $/bbl. The Company has assumed that all oil produced will be sold on the Kazakhstan domestic market. The domestic oil price forecast for 2020 is based on actual prices received by the Company in 2019 adjusted downward for the reduction in Brent oil price forecasts for 2020 and future years' forecasts of domestic prices are linked to Brent oil prices forecasts published by a reputable well-known oil & gas consultancy.

Year	Brent oil bbl	Domestic oil bbl
2020	$30.00	$14.96
2021	$40.00	$18.85
2022	$50.00	$22.81
2023	$51.00	$22.89
2024	$52.02	$23.18
2025	$53.06	$23.54
2026	$54.12	$23.90
2027	$55.20	$24.25
Thereafter price escalation at 1.5% p.a.		

6 Other gains and losses

Loan Restructuring

On January 6, 2020, the Company announced that it had agreed with one of its lenders (Khan Energy (Cayman) SPV Limited) to restructure a loan with outstanding balance of $14.1 million, the key terms of which are described below:

(1) The lender provided a waiver of all past defaults;
(2) The maturity date was extended from January 31, 2017 to December 31, 2021;
(3) Repayment of $1,000,000 due contingent upon certain future events;
(4) A discount of $500,000 would be applied to the outstanding balance upon payment of the $1,000,000;
(5) The Company would be required to use 15% of any gas sales receipts (net of VAT) received by its subsidiary companies, subject to a minimum of $200,000 per month, to repay a portion of the outstanding balance;
(6) The interest rate changed from 20% to 10.5%, payable monthly;
(7) An early payment discount would apply if Tethys made any repayments exceeding those described above on or before June 30, 2020 such that the outstanding balance would be reduced by two times the amount of the repayment i.e. an effective discount of up to 50% of the outstanding balance; and
(8) A discount of $2,000,000 would apply to the outstanding balance upon full repayment of the loan on or prior to the maturity, less the amount of any early payment discount already received.

The difference between the carrying amount of the financial liability extinguished and the new liability assumed was recognised in profit or loss as *Other gains and losses*.

The Company fully repaid the loan during the period by remitting payments totalling $7.7 million, the final payment being made on April 22, 2020, which resulted in a further gain being recognised in profit or loss as *Other gains and losses*.

Second Loan Restructuring

On January 17, 2020, the Company announced that it had signed a loan amendment agreement ("Amendment Agreement") with one of its lenders to restructure the loan originally made to the Company by AGR Energy Limited No. 1 (the "Loan") with outstanding balance of approximately $12.1 million, the key terms of which are described below:

(1) The lender provided a waiver of all past defaults;
(2) The maturity date was extended from June 30, 2017 to June 30, 2021;
(3) The outstanding loan balance was reduced from $12.1 million to $9.0 million;
(4) The Loan which bore a default interest rate of 18% no longer bears interest; and
(5) Twelve monthly repayments of $750,000 are due commencing July 31, 2020.

The loan restructurings described above represent a substantial modification of the terms of the existing financial liabilities and so have been accounted for as an extinguishment of the original financial liabilities and the recognition of new financial liabilities at their estimated fair values.

The difference between the carrying amount of the financial liability extinguished and the new liability assumed was recognised in profit or loss as *Other gains and losses*.

A second loan amendment agreement relating to the Loan was agreed on April 29, 2020, pursuant to which the outstanding balance is now repayable in three instalments of $3,000,000 on December 31, 2020, June 30, 2021 and December 31 ,2021.

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

On October 14, 2020, the Company announced that a further agreement had been signed allowing Tethys to receive a discount of $70,000 if it repaid the remaining $3 million prior to October 19, 2020. Tethys has taken advantage of this opportunity and retired the Loan from cash on hand.

7 Subsequent events

New gas wells

On October 7, 2020, the Company announced that the recently drilled gas wells at Akkulka, AKK-100 and AKK-101 have successfully produced gas a rate of approximately 60,000 cubic meters per day and they have been tied into pipelines and are producing.

Testing of Klymene Exploration Well (KBD-02)

Also on October 7, 2020, the Company announced the most recent testing on the KBD-02 has continued to produce approximately 3,000 barrels per day using a 12 mm choke. In total, the well had produced over 200,000 barrels.

On October 27, 2020, the Company announced that production from the Upper Aptian on KBD-02 has been about 17,500 barrels in total through October 22 and is currently producing approximately 1,500 bopd using a 9mm choke. The zone has encountered some gas which, while long term positive, may limit how much oil can be produced as there is a limitation as to how much gas can be flared.

Drilling and seismic acquisition update

On October 14, 2020, the Company announced that activities for drilling of AKD-12 (depth - 1200m) and AKK-33 gas wells are moving forward with the start of drilling anticipated for middle of October. It is anticipated that the drilling operations will be completed on both wells by the end of November. The AKD-12 is believed to have potential for an oil find in addition to gas. Tethys also has entered into contracts for the acquisition, interpretation and analysis for 3D seismic for the Klymene field and additional acreage in the Kyzloi/Akulka fields. The estimated cost is about $3.5 million with an expectation of this work being completed by the end of June, 2021.

On October 27, 2020, the Company announced that the spudding of the AKK-33 and AKD-12 wells have taken place and management expects to receive a test result by the end of November on both wells. Management does not anticipate drilling any more wells in the Kul-bas field until after the 3D seismic and interpretation is acquired (expected by June, 2021).

(in thousands of US dollars)

Reserve report update

Tethys engaged Gustavson Associates to provide a reserve report on the Jurassic and Lower Aptian zones for the KBD-02 well. On October 14, 2020, the Company announced that this report had been completed and was prepared in compliance with NI51-101, Standards of Disclosure for Oil and Gas Activities and the COGE Handbook. The previous reports which classified the anticipated production as Contingent Resources has been upgraded to now classify as Proved, Probable, and Possible Reserves (as the economic analysis is now complete). Given the significance of the new field with the KBD02 discovery, Tethys has engaged McDaniel & Associates to provide a second opinion on the estimated reserves on the Klymene field. It is expected that this report will also include the Upper Aptian in addition to the first two zones included in the Gustavson report. The following is a summary from the Gustavson report covering the Jurassic and Lower Aptian zones only:

							Net Present Value at 10%(000's US$)			
	Gross Oil (thousands of bbls)		Gross Gas (Millions of Standard Cubic Feet)		Thousands of BOEs		Before Tax		After Tax	
Category	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Total Proved	50,509		27,559		55,102	0	$647,600		$266,038	
Total Proved + Probable	224,312		121,368		244,540	0	$1,647,340		$675,707	
Total Proved + Probable + Possible	668,655		319,264		721,866	0	$6,141,456		$2,613,123	

Financing transactions

On October 27, 2020, Tethys announced that it had repaid the loan originally made to the Company by AGR Energy Limited No. 1, see above under note 6 - *Second Loan Restructuring* for further details.

Further, existing shareholders, Gemini IT Consultants DMCC and APL Construction LLP, have agreed with Tethys to loan the Company approximately $2.5 million and $1.4 million respectively, for 2 years at a rate of 6%. These loans are unsecured and can be repaid without penalty if cheaper financing can be found. The loans will be used to fund Tethys' operations.