



**ANNUAL INFORMATION FORM**  
**For the Year Ended December 31, 2015**  
**March 29, 2016**

The Tethys Petroleum Limited Annual Report and Accounts for 2015 consists of three documents as detailed below:

- 1) Management's Discussion & Analysis: this includes the documents required to be disclosed pursuant to National Instrument 51-102 of Canadian Securities Administrators "Continuous Disclosure Obligations" ("**Canadian NI 51-102**") in respect of an annual Management's Discussion & Analysis and the documents required to be disclosed pursuant to UK's Disclosure & Transparency Rules with respect to DTR 4.1 "Annual Financial Report" (DTR 4.1);
- 2) Annual financial information: this includes the Consolidated Financial Statements, the documents required to be disclosed pursuant to Canadian NI 51-102 with respect to an annual financial report and the documents required to be disclosed pursuant to DTR 4.1 and
- 3) The Annual Information Form: this includes the documents required to be disclosed pursuant to Canadian NI 51 – 102 and DTR 4.1 and the statement which is required to be presented in accordance with DTR 7.2 "Corporate Governance Statements".

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## GLOSSARY OF TERMS

In this Annual Information Form, the capitalised terms set forth below have the following meanings:

“**AGR Energy**” means AGR Energy Limited No. 1, the counterparty to the USD7.5 million convertible loan facility entered into with the Company on May 15, 2015

“**AGR Energy Holdings**” means AGR Energy Holdings Limited, the counterparty to the “AGR Placing” described below.

“**Akkulka**”, “**Akkulka Block**” or “**Akkulka Field**” means the area that is subject to the Akkulka Exploration Licence and Contract in Kazakhstan;

“**Akkulka Exploration Licence and Contract**” means the exploration licence and contract of TAG in respect of the Akkulka Block;

“**Akkulka Production Contract**” means the Akkulka Production Contract dated December 23, 2009 between TAG and MEMR which gives TAG exclusive rights to produce gas from the Akkulka Block for an initial period of nine years down to the Base Tertiary level;

“**Annual Information Form**” means this annual information form of the Company dated March 29, 2016;

“**Antimonopoly Agency**” means the Agency of the Republic of Kazakhstan for Competition Protection;

“**Audit Committee**” means the audit committee of the Board;

“**BCS**” means booster compression station, a compressor station constructed by TAG at km910 on the Bukhara-Urals gas trunkline for the export of natural gas production from the Kyzylloi Field and the Akkulka Block;

“**Beshentak Field**” means a known oilfield which was formerly located within the Bokhtar Contract Area, defined below;

“**BHCL**” means Baker Hughes (Cyprus) Limited t/a Tethys Production Uzbekistan, a subsidiary of the Company that operated in Uzbekistan until December 31, 2013 when the decision was made to cease operations;

“**Board of Directors**” or “**Board**” means the board of directors of the Company, as constituted from time to time;

“**Bokhtar Contract Area**” means the total net area covered by the Bokhtar PSC, as further described under “*Tajikistan – Properties – Overview*”;

“**Bokhtar Contractor Parties**” (each a “**Bokhtar Contractor Party**”) means KPL, CNPC and Total;

“**Bokhtar PSC**” means the production sharing contract entered into between KPL and the Government of Tajikistan, represented by MEI, on June 13, 2008 covering the Bokhtar area of south-west Tajikistan and now with CNPC & Total as co-contractors;

“**CAD**” or “**Canadian Dollar**” means Canadian dollars, the lawful currency of Canada;

“**CIS**” means the Commonwealth of Independent States which is a regional organization made up of certain countries of the former Soviet Union;

“**CNPC**” means in relation to the Bokhtar JOA; CNPC Central Asia B.V. and in relation to the Tajikistan Farm-Out; China National Oil and Gas Exploration and Development Corporation Agreement ; both of which are subsidiaries of China National Petroleum Corporation,

“**Company**” or “**Tethys**” means Tethys Petroleum Limited and includes, except where the context otherwise requires, the Company’s direct and indirect wholly-owned subsidiaries;

“**Compensation and Nomination Committee**” means the Compensation and Nomination committee of the Board;

“**FSU**” means the countries which previously comprised the Union of Soviet Socialist Republics or “**USSR**”;

“**Gas Supply Contract**” means the contract under which Tethys Aral Gas supplies produced gas to the buyer.

“**GazProm**” means OAO GazProm, a major Russian gas company majority owned by the government of the Russian Federation;

“**Georgia**” means the country in Eurasia;

“**Georgian State**” means the government of Georgia;

“**Georgian PSCs**” means the collective PSCs for Block XI<sup>A</sup>, XI<sup>M</sup> and XI<sup>N</sup>, entered into between the Company, GOG, and the Georgian State;

“**GOG**” means Georgian Oil and Gas Limited, Tethys partner in Georgia;

“**Group**” means the Company, its subsidiaries and interests in limited liability partnerships, including for the avoidance of doubt, the subsidiaries set out herein under the heading “*Corporate Structure*”;

“**Gustavson**” means Gustavson Associates LLC, independent oil and gas reservoir engineers of Boulder, Colorado;

“**Gustavson Reserves Report**” means the independent engineering evaluation of the Company’s crude oil and natural gas reserves prepared by Gustavson Associates, dated March 01, 2016 and effective December 31, 2015;

“**Iberia Coordination Committee**” means the committee established by the Project Iberia contracting parties, GOG and Tethys subsidiaries, and the Georgian State;

“**Iberia Operating Committee**” means the governing body to the operator for the works conducted as part of the PSCs XI<sup>A</sup>, XI<sup>M</sup> and XI<sup>N</sup>. The Iberia Operating Committee is run in accordance with the “**Iberia Joint Operating Agreement**”, as defined herein;

“**ICA**” means Intergas Central Asia JSC, a wholly owned subsidiary of KTG;

“**IFRS**” means International Financial Reporting Standards;

“**IPO**” means the initial public offering of the Company of 18,181,818 Ordinary Shares at a price of USD2.75 per Ordinary Share for gross proceeds of USD50,000,000, which closed on June 27, 2007;

“**KASE**” means the Kazakhstan Stock Exchange located in Almaty, Kazakhstan;

“**Kazakhstan**” means the Republic of Kazakhstan;

“**Kazakhstan Farm-Out Agreement**” means the farm-out agreement dated November 1, 2013 between the Company and SinoHan Oil and Gas Investment Number 6 B.V. as amended by supplemental agreements between the Company and SinoHan Oil and Gas Investment Number 6 B.V. on July 9, 2014 and October 31, 2014;

“**Kazakh State**” means the government of Kazakhstan;

“**Khoja Sartez Field**” means an area that formed part of the Bokhtar Contract Area;

“**Komsomolsk Field**” means an area that forms part of the Bokhtar Contract Area;

“**KPL**” means Kulob Petroleum Limited, a company incorporated in the Cayman Islands and a 100% subsidiary of SSEC;

“**KTG**” means KazTransGas JSC, the Kazakh State gas company;

“**Kul-Bas**” means Kul-Bas LLP, a limited liability partnership registered in Kazakhstan in which the Company has a 100% interest through TK SA;

“**Kul-Bas Block**” means the area that is subject to the Kul-Bas Exploration and Production Contract in Kazakhstan;

“**Kul-Bas Exploration and Production Contract**” means the Company’s exploration licence and production contract in respect of the Kul-Bas Block;

“**Kyzyloi**” or “**Kyzyloi Field**” means the area that is subject to the Kyzyloi Field Licence and Production Contract in Kazakhstan;

“**Kyzyloi Field Licence and Production Contract**” means the Company’s field licence and production contract in respect of the Kyzyloi Field;

“**Lari**” or “**GEL**” means the Georgian Lari, the lawful currency of Georgia;

“**LSE**” means the London Stock Exchange;

“**MEI**” means the Ministry of Energy and Industry of the Republic of Tajikistan;

“**MEMR**” means the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan;

“**MET**” or “**Mineral Extraction Tax**” means the mineral extraction tax payable to the Kazakh State in respect of oil and gas production in Kazakhstan;

“**MOG**” means the Ministry of Oil and Gas of the Republic of Kazakhstan now Ministry of Energy (“**MOE**”);

“**MOE**” means the Ministry of Energy of the Republic of Kazakhstan;

“**NI 51-101**” means National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* of the Canadian Securities Administrators;

“**NI 51-102**” means National Instrument 51-102 – *Continuous Disclosure Obligations* of the Canadian Securities Administrators;

“**NI 52-110**” means National Instrument 52-110 – *Audit Committees* of the Canadian Securities Administrators;

“**NOC**” means Norio Operating Company, a subsidiary of GOG and the nominated Operator of the three Georgia PSCs since February 1st, 2015;

“**North Urtabulak Field**” means the area which is subject to the North Urtabulak PEC in Uzbekistan;

“**North Urtabulak PEC**” means the production enhancement contract dated August 19, 1999 entered into among BHC Limited, joint-stock companies Uzneftegazdobycha (formerly known as Uzgeoneftegazdobycha) and Uznefteproduct (formerly known as Uzneftepererabotka) in respect of the North Urtabulak Field as amended by supplementary agreements dated September 13, 2004, November 30, 2006 and December 19, 2007, which is for an indefinite term;

“**Nostrum**” means Nostrum Oil & Gas PLC;

“**Olisol**” means Olisol Investments Limited, incorporated in Cyprus, headquartered in Almaty, Kazakhstan,

“**OPL**” means Olisol Petroleum Limited, a wholly owned subsidiary of Olisol

“**Olisol Transaction**” means the corporate transaction between TPL and Olisol, including the proposed placing of TPL shares to Olisol and provision of interim financing by Olisol, as defined under section “*Corporate Transaction*”;

“**Ordinary Shares**” means the ordinary shares of USD0.10 par value in the share capital of the Company;

“**Pound Sterling**” or “**GBP**” means UK pounds sterling;

“**Project Iberia**” means the acquisition by the Company, announced in January 2014, of a 56% interest in Blocks XI<sup>A</sup>, XI<sup>M</sup> and XI<sup>N</sup> in eastern Georgia, as defined herein;

“**Reserves Committee**” means the committee of the Board responsible for the oversight of reserves auditing and evaluation;

“**SinoHan**” means SinoHan Oil and Gas Investment Number 6 B.V., part of HanHong, a Beijing based private equity fund.

“**Somoni**” or “**TJS**” means the Tajik Somoni, the lawful currency of Tajikistan;

“**SSEC**” means Seven Stars Energy Corporation, an 85% owned subsidiary of Tethys Tajikistan Limited, and 15% owned subsidiary of a Tajik local partner, Sangam Limited.

“**TAG**” means TethysAralGas LLP (formerly known as BN Munai LLP), a limited liability partnership registered in Kazakhstan in which the Company has a 100% interest through TK SA;

“**Tajikistan**” means the Republic of Tajikistan;

“**Tajikistan Farm-Out Agreement**” means the farm-out agreement relating to the Bokhtar PSC signed on December 21, 2012 by the Company with Total and China National Oil and Gas Exploration and Development Corporation, a 100% owned subsidiary of Chinese National Petroleum Company;

“**Tajik State**” means the government of Tajikistan;

“**Tenge**” or “**KZT**” means the Kazakh Tenge, the lawful currency of Kazakhstan;

“**Tethyda Limited**” means a wholly-owned subsidiary of the Company.

“**TK SA**” means Tethys Kazakhstan SA, a wholly-owned subsidiary of the Company;

“**TOT**” means Transcontinental Oil Transportation SPRL, a wholly owned subsidiary of the Company;

“**Total**” means Total E&P Tajikistan B.V., subsidiary of Total S.A. (the French supermajor oil and gas company), and a party to the BOC JOA and BOC PSC;

“**TSX**” means the Toronto Stock Exchange;

“**UNG**” means the Uzbek State oil and gas company, National Holding Company “Uzbekneftegaz”;

“**United States**” or “**U.S.**” means the United States of America;



“**USD**” or “**\$**” means U.S. dollars, the lawful currency of the United States of America;

“**Uzbekistan**” means the Republic of Uzbekistan;

“**Uzbek State**” means the government of Uzbekistan;

“**Uzbek State Partners**” means Uznefteproduct and Uzneftegazdobycha, each an associated entity (as defined in the North Urtaulak PEC) of UNG;

“**Uzneftegazdobycha**” means the Uzbek joint-stock company that is an associated entity of UNG;

“**Uznefteproduct**” means the Uzbek joint-stock company that is an associated entity of UNG; and

“**VAT**” means value added tax.

## GLOSSARY OF ABBREVIATIONS AND TECHNICAL TERMS

In this Annual Information Form, the abbreviations and technical terms set forth below have the following meanings:

“**2D**” means seismic data recorded along discrete tracks;

“**3D**” means a set of numerous closely-spaced seismic data acquired in a grid and which are processed in three dimensions;

“**Albian**” means a geological stage of the Cretaceous period from 112.0 to 99.6 million years ago;

“**API**” means American Petroleum Institute, but is generally referred to as a degree of gravity that provides a relative measure of crude oil density;

“**Aptian**” means a geological stage of the Cretaceous period from 125.0 to 112.0 million years ago;

“**atm**” means atmospheres, a measurement of pressure equivalent to 102.667 kilopascals;

“**Barremian**” means a geological stage of the Cretaceous period from 130.0 to 125.0 million years ago;

“**bl**” means barrel (one barrel is 34.972 Imperial gallons or 42 U.S. gallons);

“**Bcf**” means billion cubic feet;

“**Bcm**” means billion cubic metres;

“**boe**” means barrels of oil equivalent (barrels of oil plus natural gas converted to oil using a conversion rate of six thousand standard cubic feet of natural gas for each barrel of oil);

“**boepd**” means barrels of oil equivalent per day;

“**bopd**” means barrels of oil per day;

“**bpd**” means barrels of fluid per day;

“**Bukhara**” means a geological horizon of the Middle and Upper Palaeocene epoch from ~61.1 to ~55.8 million years ago. It comprises mainly of carbonates and is the proven historic main oil reservoir in the Tajik part of the Afghan-Tajik Basin;

“**Carboniferous**” means the geological period from 359.2 to 299 million years ago;

“**Cenomanian**” means a geological stage of the Cretaceous period from 99.6 to 93.5 million years ago;

“**Cenozoic**” means the geological era from 65.5 million years ago to the present time which includes the Paleogene and the Neogene periods;

“**cm**” means cubic metres;

“**COGE Handbook**” means the Canadian Oil and Gas Evaluation Handbook prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy and Petroleum (Petroleum Society), as amended from time to time;

“**Cretaceous**” means the geological period from 145.5 to 65.5 million years ago;

“**C**” means degrees Celsius;

“**Devonian**” means the geological period from 416 to 359.2 million years ago;

“**Eocene**” means the geological epoch from 55.8 to 33.9 million years ago within the Paleogene system of the Cenozoic era immediately after the Paleocene;

“**F**” means degrees Fahrenheit;

“**ft**” means feet;

“**gross**” means:

- (i) in relation to the Company’s interest in production or reserves, its “company gross reserves”, which represent the Company’s working interest (operating or non-operating) share of gross reserves before deduction of royalties and MET, and without including any royalty interests of the Company;
- (ii) in relation to wells, the total number of wells obtained by aggregating the Company’s current working interest in each of its gross wells; and
- (iii) in relation to the Company’s interest in properties, the total area of properties in which the Company has an interest multiplied by the working interest owned by the Company;

“**Hauterivian**” means a geological stage of the Cretaceous period from 136.4 to 130 million years ago;

“**hp**” means horsepower;

“**Jurassic**” means the geological period from 199.6 to 145.5 million years ago;

“**km**” means kilometre;

“**km<sup>2</sup>**” means square kilometres;

“**kW**” means kilowatt;

“**Kyzyloi Sandstones**” or “**Kyzyloi Sand**” means Eocene age fine to very fine grained sandstone, sheet type and non-marine in origin, with typical gas saturated thicknesses of between 2 m to 6 m that are generally found in the interval between 400 m to 600 m below surface and have a high porosity range (26% to 35%) with a high bound-water content;

“**m**” means metres;

“**M\$**” means thousands of U.S. dollars;

“**Mbbl**” means thousands of barrels;

“**Mbblpd**” means thousands of barrels per day;

“**Mboe**” means thousand barrels of oil equivalent;

“**Mcf**” means thousand cubic feet;

“**Mcfpd**” means thousand cubic feet per day;

“**Mcm**” means thousand cubic metres;

“**Mcmpd**” means thousand cubic metres per day;

“**mD**” means millidarcies;

“**Mesozoic**” means the geological era from 248 to 65 million years ago which lies between the Paleozoic and Cenozoic eras;

“**millidarcy or (mD)**” means one thousandth of a darcy, a unit of measure of permeability;

“**Miocene**” means the geological epoch in the Neogene Period dating from 23.03 to 5.332 million years ago;

“**mm**” means millimetre;

“**MM\$**” means millions of U.S. dollars;

“**MMbbl**” means million barrels;

“**MMboe**” means million barrels of oil equivalent;

“**MMcf**” means million cubic feet;

“**MMcfpd**” means million cubic feet per day;

“**MMcm**” means million cubic metres;

“**MMcmpd**” means million cubic metres per day;

“**MMstb**” means million stock tank barrels;

“**Neogene**” means a geological period of the Cenozoic era, from 23.03 to 5.33 million years ago, which followed the Paleogene period;

“**net**” means:

- (i) in relation to the Company’s interest in production or reserves, its working interest (operating or non-operating) share after deduction of amounts payable in respect of the Mineral Extraction Tax;
- (ii) in relation to wells, the number of wells obtained by aggregating the Company’s current working interest in each of its gross wells; and
- (iii) in relation to the Company’s interest in a property, the total area in which the Company has an interest multiplied by the working interest owned by the Company;

“**NGL**” means natural gas liquids including condensate, propane, butane and ethane;

“**Oligocene**” means the geological epoch in the Tertiary Period dating from 33.9 to 23 million years ago;

“**Paleocene**” means the lower most epoch within the Paleogene period, from 65.5 to 61.7 million years ago, immediately after the Cretaceous period;

“**Paleogene**” means the geological period from 65.5 to 23 million years ago;

“**Paleozoic**” means the geological era from 542 to 251 million years, which includes the Devonian, Carboniferous and Permian periods;

“**Permian**” means the geological period from 299 to 251 million years ago and it is the last period of the Paleozoic era;

“**Pleistocene**” means the geological epoch in the Quaternary Period dating from 2.588 million to 11,700 years ago;

“**Pliocene**” means the geological epoch in the Neogene Period dating from 5.332-2.588 million years ago;

“**psi**” means pounds per square inch, a measure of pressure and equivalent to 0.068 atm;

“**Tasaran**” or “**Tasaran Sand**” means Eocene age continental to non-marine fine to very fine grained sandstone, with some significant clay content, slightly stratigraphically older than the Kyzylol Sandstone that are generally found in the interval between 500 m to 600 m (1,641 ft. to 1,969 ft.) below surface;

“**Tertiary**” means the geological period from 65 to 1.8 million years ago; and

“**Triassic**” means the geological period from 251 to 199.6 million years ago.

### **PRESENTATION OF OIL AND GAS INFORMATION**

In this Annual Information Form, unless the context otherwise requires, the following terms have the meanings set forth below, aligned with the expectations of the COGE Handbook in accordance with the requirements of NI51-101, Standards of Disclosure for Oil and Gas Activities of the Canadian Securities Administrators.

“**Reserves**” are the estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, as of a given date, based on: analysis of drilling, geological, geophysical and engineering data; the use of established technology; and specified economic conditions, which are generally accepted as being reasonable. Reserves are classified according to degree of certainty associated with the estimates.

“**Proved Reserves**” are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated Proved Reserves.

“**Probable Reserves**” are those additional reserves that are less certain to be recovered than Proved Reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated Proved Plus Probable Reserves.

“**Possible Reserves**” are those additional reserves that are less certain to be recovered than Probable Reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated Proved Plus Probable Plus Possible Reserves.

“**Developed Reserves**” are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (e.g. when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.

“**Developed Producing Reserves**” are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

“**Developed Non-Producing Reserves**” are those reserves that either have not been on production, or have previously been on production, but are shut-in, and the date of resumption of production is unknown.

“**Undeveloped Reserves**” are those reserves expected to be recovered from known accumulations where a significant expenditure (e.g. when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable, possible) to which they are assigned.

Certain other technical terms used in this Annual Information Form but not defined herein are defined in NI 51-101 and, unless the context otherwise requires, shall have the same meanings herein as in NI 51-101. See “*Statement of Reserves Data and Other Oil and Gas Information*”. **Unless otherwise stated, all gas and oil volumes are expressed as at standard conditions of temperature and pressure (temperature = 15°C (60°F) and pressure = 1 atm (14.7 psi)).**

The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation.

In this Annual Information Form, where amounts are expressed on a boe basis, natural gas volumes have been converted to oil equivalence at 6 Mcf:1 boe (170 cm: 1boe). The term boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf:1 boe is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Unless otherwise specified, references to oil include oil, condensate and NGLs.

## CURRENCY AND EXCHANGE RATES

All references in this Annual Information Form to dollar amounts are to U.S. Dollars unless otherwise noted.

While the Company reports its results of operations in U.S. Dollars, its expenditures are paid and its income earned to an extent in foreign currencies. Moreover, the Ordinary Shares of the Company are listed on the TSX and trade in Canadian Dollars and are also listed on the LSE trading in Pounds Sterling. Set out below is 2015 exchange rate data for certain currencies relevant to the Company, relative to the U.S. Dollar.

### **Canadian Dollar:**

Highest rate in 2015: USD1 = CAD1.3955  
 Lowest rate in 2015: USD1 = CAD1.1613  
 Rate as of December 31, 2015: USD1 = CAD1.3869

### **Pound Sterling:**

Highest rate in 2015: USD1 = GBP0.6833  
 Lowest rate in 2015: USD1 = GBP0.6294  
 Rate as of December 31, 2015: USD1 = GBP0.6755

### **Kazakhstan Tenge:**

Highest rate in 2015: USD1 = KZT344.000  
 Lowest rate in 2015: USD1 = KZT180.147  
 Rate as of December 31, 2015: USD1 = KZT336.789

### **Tajikistan Somoni:**

Highest rate in 2015: USD1 = TJS6.9897  
 Lowest rate in 2015: USD1 = TJS5.3074  
 Rate as of December 31, 2015: USD1 = TJS6.9897

### **Georgian Lari:**

Highest rate in 2015: USD1 = GEL2.4499  
 Lowest rate in 2015: USD1 = GEL1.8780  
 Rate as of December 31, 2015: USD1 = GEL2.3966

The source of these rates was OANDA Europe Limited, a company registered in England and authorised and regulated by the Financial Services Authority.

## CONVERSION

The following table sets forth certain standard conversions from Standard Imperial Units to the International System of Units (or metric units).

<b><u>To Convert From</u></b>	<b><u>To</u></b>	<b><u>Multiply By</u></b>
Inches	m	0.0394
Ft	m	0.305
m	ft.	3.281
Miles	km	1.610
Km	miles	0.621
Acres	km <sup>2</sup>	0.004
km <sup>2</sup>	Acres	247.1
Bbl	cubic metres	0.159
Cm	bbl	6.290
Mcf	Mcm	0.0283
Mcm	Mcf	35.315
Bcf	Bcm	0.0283
Bcm	Bcf	35.315
Atm	psi	14.697
Mcf (gas)	boe	0.1667
Mcm (gas)	boe	5.885

## FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Information Form constitute forward-looking statements or information (collectively, “**forward-looking statements**”) which are based upon the Company’s current internal expectations, estimates, projections, assumptions and beliefs as at the date of such statements of information, including, among other things, assumptions with respect to production, future capital expenditures and cash flow. These statements relate to future events or the Company’s future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as “seek”, “anticipate”, “plan”, “continue”, “estimate”, “expect”, “may”, “will”, “project”, “predict”, “potential”, “target”, “targeting”, “intend”, “could”, “might”, “should”, “believe” and similar expressions. These statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in the forward-looking statements or information. The Company believes that the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this Annual Information Form should not be unduly relied upon. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. These statements speak only as of the date of this Annual Information Form. In particular, this Annual Information Form contains forward-looking statements pertaining to, but not limited to, the following:

- the quantity of reserves
- the performance and characteristics of the Company’s oil and natural gas properties;
- drilling inventory, drilling plans and timing of drilling, re-completion and tie-in of wells;
- oil and natural gas production levels;
- productive capacity of wells, anticipated or expected production rates and anticipated dates of commencement of production;
- capital expenditure programmes, including work programmes related to licences;
- plans for facilities construction and completion of the timing and method of funding thereof;
- projections of market prices and costs;
- drilling, completion and facilities costs;
- results of various projects of the Company;
- timing of development of undeveloped reserves;
- supply and demand for oil and natural gas;
- commodity prices;
- ability to realise forecast prices for gas production;
- access to existing pipelines;
- the quantum of, and future net revenues from, natural gas and natural gas liquids reserves;



- expectations regarding the Company's ability to raise capital and to add to reserves through acquisitions and development;
- expected levels of royalty rates, operating costs, general administrative costs, costs of services and other costs and expenses;
- the tax horizon of the Company;
- future acquisitions and growth expectations within the Company;
- treatment under government regulatory and taxation regimes;
- the impact of governmental regulation on the Company relative to other oil and gas issuers of similar size;
- the ability of the Company to obtain and retain the necessary regulatory licences and approvals to operate its business as planned;
- the Company's intention to farm out or sell its Georgian assets;
- the Company's ability to remedy its default in Tajik asset, and thus maintain its interest in BOC PSC;
- the Company's ability to realise value from its Tajik asset whilst in default;
- the successful completion of the Olisol Transaction, as defined herein;
- the Company's objective to supply gas to China through a newly built pipeline once operational; and
- the realization of the anticipated benefits of acquisitions and dispositions.

With respect to forward-looking statements contained in this Annual Information Form, the Company has made assumptions regarding, among other things:

- the continued existence and operation of existing pipelines;
- future prices for oil, natural gas and natural gas liquids;
- future currency and exchange rates;
- the Company's ability to generate sufficient cash flow from operations and access capital markets to meet its future obligations;
- the Company's ability to retain the Kazakh licences and meet minimum work commitments;
- the absence of material changes to the regulatory framework representing royalties, taxes and environmental matters in the countries in which the Company conducts its business;
- oil and natural gas production levels;
- the Company will be able to supply gas to China through a newly completed pipeline on prices and terms favourable to the Company;
- the Company's ability to farm out or sell its Georgian assets;

- the possibility that the Company will be able to retain an interest in Tajikistan notwithstanding default on payments under the BOC JOA;
- the completion of the Olisol Transaction; and
- the Company's ability to obtain qualified staff and equipment in a timely and cost-efficient manner to meet the Company's demand.

Although the Company believes that the expectations reflected in the forward-looking statements and information are reasonable, there can be no assurance that such expectations will prove to be correct. The Company cannot guarantee future results, levels of activity, performance or achievements. Consequently, there is no representation by the Company that actual results achieved will be the same in whole or in part as those set out in the forward-looking statements. Some of the risks and other factors, some of which are beyond the Company's control, which could cause results to differ materially from those expressed in the forward-looking statements and information contained in this Annual Information Form include, but are not limited to:

- failure to realise anticipated benefits of exploration activities;
- volatility in market prices for oil and natural gas;
- liabilities and risks inherent in oil and natural gas operations;
- uncertainties associated with estimating reserves;
- unanticipated operating events which can reduce production or cause production to be shut in or delayed;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- competition for and/or inability to retain drilling rigs and other services;
- the availability of capital on acceptable terms;
- incorrect assessments of the value of acquisitions;
- geological, technical, drilling and processing problems;
- the need to obtain required approvals and permits from regulatory authorities and third parties, when required;
- general political and economic conditions in Kazakhstan, Tajikistan, Georgia and globally;
- changes to royalty regimes and government regulations regarding royalty payments;
- risks associated with exploring for, developing, producing, processing, storing and transporting natural gas;
- unavailability of required equipment and services;
- fluctuations in foreign exchange or interest rates and stock market volatility;
- that the Company will not be able to supply gas to China through the newly built pipeline on prices and terms favourable to the Company;
- that the Company will not be successful in farming out or selling its Georgian assets;

- that the Company will not be able to remedy defaults in its Tajikistan asset or realise value from the farm out or sale of the asset;
- the risks associated with the completion of the Olisol Transaction;
- changes in government regulations; and
- other factors discussed under “*Risk Factors*”.

Statements relating to “reserves” are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the reserves and resources described herein can be profitably produced in the future. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this Annual Information Form are expressly qualified by this cautionary statement. The Company does not intend, and does not assume any obligation, to update or revise these forward-looking statements except as required pursuant to applicable securities laws.

## CORPORATE STRUCTURE

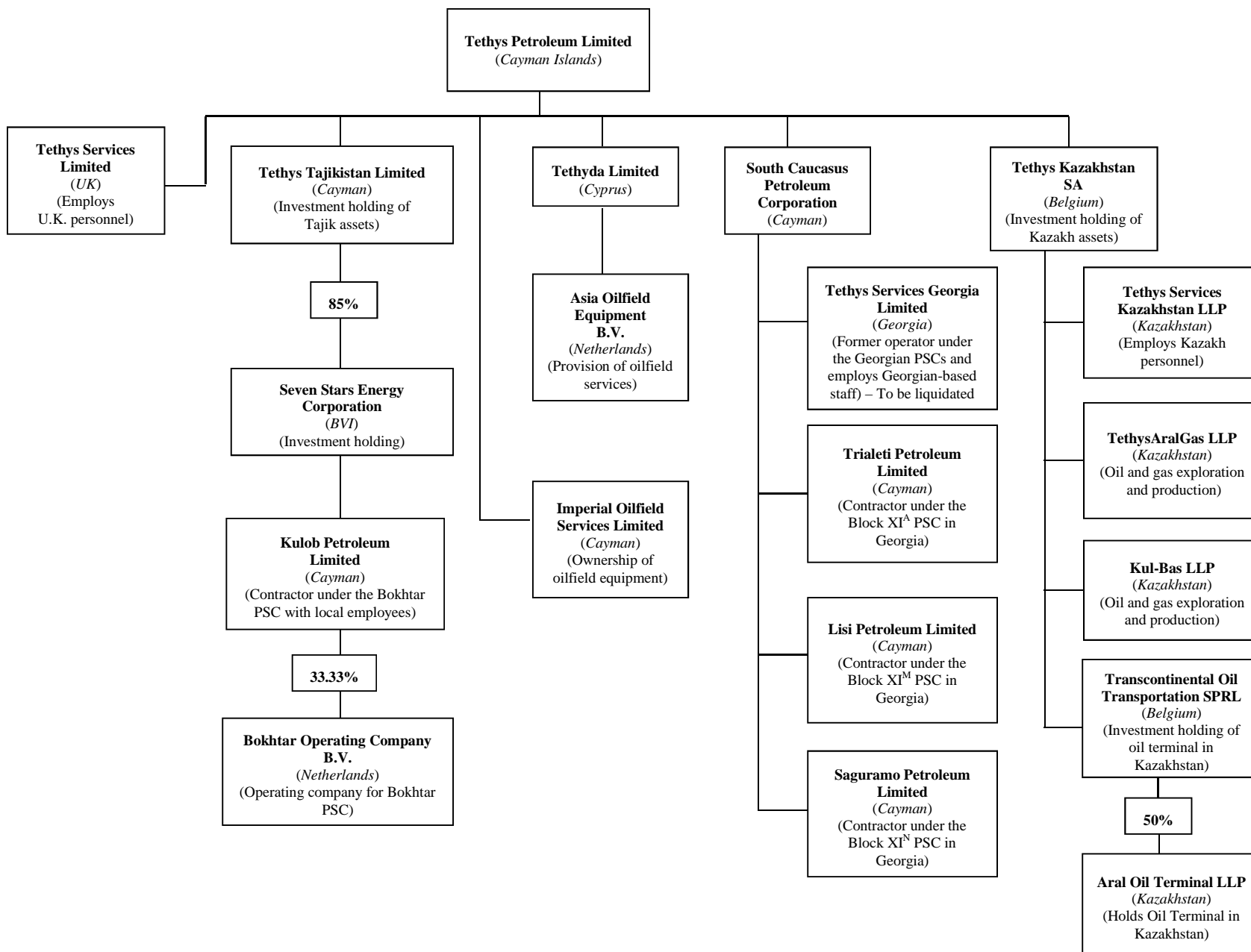
### Name, Address and Incorporation

The Company was incorporated under the name “Tethys Petroleum Investments Limited” pursuant to the laws of Guernsey on August 12, 2003. On September 22, 2006, the Company changed its name to “Tethys Petroleum Limited”. The Company was continued under the laws of the Cayman Islands on July 17, 2008.

The Company’s registered office is located at 89 Nexus Way, Camana Bay, Grand Cayman, KY1-9007, Cayman Islands. The Company’s correspondence address is at P.O. Box 524, St. Peter Port, Guernsey, GY1 6EL, British Isles.

### Intercorporate Relationships

The corporate ownership structure of the Company and its principal active subsidiaries and investee companies (including the jurisdiction of incorporation and current percentage ownership (voting and equity) by the Company or a subsidiary) as at December 31, 2015, is as follows:



## GENERAL DEVELOPMENT OF THE BUSINESS

### Company History

Tethys is an oil and gas exploration and production company currently focused on projects in Central Asia and the Caspian Region. At present, the Company has projects in Kazakhstan, Tajikistan and Georgia.

Tethys was incorporated in Guernsey on August 12, 2003, specifically to hold the Central Asian interests of its then parent company. In light of the significant capital required to develop Tethys and its Kazakh assets, its then parent company made a decision to spin out Tethys.

On June 27, 2007, the Company completed its IPO and the Ordinary Shares commenced trading on the TSX. The Ordinary Shares are listed on the TSX under the symbol "TPL". The Company commenced commercial gas production in December 2007 from its initial production project in the Kyzyloi Field in Kazakhstan. On July 25, 2011, the Company completed a listing on the main market of the LSE and its entire issued Ordinary Share capital was admitted to the standard category of the Official List of the Financial Services Authority with trading commencing on the LSE under the symbol "TPL".

Set out below is a description of significant events that occurred in the past three years and to-date in 2016 that have influenced the general development of the business.

### 2013

On January 31, 2013, the Company announced that it had effectively doubled the net price of the gas that it is selling in Kazakhstan. Two gas supply contracts were signed by TAG with ICA, a wholly owned subsidiary of KTG, for the Kyzyloi and Akkulka natural gas fields. The contracts were for annual volumes up to 150 MMcm at an increased net price of USD65 per Mcm (or USD1.84 per Mcf) of gas (USD72.8 per Mcm or USD2.06 per Mcf including VAT) net of marketing and distribution costs, and ran through to December 31, 2013. These contracts were denominated in KZT.

On February 27, 2013, the Company announced it had extended the exploration period for the Kul-Bas Exploration and Production Contract by a further two years until November 11, 2015. The Kul-Bas contract area surrounds the Akkulka contract area, which contains the Company's producing oil and gas fields. This extension gives further time to explore this attractive area, which has several prospects and leads.

On May 16, 2013, the Company announced it had signed a Protocol of Intent with UNG for exploration work on the Bayterek block in the North Ustyurt Basin of Northern Uzbekistan.

On June 18, 2013, the Company announced the completion of the Tajikistan Farm-Out Agreement announced in December 2012 with subsidiaries of Total and CNPC. The three partners hold the Bokhtar PSC equally and a joint operating company, the Bokhtar Operating Company, was established. As part of the acquisition, the Tajik Government added a further 1,186.37 km<sup>2</sup> of highly prospective acreage which was not previously included in the Bokhtar PSC, and also extended the first relinquishment period under the PSC by five years until 2020.

On July 8, 2013, the Company announced that it had entered into an agreement to acquire a 56% interest in Production Sharing Contracts covering three blocks in eastern Georgia ("**Project Iberia**"). On January 2, 2014, the Company announced that it had received Georgian governmental consents for the acquisition.

On September 12 and October 31, 2013, the Company announced the commencement of drilling on the AKD08 (Doto) and AKD09 (Dexa) in Kazakhstan exploration wells, respectively.

On November 1, 2013, the Company announced that it had entered into a definitive agreement for the sale of 50% of its Kazakh oil and gas assets to SinoHan, part of HanHong, a Beijing PRC based private equity fund.

On November 14, 2013, the Company disclosed that recent problems relating to the Fergana refinery and to crude oil allocation had caused issues with processing and delivery of the Company's subsidiary BHCL's oil product entitlement from the North Urtabulak field, and that the Company may choose to reduce or suspend production from the North Urtabulak field until these issues are resolved and may delay the commencement of activities on the Chegara field. The Board of Directors formally decided in December 2013 to exit from Uzbekistan, due to changes in the business and political environment and announced on January 2, 2014 that it would do so effective immediately.

On December 4, 2013, the Company announced the commencement of a testing programme for exploration well KBD01 (Kalypso) in Kazakhstan. The first phase of the stimulation on the KBD01 was subsequently successfully completed in March 2014 with the reservoir being successfully hydraulically fractured. The Company believes that further work is required to complete the stimulation of the well, including a potential sidetrack and acidization.

On December 4, 2013, the Company also announced the preparation of exploration well AKD08 (Doto) for a testing programme, and plans for exploration well AKD09 (Dexa) to be used as a semi-horizontal Doris development well in the Jurassic Carbonate sequence close to the Doris field discovery AKD01 well.

## 2014

On March 7, 2014, the Company announced that AKK17, the first shallow gas exploration well of its 2014 programme, was successful.

On March 20, 2014, the Company announced that AKK18, the second shallow gas exploration well of its 2014 programme, was successful.

On April 24, 2014, the Company announced that AKK19, the third shallow gas exploration well of its 2014 programme, was successful.

On May 14, 2014, the Company announced a proposed private placement of 36,894,923 ordinary shares at a price of GBP0.24 for gross proceeds of USD15 million. The private placement was completed in multiple tranches in May and June 2014. The net proceeds of the private placement were used to fund the continued development of the Company's Kazakh shallow gas programme.

On June 19, 2014, the Company announced that it had received approval the Ministry of Oil and Gas of the Republic of Kazakhstan for the extension of its Kyzylai Production Contract for a further 15 years to June 2029.

On July 2, 2014, the Company announced that AKK20, the fourth shallow gas exploration well of its 2014 programme, was successful and that the four shallow gas exploration wells (AKK17, AKK18, AKK19 and AKK20) would be tied into the existing gas production infrastructure and placed in permanent production together with four previously drilled wells (AKK05, AKK14, AKK15 and AKK16).

On October 20, 2014, the Company announced that it had received from Pope Asset Management LLC ("**PAM**") a requisition to call an extraordinary shareholders' meeting to remove a majority of the directors (being all of the directors, except for Julian Hammond, Marcus Rhodes and Jim Rawls).

On October 31, 2014, the Company announced that it had entered into an agreement with SinoHan extending the long stop date for completing the sale by the Company of a 50% interest in Tethys Kazakhstan S.A. to May 1, 2015.

On November 5, 2014, the Company announced that its Board of Directors had received a requisition from PAM (the "**Proposing Shareholder**") to call an Extraordinary General Meeting ("**EGM**") of the Company. Further to engaging with the Proposing Shareholder and certain other shareholders of the Company in connection with the requisition, the Board agreed that Dr. David Robson and Liz Landles would step down with immediate effect and that those directors nominated by the Proposing Shareholder – David Botting, David Roberts, John Bell and David Henderson, would be put forward for election at an EGM to be held. In addition, Denise Lay was to continue as a

director of the Company and that the remaining directors named in the requisition were to step down from the Board on the evening before the date of the EGM.

In November 2014, the Company announced the resignation of Dr. David Robson, Elizabeth Landles, Peter Lilley, Piers Johnson and Zalmay Khalilzad as directors of the Company and the appointment of John Bell, David Henderson, David Roberts and David Botting as directors, with John Bell serving as Executive Chairman. As a result of these changes to the Board of Directors, PAM agreed not to pursue its earlier requisition for an extraordinary shareholders' meeting.

On December 1, 2014, the Company announced the details of its cost reduction programme, including the closure of its offices in Dubai, Toronto and Washington. The Company also announced that, in light of its financial condition, it did not propose committing significant capital to its Georgian projects.

On December 31, 2014, the Company announced that Tethys Aral Gas LLP, its Kazakhstan wholly-owned subsidiary, had entered into a one-year gas sales contract for 2015 with KTG at a fixed KZT price. Net of marketing commission, this equates to a price of USD75 per Mcm (at an exchange rate of KZT181.78 = USD1), representing a 42% increase over the 2014 price. The contract relates to gas production from the Kyzylai and Akkulka natural gas fields and is for volumes of up to 100 MMcm.

## 2015

On January 6, 2015, the Company announced that the MOE of the Republic of Kazakhstan had agreed to extend the Akkulka Exploration Contract from March 10, 2015 to March 10, 2019.

On January 13, 2015, the Company announced that, as a result of its 2014 shallow gas programme, gas production had doubled to 559 Mcmpd.

On January 16, 2015, the Company announced that it had entered into a new USD6 million credit facility and had issued 35,600,000 two-year warrants exercisable at CAD0.19 each to a Cayman based private entity. The principal is due at the end of two years with interest payments at the rate of 8% per annum being due every 6 months. On July 14, 2015, the Company announced that the lender exercised its option to surrender 35,600,000 warrants as outlined below. As of March 01, 2016, the effective interest rate on the outstanding principal was increased to 10.5%, payable quarterly from April 30, 2016, as per the amendment to the loan agreement entered into on March 12, 2016 (outlined below).

On January 22, 2015, the Company announced that it had reached an agreement, subject to finalising documentation with its partner, GOG, to remove its funding obligations under the farm out signed in July 2013, through reducing its interest in under the Georgian PSCs. Under the terms of the new agreement, the Company reduced its interest in the Georgian PSCs from 56% to 49%, effective January 30, 2015 and GOG became Operator of each February 1, 2015.

On January 23, 2015, the Company announced that the MOE of the Republic of Kazakhstan had agreed to extend the Kyzylai Gas Production Contract for another 15 years, from June 14, 2014 to December 31, 2029. The MOE granted this contract extension following the Kazakh State Reserves Committee's approval of the new State Reserves for Kyzylai, previously announced in May 2014.

On March 2, 2015, the Company announced it had signed a Memorandum of Understanding with PetroChina International Kazakhstan Ltd to collaborate in selling gas and crude oil to the Peoples Republic of China.

On March 10, 2015, the Company announced that it had entered into a new USD3.5 million credit facility and had issued 23,333,333 two-year warrants exercisable at CAD0.19 each to Annuity and Life Reassurance Ltd ("ALR"), an insurance company, the assets of which are managed by PAM.

On April 2, 2015, the Company announced that David Botting did not plan to put himself up for re-election as Non-executive Director at the Annual General Meeting.



On May 1, 2015 the Company provided further details of the previously announced strategic review, and a SinoHan transaction update, informing the market that the SinoHan transaction would not proceed as the main approval required from the Ministry of Energy was not received by the longstop date of May 1, 2015. SinoHan confirmed that it did not wish to enter into a further extension on the transaction and discussions with SinoHan had commenced relating to the termination of the sale and purchase agreement (“**SPA**”).

On May 15, 2015 the Company announced that it had signed and closed a binding agreement for a USD7.5 million unsecured convertible loan facility with AGR Energy, with a conversion price of USD0.10 and interest rate of 9% p.a, paid semi-annually up to June 30, 2017 maturity.

On May 22, 2015 the Company announced it had entered into an agreement in respect of the issue and sale of an additional unsecured convertible debenture in the principal amount of USD1.7 million with a conversion price of USD0.10 to ALR.

On June 11, 2015 the Company provided a corporate update and announced that an amicable resolution on mutually acceptable terms had been reached with SinoHan regarding the termination of the SPA, pursuant to which the Company will repay the escrow loan and agreed costs.

On June 11, 2015, the Company announced the results of its Annual General and Special Meeting of Shareholders held on June 11, 2015, whereby Julian Hammond, Denise Lay and Marcus Rhodes withdrew their candidacy for re-election to the Board. The Company announced the appointment of Adeola Ogunsemi as a new director of the Company.

On July 1, 2015 the Company signed an agreement for a USD47.7 million private placement of 318,003,951 new ordinary shares at a price of CAD0.192 per ordinary share (“**AGR Placing**”) with AGR Energy Holdings, a subsidiary of AGR Energy.

On July 13, 2015 Nostrum approached the Board of Directors of Tethys regarding a possible offer for the entire issued share capital of Tethys, at a potential price of CAD0.2185 per Tethys share.

On July 14, 2015 the Company announced that the lender under the USD6 million loan financing announced by the Company on January 16, 2015 had exercised its option to surrender the 35,600,000 warrants that it holds in Tethys for the USD2.1 million surrender value as a result of entry into the convertible loan agreements entered into with AGR Energy and ALR announced on May 15, May 22, 2015 respectively. USD2.1million was added to the outstanding principal amount of the loan and is repayable on the 2 year maturity date.

On July 23, 2015 the Company announced that it had agreed to appoint William Wells to the Board as a Non-Executive Director subject to and upon closing of the recently announced USD47.7million AGR Placing.

On August 10, 2015 the Company announced that the USD47.7 million AGR Placing and related placement of shares to PAM would not proceed.

On August 10, 2015, the Company announced that it had received a further non-binding indicative proposal from Nostrum regarding a possible offer for the entire issued and to be issued share capital of the Company (the “**Possible Offer**”). The Possible Offer provided for a price of CAD0.2185 per Tethys share. In connection with the Possible Offer, Tethys and Nostrum negotiated a USD5 million loan financing with interest of 9% p.a. which was drawn down in full in order to support short-term liquidity of Tethys during the period in which any formal offer may be implemented. The loan was available immediately to the Company and was drawn in full on August 10, 2015. The loan would be repayable on February 28, 2016 or, in the event that Nostrum did not announce an intention to make a formal offer within two business days of the conclusion of its confirmatory due diligence, on August 31, 2016. Interest was payable on the loan at a rate of 9% per annum on the maturity date of the loan.

On August 28, 2015 the Company received a non-binding and highly conditional proposal from Nostrum setting out the terms on which Nostrum was prepared to make an offer to acquire the entire issued and to be issued share capital

of Tethys. The proposal provided for a price of CAD0.147 per Tethys share, which would have been satisfied in fully paid ordinary shares in Nostrum.

On September 23, 2015 Tethys and Nostrum entered into a non-binding and indicative letter of intent setting out proposed terms upon which Nostrum would acquire the entire issued and to be issued share capital of Tethys at CAD0.147 per share (“**the Proposed Offer**”). The Company agreed to grant Nostrum a limited Period of Exclusivity until 11:59 p.m. London time on October 6, 2015 in connection with the Proposed Offer and any potential resulting formal offer. In connection with the Proposed Offer, Nostrum also proposed the terms of a potential interim financing facility of up to USD20 million to fund the Company’s cash requirements (“**Interim Financing**”) from the date of the execution of key transaction documents through until the date of completion of any formal offer.

On September 30, 2015 the Company announced that Denise Lay’s employment with Tethys in her position as CFO had been terminated and that Clive Oliver had been appointed as acting CFO.

On October 2, 2015 Olisol Investment Group submitted a non-binding proposal to the Company.

On October 7, 2015 the Company announced that Nostrum had withdrawn its Proposed Offer that was previously announced on September 23, 2015 to acquire the entire issued share capital of Tethys together with a proposed USD20 million Interim Financing (the Proposed Offer and the Interim Financing together, the “**Proposed Transaction**”). Tethys’ largest shareholder, PAM, had informed Nostrum that it did not support the Proposed Transaction.

On October 7, 2015 the Company announced that it had received a non-binding letter of intent from AGR Energy Holdings in connection with a potential USD20 million equity fundraising at a price of CAD0.165 per share and potential USD5 million loan to support short-term liquidity. In addition to the equity fundraising AGR Energy Holdings would also be granted an option by the Company to subscribe for further newly issued shares for up to USD20 million of shares at the same subscription price.

On October 12, 2015 the Company announced that on October 11, 2015, it received a notice to withdraw from the JOA relating to the Bokhtar PSC in Tajikistan and the underlying PSC from CNPC and Total. As outlined in “*Description of the Business - Tajikistan – Tajikistan Default*”.

On October 12, 2015 the Company acknowledged the public announcement by Olisol Investment Group on October 9, 2015 regarding a non-binding proposal submitted to the Company. The Tethys Board informed shareholders that the Company had been engaging extensively with all parties which have submitted proposals to Tethys, including Olisol, since the Exclusivity Period with Nostrum ended at 11.59pm on October 6, 2015.

On October 14, 2015 the Company announced it had received a Notice of Events of Default from Nostrum in connection with the USD5 million Facility Agreement between Tethys and Nostrum, dated August 10, 2015. Tethys did not agree with Nostrum’s interpretation of the Facility Agreement that an event of default had occurred, submitted a rebuttal of the notification received and reserved all its rights.

On November 9, 2015 the Company entered into a non-binding and indicative letter of intent (the “**LOI**”) with Olisol setting out proposed terms upon which OPL, a wholly-owned subsidiary of Olisol, will provide Tethys with a USD15 million interim debt facility, subscribe to a CAD25.5 million private placement of 150 million new ordinary shares at a price of CAD0.17 per ordinary share and commit to backstop a further equity fundraising of 50 million shares at CAD0.17 per share.

On November 19, 2015 the Company entered into an Interim convertible financing facility of up to USD15 million with OPL (“**Interim Facility**”). The Interim Facility was convertible into Tethys ordinary shares at CAD0.17 per share. As a condition to the first draw down under the Interim Facility, Mr. Alexander Abramov, a designee of Olisol, and Mr. William Wells, of PAM, were appointed to the Board of Directors of Tethys. The Company initially received USD5,131,918 of its draw down request under the Interim Facility in November 2015, followed by further receipt of USD1million in January 2016 and USD1million in February 2016. OPL converted USD6,304,446 of the

amount drawn down into 63,044,410 ordinary shares on March 21, 2016 at a price of USD 0.10 per share in accordance with the terms of the Facility Agreement Amendment described under “*Description of the Business – Corporate Transaction.*”

On November 25, 2015 the Company announced that it had received an Accelerated Repayment Notice from AGR Energy in relation to the unsecured convertible debenture issued by Tethys to AGR Energy on 15 May 2015 notifying the Company of events of default and demanding repayment of the principal amount of USD7,500,000 and accrued interest of USD443,984.

On December 8, 2015 the Company announced that it had entered into a binding Investment Agreement with Olisol setting out the terms and conditions upon which OPL had agreed to purchase 150 million new ordinary shares in Tethys at a price of CAD0.17 per share, for total proceeds of CAD25.5 million, by way of a private placement and to commit to backstop a further equity fundraising of 50 million shares at CAD0.17 per share. The effectiveness of the investment agreement was subject to Olisol providing additional documentation. On February 22, 2016 the Company announced that it has entered into an amended LOI, as described below.

On December 29, 2015 the Company announced that it had been granted a 2-year extension to the Kul-Bas Exploration and Production Contract in Kazakhstan (until November 11, 2017) subject to obtaining approvals for projects, work programmes and Contract amendments and also provided an update on the previously announced USD15 million convertible facility and CAD25.5 million private placement with Olisol. The Company submitted draw down notices for the entire loan amount on November 21, 2015 but only received USD5,131,918, which was used to repay the USD5 million term loan from Nostrum.

#### **2016 to March 29, 2016**

On January 22, 2016 the Company provided an update on the previously announced Interim Facility with OPL. Despite Olisol having provided written confirmation, in advance of the Company entering into the Interim Facility, of its bank accounts containing funds totalling in excess of USD15 million, no further funds had been received by the Company from Olisol since receipt of the USD5,131,918 in late November. Due to the lack of progress by Olisol, the Company set deadlines for receipt of further funds and continued working tirelessly with Olisol to try to resolve the impediments to completing the transactions agreed between the companies. However, due to transaction completion delays, the Board of Tethys was obligated to consider alternative funding and investment options for the Company, alongside continued discussions with Olisol.

On February 8, 2016 the Company announced TPL had received a further USD1 million on January 28, 2016 from OPL and that Olisol indicated that it believed that it could transfer an additional USD1 million by February 12, 2016. Olisol had also stated that due to difficult business and banking environment in Kazakhstan they would like to renegotiate some of the key terms of the transactions envisaged in the LOI. This would include changes to the Facility Agreement for the Interim Facility and the Investment Agreement which the Company announced entering into on December 8, 2015.

On February 22, 2016 the Company announced that it had received an additional USD1 million under the Interim Facility and that it had entered into a non-binding and indicative term sheet (the “**Term Sheet**”) with Olisol and OPL, setting out amended terms to the LOI entered into on November 9, 2015 (“**Amended LOI**”) and consequently changes to the transaction documentation between the companies.

On March 2, 2016 the Company announced it had signed a legally binding amendment (“**Facility Agreement Amendment**”) to the Interim Facility with OPL. The terms of the agreement are outlined in “*Description of the Business – Corporate Transaction*”.

On March 12, 2016 the Company amended the terms of the loan agreement entered into on January 16, 2015, to facilitate the transactions with Olisol. The interest rate on the loan was increased to 10.5% from March 1, 2016, payable quarterly from April 30, 2016, with early repayment of up to USD5 million of the principal balance following receipt of proceeds from the Olisol Transaction (defined in “*Description of the Business – Corporate Transaction*”).

On March 14, 2016 the Company announced that in connection with the transaction with Olistol, John Bell had moved from Executive Chairman to co-Non-Executive Chairman along with Mr. Alexander Abramov, who also became co-Non-Executive Chairman. The Company also announced that it has set the Annual General Meeting date for May 31, 2016. John Bell, David Henderson, David Roberts and Jim Rawls have informed the Company that they will not stand for re-election at the Annual General Meeting.

On March 22, 2016 the Company announced that it had received a signed conversion notice from OPL to convert USD6.3 million of its outstanding debt into 63,044,460 shares in Tethys at a price of USD0.10 per share, as described in “*Description of the Business – Corporate Transaction.*”

On March 24, 2016 the Company entered into a 2016 Gas Supply Contract, effective from January 1, 2016 through to December 31, 2016, as outlined in “*Description of the Business – Kazakhstan – Gas Production and Sales.*”

## DESCRIPTION OF THE BUSINESS

### General

Through its subsidiaries, the Company is engaged in the exploration, development and production of oil and natural gas resources in Central Asia and the Caspian Region, currently in Kazakhstan, Tajikistan and Georgia. All of the Company's properties are onshore.

In Kazakhstan, the Company's assets are presently located in four contiguous contract areas in a region to the west of the Aral Sea, in a geological area known as the North Ustyurt basin. These are the most mature of the assets owned by Tethys and the Company has experienced considerable exploration success here over the last few years. These successes have been monetised through the construction of complex infrastructure in a remote area that has proved to be logistically challenging. The Company sees growth in this production, subject to funding, especially in gas production which it expects to sell into China once the Kazakh-China pipeline becomes operational.

The Company, through its 85% owned subsidiary KPL, controlled a one-third interest (33.33%) in the Bokhtar PSC (representing an indirect 28.33% economic interest) as a result of the completion in June 2013 of the Tajikistan Farm-Out Agreement announced in December 2012 with subsidiaries of Total and CNPC whereby each acquired a one-third interest (each 33.335%) in the Bokhtar PSC in Tajikistan. Located in the southwest of the country, in a geological basin known as the Afghan-Tajik basin, the Company's indirect interests in the Bokhtar PSC are held through a jointly-owned operating company, Bokhtar Operating Company B.V., incorporated in Holland ("**BOC**"). The activities of BOC, which is now the operator of the PSC, are governed by a Joint Operating Agreement ("**BOC JOA**"). After completing contracts for 2D seismic in 2014 and acquiring data during 2014-2015, KPL (the Company's 85% indirectly owned and 100% funded subsidiary in the PSC) defaulted in September 2015 and has yet to resolve this. The partners, CNPC and TOTAL, issued KPL with a Default Notice, requesting a remedy to the current default and subsequently, on October 11, 2015, issued KPL with a "Notice to Withdraw," from the JOA relating to the Bokhtar PSC. The Notice of Withdrawal was served on the basis that Tethys had not made the payment on October 9, 2015 for the September Cash Call issued by the Bokhtar Operating Company. Pursuant to the Notice of Withdrawal, Total and CNPC stated that they jointly required KPL to completely withdraw from the JOA and assign all of its participating interests derived from the Contract and the JOA to Total and CNPC in proportion to their respective participating interests. The Company is looking to challenge the Notice to Withdraw and either remedy the default whilst either retaining some participating interest, or otherwise realise some value from the asset. See "*Description of the Business – Tajikistan – Tajikistan Default*"

In Georgia, the Company completed in January 2014 the acquisition of a 56% interest in Blocks XI<sup>A</sup>, XI<sup>M</sup> and XI<sup>N</sup> (Project Iberia) in eastern Georgia, close to the capital of Tbilisi. These blocks are located within the Kura Basin, an onshore extension of the South Caspian basin, with potential for oil and gas production. The Company operates with a local partner, GOG, and is engaged in exploration with a view to discovering and commercialising target hydrocarbons. A recent reorganization has seen the Company's interest in Project Iberia reduced from 56% to 49%, and since February 1, 2015 GOG assigned operatorship to its designated subsidiary, NOC, on all three licence blocks; subsequently the minimum work programme commitments were rationalised with the Georgian State authorities to put drilling decisions off until 2017, in the meantime the Company intends to work with GOG in 2016 to prove up prospectivity further and concurrently seek to farm down or sell its interest in Georgia in order to focus on its other areas of operation at an appropriate time.

In Uzbekistan, after the Company discontinued operations in Uzbekistan effective January 2, 2014, and completed its exit from the Production Enhancement Contract for the North Urtabulak field in Q1 2014; the Company transferred all remaining equipment in 2015. The Company has also recently confirmed in writing to the Uzbek State that it is no longer interested in the Chegara Group of Fields or any exploration acreage.

The Company's objective is to become the leading Independent E&P company in Central Asia, by generating cash flow from existing discoveries and by maturing large exploration prospects within our highly-attractive frontier acreage. The Company produces both oil and natural gas, in order to balance its product portfolio. The Company's assets are located in three separate jurisdictions in Central Asia and the Caspian Region, though the Board is looking to farm down or sell the Tajikistan and Georgian assets to focus on the assets in Kazakhstan. The Company was

served with a withdrawal notice from its partners in Tajikistan as outlined in “*Description of the Business - Tajikistan – Tajikistan Default*”.

The Company’s long-term ambition is to achieve a significant role in the production and delivery of hydrocarbons from the Central Asian region to local and global markets, especially to the Chinese market. In common with many oil and gas companies, in implementing its strategies, the Company regularly considers farm-out/farm-in and joint venture opportunities and new projects which provide synergy with the Company’s activities. Meanwhile, the specific focus of management in the short term is to:

- Be recognised as an ethically-responsible, transparent company, delivering safe, reliable, operations through a culture of safety and performance related delivery;
- focus on cost structures and capital efficiency and actively manage our portfolio by farming down / reducing our capital commitments whilst retaining material investment;
- complete the transactions announced with Olisol to bring much needed funding into the Company and provide it with a strong in-country partner in Kazakhstan;
- continue to evaluate farm-out opportunities with respect to Tajikistan and Georgia;
- continue to review and implement further cost reductions across the business;
- maintain and increase shallow gas production, with the objective to supply gas to China through the newly built pipeline once operational, once additional funding is secured; and
- explore prospects with ‘company making’ potential such as the Klymene exploration well in Kazakhstan, subject to securing additional funding within existing acreage.

### Corporate Transaction

During the course of 2015, the Company commenced a strategic review which encompassed options including asset sales, farm-outs, financing, and investments at the corporate level. Given the decline in global commodity prices, which in turn affected the markets for exploration assets and for providing capital to oil and gas exploration and production companies, the Company focused on completing a corporate transaction to recapitalise the Company and allow the development of the Company’s assets. As outlined in “*General Development of the Business,*” following the non-completion of the Company’s deal with SinoHan for 50% of its Kazakh asset (see “*Description of the Business – Kazakhstan – SinoHan transaction*”), the Company sought to structure alternative transactions with AGR Energy and Nostrum, both of which did not complete. Currently and since November 2015, the Company has been engaged with Olisol to complete a corporate transaction which will recapitalise the company through the issuance of shares (“**Olisol Transaction**”). Details of the corporate transactions are outlined in “*General Development of the Business*” section.

Most recently, as published on March 02, 2016 the Company announced it had signed a legally binding Facility Agreement Amendment to the USD15 million Interim Facility entered into on November 19, 2015 with Olisol. As per the terms of the Facility Agreement Amendment;

- Olisol to convert all but USD1 million of the outstanding amount of principal and accrued interest under the Interim Facility (approximately USD6.25 million) into ordinary shares at USD0.10 per share (“**Interim Facility Conversion**”). The conversion would take place as soon as necessary approvals are obtained from the TSX.
- Olisol to work with a bank in Kazakhstan acceptable to Tethys to secure a loan for TAG, in the amount of USD10 million, within 60 days. The loan, together with the Interim Facility Conversion, would satisfy the outstanding obligations of Olisol under the Interim Facility. Olisol agreed to pay any ordinary interest cost on the loan exceeding 11%.

- Olisol legally committed to provide additional working capital reasonably required by Tethys, if necessary, to ensure the Company is able to continue to operate until completion of a placement under an amended Investment Agreement. Any amounts provided by Olisol would convert to ordinary shares on completion of the placement under the amended Investment Agreement.
- Olisol committed to purchasing 181,240,793 new shares at a price to be agreed by Tethys and Olisol (acting reasonably). This purchase will be subject to TSX approval, and would replace the previously announced placing of 150,000,000 shares and the backstopped further offering of 50,000,000 shares under the Investment Agreement announced by the Company on December 8, 2015. Furthermore, the 20 largest shareholders will be offered a right to acquire additional shares to maintain their pro-rata stake following this placing.
- Upon successful first draw down of the Kazakh Loan and conversion of the circa USD6.25 million under the Interim Facility into equity, the Board will be comprised of the following five directors:
  - o Adeola Ogunsemi, non-executive director and Chairman of the Audit Committee;
  - o William Paul Wells, non-executive director;
  - o Alexander Abramov, non-executive director;
  - o One additional non-executive independent director designated by Olisol; and
  - o The one remaining Board seat to be filled by a candidate who satisfies the legal and regulatory requirements of the Company and whose appointment is agreed by Tethys and Olisol.

At that time, as required under the Facility Agreement Amendment, John Bell, David Henderson, David Roberts and Jim Rawls will step down from the Board. In any event, John Bell, David Henderson, David Roberts and Jim Rawls have informed the Company that they will not stand for re-election at the AGM set for May 31, 2016.

On March 22, 2016 the Company announced that it had received a signed conversion notice from OPL to convert USD6.3 million of its outstanding debt into 63,044,460 shares in Tethys at a price of USD0.10 per share. Pursuant to the conversion of debt to shares, the Company obtained approval from the Ministry of Energy to issue up to 589,360,492 Ordinary Shares by September 02, 2016. Permission from the National Bank of Kazakhstan (“NBK”) to issue Ordinary Shares was obtained on December 2, 2015, as further described below.

Pursuant to applicable rules of the TSX, Olisol may not become a 10% or more shareholder of the Company until the TSX has approved personal information forms submitted by Olisol. As such, Olisol had converted USD3.7m of the loan into 37,440,042 shares, which is the maximum amount they are able to convert and remain below a 10% shareholding.

The Company currently does not have sufficient funding to meet its requirements over the next few months and therefore, if the transactions with Olisol do not proceed for any reason, the Company’s ability to continue as a going concern will be dependent on the Company being successful in securing alternative funding. There is no guarantee that the Olisol Transaction can be completed and there are no formal alternative financing proposals currently being discussed. These circumstances indicate the existence of a material uncertainty that casts significant doubt about the Company’s ability to continue as a going concern. Risks associated with the Olisol Transaction are described in the section “*Risk Factors*,” and investors should also refer to the “*Forward Looking Statements*” when considering statements made about the outlook of the Company.

## Kazakhstan

Kazakhstan is an independent republic with a population of some seventeen million people. It is the largest country in Central Asia and the ninth largest country in the world, with an area of some 2.7 million km<sup>2</sup>. Kazakhstan has abundant hydrocarbon resources with some of the world’s most significant oil and gas fields, with 2012 production



being some 1,623 Mbbl of oil per day and 52.9 MMcm of natural gas per day.<sup>1</sup> In Kazakhstan, the Company's producing gas fields (Kyzylai and Akkulka) and two exploration blocks (Akkulka and Kul-Bas, with Akkulka containing the Doris producing oilfield) are to the west of the Aral Sea in a geological area known as the North Ustyurt basin. These fields are all within the Aktobe region of western Kazakhstan.

#### *Ministry of Energy approval to issue shares, Share listing on KASE & NBK Permit*

In order to complete a corporate transaction whereby newly issued shares would be issued to raise capital, the Company would require a permit to issue shares, in accordance with the Subsurface law, from the MOE and a permit to issue shares from the NBK.

The application to the MOE for the permit to issue 589,360,492 Ordinary Shares was first submitted on July 22, 2015, following which the permit was obtained on September 2, 2015. The permit is valid for a period of 6 months, expiring on March 2, 2016. An application to extend the permit was submitted on February 2, 2016 and has since been successfully extended up to September 2, 2016.

As of November 20, 2015 the Company listed on KASE, the Kazakhstan Stock Exchange. In order to be able to obtain a permit from the NBK to issue shares, as outlined in the securities market law; companies that have two thirds of their assets in Kazakhstan must obtain a permit from the NBK for the issuance of shares. During 2015 and currently, the Company has over two thirds of its assets in Kazakhstan. The permit from the NBK in respect of the issuance of Ordinary Shares was obtained on December 2, 2015.

#### *SinoHan transaction*

On November 1, 2013, the Company had agreed to sell to SinoHan, 50% of the Company's Kazakh oil and gas assets for a cash purchase price of USD75 million in accordance with the terms of the Kazakhstan Farm-Out Agreement announced.

On July 9, 2014, the Company entered into a loan agreement with SinoHan whereby SinoHan agreed to an early release of the USD3.88 million escrow deposit as a loan, made in connection with the sale transaction.

On May 1, 2015, the Company announced that the main approval required from the Ministry of Energy in relation to the SinoHan transaction, was not received by the long stop date of May 1, 2015 and SinoHan confirmed they did not want to enter into a further extension on the transaction.

On June 11, 2015, the Company announced that mutually acceptable terms had been reached for the termination of the SPA with SinoHan and repayment of the USD3.9million escrow loan.

Since then, the SPA has been terminated, the escrow loan has been repaid and the Company had negotiated and paid a reduced payment of USD0.65 million for transaction fees.

#### *Devaluation of the Kazakh Tenge (KZT)*

On August 19, 2015 The NBK allowed the KZT to marginally devalue following recent devaluations by Russia and China. Prior to August 20, 2015 the NBK had allowed the KZT to trade within a range to which the NBK managed using its reserves. On August 20, 2015 the NBK removed this support and allowed the KZT to trade freely by floating the KZT. Following the new policy, the KZT/USD declined and was KZT339.47 = USD1 as of December 31, 2015 (as compared to KZT180.23 = USD1 as of December 31, 2014. Details of the Company's exposure to foreign currency risk can be found in the section "Risk Factors."

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<sup>1</sup> Source: *BP Statistical Review of World Energy 2015*



## Properties

### Overview

The Company owns its current interests in its Kazakh projects through TAG and Kul-Bas. As a result of this ownership, the Company had, throughout 2015, a 100% interest in, and is operator of, two proven shallow gas fields (the Kyzylloi and Akkulka Fields), producing under the Kyzylloi Field Licence and Production Contract, and the Akkulka Production Contract. TAG also has a 100% interest in two proven oil fields (Doris and Dione Fields), held within the surrounding Akkulka Exploration Licence and Contract area, and Kul-Bas has a 100% interest in the Kul-Bas Exploration and Production Contract. These contract areas are all within the Aktobe region of western Kazakhstan.

The Kyzylloi Gas Field commenced production on December 19, 2007 and the Central Akkulka Gas Field commenced production in October, 2010. The Doris oil field (in the Akkulka Exploration Contract Area) commenced pilot production in January 2011. Total gas reserves in the Kyzylloi Field (which includes reserves for eight producing gas wells in the main Kyzylloi Field and reserves in the adjacent fault block discovered by and producing from the AKK05 well, successfully worked over in Q2 2015, and the North Kyzylloi area which contains AKK08 & AKK10 wells, which are currently suspended) as well as the total Akkulka gas reserves and the total oil reserves for the Akkulka Exploration and Production Contracts are described under “*Statement of Reserves Data and Other Oil and Gas Information*”.

In 2007, Tethys constructed a 56 km, 325 mm diameter gas pipeline from the Kyzylloi Field gathering station to the main Bukhara–Urals gas trunkline, where a BCS was constructed at km910 on that trunkline and with natural gas flowing into the main trunkline which is owned by ICA, a division of the Kazakh state natural gas company KTG. The gas trunkline transports gas from Central Asia into Russia and on into Europe. The Kyzylloi and Akkulka Fields produce from Eocene age shallow marine sandstones (the Kyzylloi reservoir) at a depth of approximately 450-500m. The BCS was expanded to five compressors in 2009 and production from the Akkulka Field began in September 2010 also from the same Kyzylloi-age reservoir. A slightly deeper reservoir at approximately 550-600m (the Tasaran) has also been found to be gas productive in the same area, and further development of these gas deposits through the drilling and testing of AKK17, 18, 19 and 20 and was completed in 2014. Starting at January 1, 2015 Tethys produced gas from AKK15, 16, 17, 18 and 19 from the Tasaran to the existing gas production system and later, in Q2, brought on AKK14 (Tasaran section) and AKK05 (Kyzylloi reservoir and Contract) wells too.

Tethys has also discovered oil in deeper horizons in the Akkulka Block in the Doris field and the Dione discovery.

The following table summarises the Company’s principal properties in Kazakhstan (and the effective percentage interest of the Company therein):

PROPERTY & CONTRACT	EFFECTIVE PERCENTAGE INTEREST*	BASIN	GROSS AREA (in km <sup>2</sup> )	EXPIRY DATE (assuming no extensions)
Kyzylloi Field Licence and Production Contract <sup>(1)</sup>	100%	North Ustyurt	449.6	December 2029
Akkulka Exploration Licence and Contract <sup>(2)</sup>	100%	North Ustyurt	826.8	March 2019
Akkulka Production Contract <sup>(3)</sup>	100%	North Ustyurt	396.2	December 2018
Kul-Bas Exploration and Production Contract <sup>(4)</sup>	100%	North Ustyurt	7,632.0	Exploration up to November 2017 <sup>(5)</sup>

\*As at December 31, 2015

## Notes:

- (1) The Kyzylloi Field Licence and Production Contract was expanded laterally in December 2014 from the surface to the Base of the Tertiary interval.
- (2) The new acreage specified is from surface to Base Tertiary however below that TAG has rights to explore and appraise the full 1672.69 km<sup>2</sup> area.
- (3) The Akkulka Production Contract lies wholly within the Akkulka Exploration Licence and Contract area – this Production Contract was expanded laterally at the same Base Tertiary level in 2015.
- (4) Following the first contractual relinquishment as confirmed by the Kazakh authorities in December 2008, a further contractual relinquishment was agreed with the Kazakh authorities, which reduced the area to 7,632 km<sup>2</sup> effective November 2009 and was confirmed by the Kazakh authorities in December 2010.
- (5) Subject to completion and approvals of a project and a minimum work programme and amendments to the Contract with the Kazakh authorities which is expected to take the majority of 2016.

## Production Contracts

### *Kyzylloi Field Licence and Production Contract*

The Kyzylloi Field was first discovered in 1967 with additional seismic being shot in the 1990s. The Kyzylloi Field Licence and Production Contract for production of gas on the Kyzylloi Field was initially issued by the Kazakh State to the state holding company Kazakhgas on June 12, 1997 and was transferred to BN Munai (renamed TAG) on May 15, 2001. The contract was entered into between MEMR and TAG on May 5, 2005, initially until June 12, 2007 and was subsequently extended to June 2014 and then to December 2029, subject to certain contractual amendments. Gas production commenced under the contract in December 2007. There are no mandatory relinquishments, surrenders, back-ins or changes in ownership in respect of the Kyzylloi production contract area.

The Kyzylloi Field Licence and Production Contract grants TAG exploration and production rights over an area of approximately 449.63 km<sup>2</sup>, which has been increased by 56% versus 2014. The area extends down to the base of the Paleogene sequence (Base Tertiary). Pursuant to the contract, TAG was required to reimburse the Kazakh State for approximately USD1,211,000 in historical costs that are to be paid in equal quarterly instalments from the commencement of production until full reimbursement. To date, TAG has fulfilled this obligation.

In June 2014, the Company received approval from the Ministry of Oil & Gas of the Republic of Kazakhstan for an extension to its Kyzylloi Production Contract for a further 15 years to December 2029, subject to certain routine amendments to the contract. On January 23, 2015 the Company announced that the permission had been received. Work programmes for the 15 year period have been agreed, which includes total financial obligations (defined as investment commitments (defined below) and insurance, liquidation fund, indirect costs and taxes, including historic costs) to the end of 2029 of USD51,508,000, of which total investment commitment (defined as capital expenditure (“**Capex**”) and operating expenditures (“**Opex**”) including specialist training, social sphere payments and sub-soil monitoring) is USD12,060,000.

As at December 31, 2015, the total investment commitment spend was USD1,231,000 for 2015 (65% of the 2015 investment commitment required under the licence). The total financial obligation for 2016 equals USD8,355,000, which includes an investment commitment of USD3,493,000. (2016 figures presented are at the FX rate of KZT337 = USD1). The total spend for investment was less than required under the contract due to increased Opex efficiency, reducing costs, and the Tenge devaluation, however the minimum production volume required under the contract was met. When less than 80% of the minimum investment commitment is met, the State may request the Company to explain the deficit and/or provide a proposal for the following year to remedy the deficit. The State will decide whether explanation and/or proposal are acceptable to the State. If not accepted, the State can enforce penalties, and in most extreme cases, cancellation of the contract. Risks associated with non-fulfilment are outlined in the section “*Risk Factors*” of the AIF. As of March 29, 2016 the State has not requested further details from the Company regarding investment commitment amounts fulfilled.

MET on domestic gas sales is calculated at a rate between 0.5% to 1.5% of the value of the annual domestic gas production sales and 10% for exports. Kyzylloi sales are currently domestic and as such MET is at 0.5%. MET payments are payable quarterly.

According to the Kyzylai Field Licence and Production Contract, TAG is obliged to allocate annually not less than 1% of its production costs for the professional training of Kazakh personnel participating in the work under the Kyzylai Field Licence and Production Contract. In addition, TAG is required to provide USD50,000 annually for participation in the social and economic development of the Aktobe region. TAG is also required to establish a liquidation fund for reclamation of the contract area and to contribute annually to such fund in the amount of 1% of its production costs.

A Commercial Discovery Bonus amounting to USD306,171 (FX rate KZT185.95 = USD1) was paid on June 9, 2015 for the Kyzylai mining allotment and recalculation of Reserves in accordance with Articles 320 – 322 of the Kazakh Tax Code.

#### *Akkulka Gas Production Contract*

On December 23, 2009, TAG and MEMR signed the Akkulka Production Contract giving TAG exclusive rights to produce gas from the Akkulka Block for a period of nine years. The initial seven wells assigned to the Akkulka Production Contract are tied into the Company's existing Kyzylai pipeline infrastructure and additional compression has been installed at the BCS on the Bukhara-Urals gas trunkline. As such, production of gas from the Akkulka Block under the Akkulka Production Contract commenced upon signature of the gas sales agreement by Asia Gas NG LLP and allocation of pipeline capacity by ICA. Commercial production commenced on October 6, 2010. There are no mandatory relinquishments, surrenders, back-ins or changes in ownership in respect of the Akkulka production contract area.

Contingent upon commencement of commercial production on the Akkulka contractual territory, an amount of USD3,500,000 was due to the Kazakh State as a reimbursement of historical costs previously incurred in relation to the contractual territory. For that part of the contractual territory from which production commenced in 2010, staged payments over a period of nine years totalling approximately USD933,997 are to be paid in equal quarterly instalments from the commencement of production until full reimbursement. To December 31, 2015, TAG had reimbursed the Kazakh State USD650,256 in respect of the Akkulka Field.

As at December 31, 2015 a total of USD1,626,000 investment commitments for 2015 had been made, which makes up for 40% of the total investment required for 2015. The investment commitments were not met due to increased efficiency (reduction in Opex), and extenuating circumstances such as the Tenge devaluation. Investment commitments under the Akkulka Gas Production Contract is mainly Opex, as outlined below. When less than 80% of the minimum investment commitment is met, the State may request the Company to explain the deficit and/or provide a proposal for the following year to remedy the deficit. The State will decide whether explanation and/or proposal are acceptable to the State. If not accepted, the State can enforce penalties, and in most extreme cases, cancellation of the contract. Risks associated with non-fulfilment are outlined in the section "Risk Factors" of the AIF. As of March 29, 2016, the State has not requested further details from the Company regarding investment commitment amounts fulfilled.

The AKK16, 18, 19 and 20 wells were absorbed into an expanded Production Contract of 396.2km<sup>2</sup> and revised work programmes and financial obligations have been determined at USD14,341,000 up to the end of 2018, of which USD6,190,000 is investment commitments. The investment commitment for 2016 equals USD2,425,000 which comprises almost entirely Opex which makes up USD2,383,000. All 2016 and forecasted figures are converted at the FX rate of KZT337 = USD1.

The Akkulka Gas Production Contract is subject to MET, which replaced royalties. MET on gas sales is calculated at a rate between 0.5% to 1.5% of the value of the annual gas production for domestic sales and 10% for exports. The MET currently payable on the Akkulka Production Contract is 0.5%.

According to the Akkulka Field Licence and Production Contract, TAG is obliged to allocate annually not less than 1% of its production costs for the professional training of Kazakh personnel participating in the work under the Kyzylai Field Licence and Production Contract. In addition, TAG is required to provide USD30,000 annually for participation in the social and economic development of the Aktobe region. TAG is also required to establish a liquidation fund for reclamation of the contract area and to contribute annually to such fund in the amount of 1% of its capital expenditure.

The Commercial Discovery Bonus of USD122 398 was payable by the Company as of December 31, 2015 for Akkulka Gas mining allotment and recalculation of Reserves in accordance with Articles 320 – 322 of the Kazakh Tax Code.

#### *Akkulka Exploration Licence and Contract*

The Akkulka Exploration Licence and Contract was entered into between the Kazakh State Committee of Investments and TAG on November 17, 1998 for an initial five year period and has since been the subject of seven extensions, most recently from March 10, 2015 for a period of four years up to March 10, 2019. The Akkulka Exploration Licence grants TAG exploration rights over the area covered by the licence. The legal relationships in respect to subsurface use have been regulated only by the contracts and not licences. See “*Risk Factors*”.

The original grant of the Akkulka Exploration Licence and Contract extended over an area of approximately 166.17 km<sup>2</sup> (41,060 acres), however, the contract was subsequently amended to cover a gross area of approximately 1,672.7 km<sup>2</sup> (413,321 acres) at sub-Paleogene level and currently 826.86km<sup>2</sup> (204,317 acres) at post-Paleogene level i.e. excluding the Kyzylloi Field Licence and Production Contract and Akkulka Production Contract.

An extension to the appraisal period has been granted up to March 10, 2019 subject to certain routine amendments to the contract. The work programme and commitments included 100km<sup>2</sup> of 3D seismic in the block in the period March 11, 2015 to March 10, 2016 which have not been met to date. Total investment made by the Company for the year ended December 31, 2015 was USD3,330,000, which is 5% over the 2015 investment commitment. As per the failure to meet minimum investment commitment, described above, the same is expected for failure to meet work programme commitments such as the 100km<sup>2</sup> of 3D seismic. Risks associated with non-fulfilment are outlined in the section “*Risk Factors*” of the AIF. As of March 29, 2016, the State has not requested further details from the Company regarding the non-fulfilment of the work programme.

#### *Akkulka Pilot Oil Production*

In January 2011, the Company commenced oil production under the Pilot Production Project for the Doris oil discovery in the Akkulka Block. Under this contract, the Company has the right to produce oil from the Akkulka Field during the exploration period and also to install and operate production facilities. Oil production under this contract is subject to MET, which replaced royalties. MET on oil sales is not only dependent upon whether the sales are domestic or export but is also dependent upon the annual volume of sales achieved. Sales to date have all been domestic and the MET currently payable on the Akkulka oil sales is calculated at 2.5% of the oil production costs including depreciation uplifted by 20%. Associated Gas extracted in line with crude oil is subject to MET at a rate of 10%, because it is flared at wellsite. The tax base for MET on associated gas is identified in accordance with the Kazakh Tax Code, where it is identified that volume of extracted natural gas shall be multiplied by the weighted average world marketing price published by the State Revenue Committee. An application to extend this project to December 31, 2017 has been made and nominally approved pending final Kazakh regulatory approvals and documentation.

#### *Kul-Bas Exploration and Production Contract*

The Kul-Bas Exploration and Production Contract was signed between Kul-Bas and MEMR on November 11, 2005. This contract, which was initially for a period of 25 years with an initial six-year exploration period and a 19-year production period, grants Kul-Bas the exploration and production rights over an original 10,881 km<sup>2</sup> (2,688,695 acres) surrounding the Akkulka Block. At the end of the second year of the contract, 20% of the contract area was to be relinquished, with 20% to be relinquished annually thereafter up to the end of the six year exploration period, except with respect to combined exploration and production contracts (which mainly only contain a work programme for exploration and not production) for areas in which a commercial discovery is made as this contract grants Kul-Bas an exclusive right to proceed to the production period where it has made a commercial discovery.

The first relinquishment was made in November 2007 and ratified in December 2008 by the Kazakh authorities. The relinquishments were reduced and changed in April 2009 and the Company relinquished approximately 866 km<sup>2</sup> (213,997 acres) in June 2010 (leaving an area of 7,632 km<sup>2</sup> (1,885,867 acres)). In accordance with the terms of the

contract, as amended, 30% of the original area has been relinquished as at December 31, 2013. On February 28, 2013, the Company extended the exploration period for the Kul-Bas Exploration and Production Contract by a further two years until November 11, 2015. On December 29, 2015 the Company announced that it had been granted a 2-year extension to the Kul-Bas Exploration and Production Contract (until November 11, 2017) subject to obtaining approvals for projects, work programmes and contract amendments. The Company is to relinquish all of the remaining contract area by the end of the approved period with the exception of areas where a commercial discovery has been made.

The Kazakhstan Government is to be compensated for the historical costs related to the contractual territory in the amount of USD3,275,780. To date, the Company has paid two amounts of USD49,137 each in relation to this balance. If and when commercial production commences, USD88,666 is due in quarterly instalments until the remaining historical costs of USD3,177,506 have been paid in full.

Commitments up to December 31, 2015 were not met and an application was made by the Company to reschedule the remaining commitments. Currently, the Company is progressing through a process of finalising a two year appraisal extension to the Kul-Bas Exploration and Production Contract; this includes the initial preparation, submittal review and State approval of an extension project and minimum work programme before suitable additions to the contract can be made. The Company expects the work programme is likely to include principally the drilling of the KBD02 Klymene well.

The royalty payable was expected to range from 4% to 6% depending on the size of the deposit and set 30 days before production commenced, but this is likely to be replaced by the Mineral Extraction Tax at 0.5% to 1.5% for domestic gas sales or 10% for exports. Pursuant to the contract, Kul-Bas must also reimburse the Kazakh State for approximately USD3,280,000 in equal portions on a quarterly basis over the first ten years of any commercial production. In addition, 1% of the total investment incurred during exploration and 0.1% of the total amount of operational costs during production are payable by Tethys for the training of Kazakh specialists, as well as USD20,000 per year for socio-economic development programmes.

MET on oil sales is not only dependent upon whether the sales are domestic or export but is also dependent upon the annual volume of sales achieved. For oil sales, the Company would anticipate a MET rate on domestic sales of approximately 2.5%. See section, “*Statement of Reserves Data and Other Oil and Gas Information – Other Oil and Gas Information – Tax Horizon*”.

Provided that certain standards and requirements are satisfied, sub-contractors, goods and materials (50%), works (70%) and/or services (70%) used in Kul-Bas’ operations under this contract must be of Kazakh origin, and Kazakh specialists must comprise not less than 95% of the total number of Kul-Bas employees. On an annual basis, Kul-Bas must contribute not less than 1% of its investments to the professional education of Kazakh personnel involved in the project during exploration and not less than 0.1% of the operational costs during production. Kul-Bas is also required to establish a fund for reclamation of the contract area; contributions to this fund are required to be made annually and must be equal to 1% of the total investment expenses incurred during exploration and 0.1% of the total amount of operational costs during production.

Pursuant to a new MOE protocol adopted in 2014 (which the Company understands is not yet law and which is not certain to be ratified) the percentage of domestic sales under the Kul-Bas Exploration and Production Contract must not be less than 35%, allowing 65% for export sales. This split has been used by Gustavson in their assessment of the Akkulka oil reserves). The Company understands that any dry gas discovery would still be allowed to be exported, although associated gas would be restricted to domestic sales only.

### Gas Production and Sales

The gas is carried by pipeline to the BCS, where up to 5 compressor units then compress the gas to a maximum of 54 atm (generally 25-35 atm). The gas then passes through the newly installed dehydration unit before entering the Bukhara Urals pipeline at the “910 km” cut-in point.



The recently completed Beyneu-Bozoi-Shymkent-China gas pipeline should provide an alternative to the existing Bukhara Urals trunkline that transports gas from Central Asia into Russia and on to Europe. Currently the Chinese pipeline is only taking domestic gas within Kazakhstan to Shymkent, however, sometime in 2017, gas sales to China are expected to commence.

On December 31, 2014, a new contract was signed with KTG and its subsidiary ICA, in respect to 2015 gas production for a minimum up to 100 MMcm and further option up to 110 MMcm at a fixed KZT price. Net of marketing and distribution costs of KZT4,550/Mcm and 12% VAT, this equated to a net price of KZT13,650 per Mcm (USD75.09 at a 2014 average annual exchange rate of 181.78 Tenge). The contract ran through to December 31, 2015.

The 2015 prices were agreed in Kazakh Tenge. Due to concerns of a possible devaluation of Tenge in 2015, it was agreed that in the case of devaluation by more than 10%, the Parties shall agree to meet within 10 working days and try to renegotiate the price of gas. However, due to the unprecedented degree of devaluation in the Kazakh Tenge encountered late 2015 coupled with significant declines in gas prices regionally, it was not possible to enforce the clause.

During the financial year ended December 31, 2015, gas sales in Kazakhstan were made to two customers, namely KTG and its subsidiary ICA, which amounted to USD13,372,919.60 (2014: USD8,194,534), representing greater than 70% of total consolidated revenue.

A 2016 Gas Supply Contract was entered into and signed on March 24, 2016, between TAG and ICA for the supply of 150 million cubic meters of gas, at a gross price of KZT28,000/Mcm (USD81.16/Mcm (USD2.30/Mcf) at the exchange rate of KZT345 = USD1), effective from January 1, 2016 through to December 31, 2016. A marketing agent contract has not been finalised, however it is expected that marketing agent and distribution costs in relation to the 2016 Gas Supply Contract will be similar to the 2015 Gas Supply Contract.

### Oil Production and Sales

Oil from the Doris field is initially processed and stored at the Company's Group Unit (GU) facility on the field. This facility consists of an Automated Gathering Unit (capable of connecting up to 8 producing wells), 8,800 bbls of crude oil storage, three-phase separation equipment, and an automated loading system. This facility was initially commissioned in October 2011, with subsequent additions of a Reagent Dosing Unit (commissioned in September 2012) and a Group Metering Unit (commissioned in November 2012).

During the financial year ended December 31, 2015, oil sales in Kazakhstan were made to one customer, namely Eurasia Gas Group, which amounted to USD5,625,643 (2014: USD18,920,247), representing more than 29% of total consolidated revenue.

In January 2012, the Company announced the official inauguration of its Aral Oil Terminal ("AOT") – a new crude oil storage and rail loading facility for its oil shipments from the Doris oilfield. AOT is located at Shalkar, some 250 km distant from the Doris oilfield. AOT is owned and operated via a 50/50 joint venture by Tethys and its Kazakh oil trading partner's company, Olisol, a local partner with strong experience in the oil distribution business in Kazakhstan. Phase one of the AOT facility was initially commissioned into operation in April 2012.

In 2013, the construction of Phase 2 of the AOT facility was completed, which provides for an increase in throughput capacity from 4,200 bopd up to 6,300 bopd with the installation of two 1,000m<sup>3</sup> storage tanks (approximately 12,500 bbls) and associated pumping equipment.

The Company has decided to suspend plans to expand the capacity of AOT further to accommodate future potential production growth which is dependent upon further drilling success and an increase in oil prices.

## Producing Wells

### *Gas*

During 2015, the Company produced dry gas from a total of 18 wells at a depth of approximately 500 m below surface. This comprises nine producers in the Kyzylloi Field and nine in the Akkulka Field, although well AKK18 watered out in May 2015 and AKK14 and AKK05 were put on after workover in May and June 2015 respectively; combined production as of December 31, 2015 is around 403 Mcmpd; these fields have been in production since 2007 and 2010 respectively.

### *Oil*

During 2015, the Company produced oil (plus a small amount of associated gas, currently flared) from two wells in the Doris Oil Field, under a Pilot Production Licence. AKD01 produced oil from a Cretaceous sandstone reservoir and AKD05 produced oil from a Jurassic limestone reservoir whilst the AKD06 well was held in reserve. A summary of 2015 production from the wells is set out under “*Statement of Reserves Data and Other Oil and Gas Information*”.

Oil production is currently at 540 barrels per day from AKD01 only, this is on a restricted 8mm choke with a Flowing Tubing Head Pressure of 316 psia and a 30% water-cut due to current spring break-up conditions limiting oil trucking but is expected to go to back to a larger 12-15mm choke in Q2 2016 and realize rates of around 1,200 bopd. AKD05 is currently offline since November 2015 but is expected on later in the year and possibly AKD06. A Base average rate of 1,271 bopd is forecasted for the year. There had been transportation issues from AOT in February 2016 resulting from a fall in the world and local oil price that caused a glut at some refineries. The realised oil price fell in USD terms to a price of KZT20,484 per ton in September 2015, this equates to a price of USD7.23 per barrel under the exchange rate of KZT360 = USD1. This lower price was the result of both a fall in world oil prices and an increase in refined products being imported from Russia because of recently imposed sanctions that restricted them selling into other markets.

## Exploration and Further Development

### *Akkulka Block*

The Akkulka Block has the potential for oil and gas deposits at several different horizons, with gas already having been discovered in shallow Paleogene sandstones similar to those of the Kyzylloi Field, and oil in the Cretaceous and Jurassic horizons. Oil was tested at a combined rate in excess of 6,800 bopd from Upper Jurassic carbonates and lower Cretaceous sandstones in the AKD01 (“**Doris**”) discovery well and the Doris discovery has been further appraised successfully in wells AKD05 and AKD06. The presence of hydrocarbons in the Middle Jurassic and Permo-Triassic intervals has been indicated from drilling data and wireline logs in Akkulka wells AKD01, 03 and G6. Well AKD03 (“**Dione**”) also discovered and tested oil from a separate and different Upper Jurassic sand.

According to the Gustavson Reserves Report, effective December 31, 2015, total oil plus gas reserves in the Akkulka Block i(in respect of Exploration and Production Contract) are: Proved plus Probable plus Possible net to the Company’s interest is 24.76 MMboe with Proved plus Probable Reserves being 13.49 MMboe and Total Proved Reserves being 7.185 MMboe. See “*Statement of Reserves Data and Other Oil and Gas Information*”.

The Company believes that with further appraisal and exploration in the Akkulka and Kul-Bas contract areas significant additional potential may be realized.

### *Akkulka Block — Exploration of Deeper Oil*

A number of deeper prospects were originally identified by the Company in the Akkulka Exploration Licence and Contract area. Of these prospects, the AKD01 well described below has potential targets in reservoirs ranging from the Cretaceous, through Jurassic and Permo-Carboniferous.

### AKD01 (“Doris”)

The AKD01 well discovered oil in several horizons and was the first commercial oil discovery in the area. The nearest “deep” producing fields are approximately 240 km to the south in Uzbekistan, and these produce mainly gas condensate. The nearest significant oilfield is over 300 km distant. The AKD01 well was drilled on the “Doris” prospect and is founded on a structural high to the south-east of the proven shallow gas Kyzylloi and Akkulka Fields. It is less faulted than the main high under these gas fields.

Well AKD01 successfully encountered and tested two oil-bearing zones, the lower zone being a Jurassic carbonate sequence at approximately 2,355 m and the upper being a lower Cretaceous sandstone of Aptian age at approximately 2,174 m.

A downhole pressure survey in the well in December 2015 indicated that the current reservoir pressure in the Cretaceous sandstone horizon was 2,965 psi or relatively close to initial pressure.

### *Akkulka block – Exploration of shallow gas*

In 2013, Tethys acquired and processed a new further 100 km<sup>2</sup> of 3D seismic data over these further prospects in the Akkulka block. This work has now been completed and the data was used to analyse the deeper prospectivity and to locate the AKK20 gas well. A further south easterly extension of the 3D seismic survey is planned for 2016 to map a possible extension of the Akkulka gas play, subject to funding. However the full 2016-2017 Akkulka Exploration Contract work programme requires up to 4 firm wells (2 shallow and 2 deep) and/or USD5.26million in Capex & Opex (exchange rate of KZT350 = USD1).

### *Kul-Bas – Exploration of Deeper Oil and Gas Condensate*

### KBD01 (“Kalypso”)

The Kalypso exploration well is located approximately 50 km to the north-west of the Doris oil discovery. The Kalypso well reached total depth in September of 2011, with electric logs being run and indicating two potential zones of interest, the Triassic and Permo-Carboniferous limestones. This lower zone will most likely require acid and fracture stimulation, a common completion process implemented in similar fields in the region. The nearest large field, which produces from similar Permo-Carboniferous shelf limestones is the Alibekmola field, some 250 km to the north in the pre-Caspian Basin

In March 2014, the first phase of the stimulation on the KBD01 had been successfully completed with the reservoir being hydraulically fractured. The Company is currently evaluating future work for this well, however this is all dependent on funding.

The Kul-Bas block does have limited remaining potential for shallow gas and a test of the Kyzylloi sand in well KUL03 is also under consideration as part of the new required appraisal programme currently under discussion. The Kul-Bas block also does present possible prospects at Cretaceous and Jurassic level and also some Permo-Carboniferous potential.

### KBD02 (“Klymene”)

In late 2012, Tethys tendered for the acquisition of a further 200 km 2D seismic survey to define prospects in Kul-Bas block prior to further exploration drilling. This work has now been completed and the Klymene prospect has been mapped with 3D seismic, identifying; two Cretaceous and one Jurassic level for drilling. The prospect is a direct analogue to the producing AKD01/Doris field and shares the same modelled source basin, principal migration pathways and reservoir characteristics. Oil, as on-stream at AKD01/Doris, is expected to be sweet and at normal pressure. A vertical +/-2750m exploration well is planned on the Klymene prospect and a location for KBD02 has been identified to be undertaken once the Contract extension has been ratified.



The likely 2016 and 2017 minimum work programmes are currently being jointly developed by the Company and the Kazakh Institute. The scope of the programme will be reviewed and subject to approval by the State authorities before becoming final. Although the drilling of the KBD02 well is expected to be a core component of this work. It is the Company's intention to drill the KBD02 well once funding is in place.

### *Shallow Gas Drilling Programme*

As of December 31, 2015 the tied in gas wells on Kyzylloi and Akkulka are producing approximately 403 Mcmpd (14.23 MMcfpd) and are on natural decline. The Company expects to be able to increase production if it increases expenditure on the gas wells, including overhaul and repair of existing compression. The installed dehydration system is performing satisfactorily and producing gas meeting export standards.

Final commissioning of the Bozoi-Shymkent-China gas pipeline will provide two transit routes for Tethys' gas production; the pipeline taking gas to China, and the existing Bukhara-Urals trunkline that transports gas from Central Asia into Russia and feasibly, on to Europe. Currently the Chinese pipeline is only taking domestic gas to Shymkent, however, in 2017, gas sales to China are expected to commence.

### *Socio-Economic Obligations*

The Company's social responsibility strategies include environmental compliance and the promotion of fundamental relationships with local communities in the areas in which the Company operates, and also with the provincial and national authorities of such areas. Local employment is promoted by identifying, providing and supporting employment opportunities within the Company's operating areas. In the opinion of management, this has been well received by the local communities and has contributed to maintaining a positive relationship in and around the Company's areas of operation. The Company contributes part of its annual expenditure to education and training programmes in the regions in which it operates.

In Kazakhstan, in line with its subsurface use contracts, Tethys is required to invest a total of USD150,000 annually (Kyzylloi Production – USD50,000; Akkulka Exploration – USD50,000; Akkulka Production – USD30,000 and Kul-Bas Exploration and Production Contract – USD20,000) into the socio-economic development of the Aktobe region. Provided that certain standards and requirements are satisfied, sub-contractors, goods, materials and/or services used in the operations of TAG and Kul-Bas under its subsurface use contracts must be of Kazakh origin. TAG as well as Kul-Bas must also give preference to the recruitment of Kazakh personnel and, on an annual basis, must contribute to the professional education of Kazakh personnel. This amounts to 1% of operating costs in the case of the Akkulka and Kyzylloi production contracts; to 1% of exploration costs in the case of the Akkulka Exploration Contract; and to 1% of total investment costs in the case of the Kul-Bas Exploration and Production Contract.

Both TAG and Kul-Bas are also required to establish a fund for the reclamation (liquidation fund) of the contract area. Contributions to this fund are required annually. This amounts to 1% of operating costs in the case of the Akkulka and Kyzylloi production contracts; to 1% of exploration costs in the case of the Akkulka Exploration Contract; and to 1% of total investment costs in the case of the Kul-Bas Exploration and Production Contract. The Company is also encouraged to make further voluntary contributions towards the social development of the Aktobe region.

In 2015, voluntary contributions amounting to USD21,111 were made towards Bozoi Social Foundation (Alaman Baiga project), a local orphanage and for the 70<sup>th</sup> anniversary of Victory Day to the Veteran Organization.

### **Tajikistan**

Tajikistan is an independent republic of approximately seven million people in Central Asia located on the fringe of the Central Asian sedimentary basin, abutting the Pamir and Tien-Shan mountains. It borders Uzbekistan to the north and west, Kyrgyzstan to the north, China to the east and Afghanistan to the south.

The principal hydrocarbon bearing sedimentary section of the Afghan-Tajik basin lies from the Jurassic to the Paleogene, marine carbonates and clastic rocks. The latter post-salt section is well developed in the Tajik part of the basin where the Paleocene-Bukhara formation limestones form an important oil and gas reservoir. The initial regional geological review carried out by Tethys suggests that there is potential for large structures post and sub-salt in the Bokhtar area, possibly containing both oil and natural gas. Reservoir rocks are present, as are mature source rocks, with the Company's analysis showing that the source rock is primarily Jurassic and could be oil and gas prone. The area has significant structuring, both tectonic and through active salt movement and potentially attractive prospects should occur in both the sub-salt and post-salt section. The Company believes that the area is under-explored and that it has a very real potential for significant oil and gas deposits, although some of these structures are expected to be at substantial depths.

In 2012, Tethys farmed-out 66.67% of its interest in the Bokhtar PSC to Total and CNPC and it is expected that foreign investment in the hydrocarbon sector will grow substantially over the next few years.

The legislative framework for oil and gas exploration and development projects is maturing. Until 2007, oil and gas concessions were owned and operated primarily by the government under a legislative regime similar to the Soviet regime whereby a licence would be issued and the operator would be responsible for payment of profit taxes and local taxes. The Production Sharing Law, as defined below, was adopted in 2007. The Tajik legislation which regulates the oil and gas sectors includes the *Law on Mineral Resources (1994 as amended in 1995 and in 2008)*, the *Law on Energy (2000)* and the *Government Decree on Concluding Contracts for Use of Mineral Resources (2001)*. In addition, the *Law on Investments (2007)* permits foreign investors to have tax remissions as prescribed by Tax and Customs Codes. Further, foreign companies can establish wholly-owned enterprises in Tajikistan, foreign currency is freely convertible and the tax and customs codes have been simplified as of 2005 by taking into consideration international legislation.

In early March 2007, the Tajik State introduced production sharing legislation (the "**Production Sharing Law**"), which established the framework for production sharing in mineral extraction, with the investor providing the capital for the venture and with the product being split between the investor and the government of Tajikistan. Pursuant to the Production Sharing Law, the maximum level of cost recovery shall not exceed 70% of production, however, the law gives significant flexibility to the negotiation of commercial terms between an investor and the government of Tajikistan in any production sharing contract. For instance, an investor has the right to export their production and to utilize government-owned infrastructure. The Production Sharing Law also provides for contract stability and protection of investor rights. In connection with the Tajikistan Farm-Out Agreement, the Tajik government approval of certain amendments to the PSC was obtained.

Current oil production in Tajikistan is small and the infrastructure is under-developed. In the north, there is access to the refineries in the Fergana valley, which are reported to have a capacity of some 170,000 bopd. In the south, rail routes exist from the Kulob area through both Dushanbe and Kurgan-Teppa into the Uzbek rail network and extend into the overall Central Asian rail complex.

With regard to natural gas, the infrastructure is somewhat better developed. Tajikistan is connected to the Central Asian gas grid and currently receives the majority of its gas through this grid. In the event of a large gas discovery, possible export options would include export through the Tashkent-Bishkek-Almaty system, or the Petrochina pipeline system from Turkmenistan into Kazakhstan and onwards into the Chinese market. An additional alternative route for exporting a substantial amount of gas may be via the Trans-Afghan pipeline which, if completed, will take Central Asian gas to Pakistan and India.<sup>2</sup> It was announced at the Shanghai Cooperation Organization summit in September 2013 that a deal between China and Tajikistan had been agreed to construct a natural gas pipeline from Turkmenistan via Tajikistan for delivery of Turkmen gas to China (Line "D"). The project is estimated to cost USD3 billion and will be the fourth line of the Central Asia – China system (the first three lines originate in Turkmenistan and transit Uzbekistan and Kazakhstan).<sup>3</sup> In March 2014, CNPC (Chinese National Petroleum Company) Trans-Asia Gas Pipeline Company Limited signed an agreement with Tajiktransgaz on jointly establishing a natural gas pipeline company to manage the construction of Line D of the Central Asia-China Gas Pipeline. This agreement aims to add 25 Bcm in gas supply to China through this pipeline system annually and the

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<sup>2</sup> *Heritage Foundation, 2006*

<sup>3</sup> *Asia Plus, Tajikistan, October 2013*

construction of the Tajikistan section of Line D was expected to have commenced in 2015, this would potentially provide an export route for natural gas should it be built and should large volumes of gas be discovered.

### Tajikistan Default

On October 11, 2015, the Company, through its 85% indirectly owned subsidiary, KPL, received a “Notice to Withdraw,” from the JOA relating to the Bokhtar PSC in Tajikistan and the underlying PSC from CNPC and Total. The Notice of Withdrawal was served on the basis that Tethys had not made the payment on October 9, 2015 for the September Cash Call issued by the Bokhtar Operating Company. Pursuant to the Notice of Withdrawal, Total and CNPC state that they jointly require Tethys’ subsidiary, Kulob Petroleum Limited to completely withdraw from the JOA and assign all of its participating interests derived from the Contract and the JOA to Total and CNPC in proportion to their respective participating interests.

On 30 October, 2015, KPL responded to the Notice to Withdraw, refusing to assign its participating interest and requested that discussions take place to reach an amicable resolution to remedy the defaults.

Since then and as of the 31 December, 2015, meetings have been held and discussions are ongoing to come to a resolution that is mutually beneficial to the Company, partners and Tajik state. There is no certainty that the Company will succeed in retaining any interest in the JOA or Bokhtar PSC or receive any form of compensation in respect of its withdrawal.

The following description of the Company’s properties in Tajikistan relate to the Company’s interest as it existed prior to the default described above. Should the Company not succeed in retaining an interest in the JOA and Bokhtar PSC it will no longer have any interest in properties in Tajikistan or any interest in the JOA and Bokhtar PSC.

### Properties

#### Overview

If the Company reaches a resolution with Total and CNPC to remedy the default described above under “*Description of the Business – Tajikistan – Tajikistan Default*” and retains its interest in the JOA and Bokhtar PSC, the Company will hold an indirect 28.33% effective economic interest through KPL in the contractor share of the Bokhtar PSC which covers an area of 35,984 km<sup>2</sup> in the south-west of the country (representing approximately 25% of the total land area of Tajikistan, calculated using a total of 143,100 km<sup>2</sup> from the CIA world fact book).

The following table summarises the Company’s principal property in Tajikistan (and the percentage interest of the Company therein) and assumes that the Company reaches a resolution with Total and CNPC to remedy the default described above under “*Description of the Business – Tajikistan – Tajikistan Default*” and retains its interest in the JOA and Bokhtar PSC:

<b>PROPERTY &amp; CONTRACT</b>	<b>EFFECTIVE PERCENTAGE INTEREST (at December 31, 2015)</b>	<b>BASIN</b>	<b>GROSS AREA (in km<sup>2</sup>)</b>	<b>EXPIRY DATE (assuming no extensions)</b>
Bokhtar PSC	28.33%	Afghan-Tajik (Amu Darya)	35,984.17	June 2038

The Bokhtar PSC area includes almost the entire Tajik portion of the Afghan-Tajik basin.

A proven hydrocarbon system exists in the Bokhtar PSC. The Bokhtar Contract Area includes several oil and gas-condensate discoveries and old fields which are either excluded or not worked on as the BOC PSC is now primarily involved in exploration for new targets.

As part of the Tajikistan Farm-Out Agreement, the Tajik Government added a further 1199 km<sup>2</sup> of highly prospective acreage which was not previously included in the Bokhtar PSC. It also reconfirmed the terms, extended the term of the Bokhtar PSC until 2038 and also extended the first relinquishment period by five years until 2020.

## Production Contracts

### *The Bokhtar PSC*

The Bokhtar PSC in Tajikistan gives Bokhtar Contractor Parties, working through BOC, the exclusive right, as contractors under the Bokhtar PSC, to conduct certain oil and gas operations in the Bokhtar Contract Area during the term of the Bokhtar PSC and to receive the contractors' share of production from the Bokhtar Contract Area. The Bokhtar Contract Area specifically excludes certain structures on which licences have previously been issued to other entities. Under the farm-out agreement between KPL, CNPC and Total, each company will recover 100% of their costs from up to 70% of total production from oil and natural gas, the maximum allowed under the Production Sharing Law. The remaining production (termed "**Profit Production**") will then be split 70% by KPL, CNPC and Total and 30% by the Tajik State over each calendar year. Tethys' share of the cost pool will be 28.33% of the project and 28.33% of the 70% total Profit Production that is due to the contractors under the Bokhtar PSC. The Tajik State's share of the Profit Production includes all taxes, levies and duties. The Tajik State will not receive any royalty fees from KPL, CNPC or Total. Under the Bokhtar PSC, KPL, CNPC and Total have the right to sell their share of Profit Production to any third party, whether a resident of Tajikistan or not, at a price determined by KPL, CNPC and Total. Under the Bokhtar JOA, KPL, CNPC and Total retain the right to market their share of production independently of each other, or jointly, as agreed. The Operator under the Bokhtar PSC is BOC, a joint-venture operating company owned by KPL, CNPC and Total. On completion of the Farm-Out Agreement in June 2013, KPL, which holds the Company's interest in the Bokhtar PSC, received some USD63 million relating to its past costs. It also had a part carry on a USD80 million initial work programme whereby KPL contributes only USD8.8 million towards this programme; this ended in November 2015.

The terms of the Bokhtar PSC are fixed over the life of the Bokhtar PSC, which has a term of 25 years (the "**Initial Term**"), re-started in 2013 (i.e. through to 2038). If in respect of any development area, commercial production remains possible beyond the Initial Term, the Bokhtar PSC may be extended with respect to such development area for an additional term of not less than five years or to the end of the producing life of the development area.

Pursuant to the Bokhtar PSC, the Bokhtar Contractor Parties are required to select and relinquish portions of the Bokhtar Contract Area with the first relinquishment being after seven contract years in respect of 25% of the Bokhtar Contract Area (less any development areas) and at five year intervals thereafter in respect of 50% of the then remaining Bokhtar Contract Area (less any development areas). In June 2013, the State extended the first relinquishment period under the PSC by five years until 2020.

The Bokhtar Contractor Parties are not required to relinquish any portion of the original Bokhtar Contract Area containing a development area or an area containing a declared commercial discovery for which a development plan has been sought and is awaiting approval by the Tajik State.

In the formation of BOC, the Bokhtar Contractor Parties established a governing body for BOC, (the "**Operating Committee**"). The Operating Committee provides overall supervision and direction of the operations of BOC. This includes the final approval of BOC proposed work programmes and budgets. The Operating Committee consists of one (1) appointed representative and one (1) alternative representative, from each of the Bokhtar Contractor Parties. The representatives, on behalf of their respective Bokhtar Contractor Party, have the authority to cast votes with respect to the powers and duties of the Operating Committee. The Bokhtar Contractor Parties shall procure their representatives at the Coordination Committee, as defined below, who shall only cast their vote in accordance with the decisions of the Operating Committee and, in the event of a modification to a proposal before the Coordination Committee, shall have no authority to vote without further Operating Committee approval.

A coordination committee established by the Bokhtar Contractor Parties and MEI (the "**Coordination Committee**") is responsible for the overall supervision of oil and gas operations conducted under the Bokhtar PSC. The Coordination Committee is comprised of a total of six representatives, three of whom have been appointed by MEI and three of whom have been appointed by the Bokhtar Contractor Parties with the Bokhtar Contractor Parties

providing the Chairman of the Committee. Decisions of the Coordination Committee are made by majority decision of the representatives present and entitled to vote. The Bokhtar Contractor Parties and MEI shall endeavour to reach agreement on all matters presented to the Coordination Committee. In the event that the Coordination Committee is unable to reach agreement on any matter then the Bokhtar Contractor Parties' point of view shall prevail. However, if MEI is reasonably of the view that the proposed action would result in serious permanent damage to a field or reservoir which would materially reduce economic recovery of petroleum from the field or reservoir, then the matter will be referred to an internationally recognised independent expert appointed by the Bokhtar Contractor Parties and MEI whose decision on accepted international petroleum industry practice shall be final and binding.

To the date of farm-out, KPL had spent more than USD82.8 million on activities under the Bokhtar PSC, significantly exceeding the financial commitments under the Bokhtar PSC while meeting specific work obligations. All contractual commitments under the Bokhtar PSC are unchanged and have been met.

As at December 31, 2015, the joint venture partners had contributed USD69.1million to the Bokhtar Operating Company for 2015, of which the Company's share was USD9.9 million, of which USD4.1 million has been paid, and USD5.8 million is in default. (See "*Description of the Business – Tajikistan – Tajikistan default*")

### Exploration and Further Development

The Company's primary strategy in Tajikistan was to complete a comprehensive geological and geophysical data gathering exercise with an intention of locating and drilling the first deep exploration well possibly below the regional salt layer. Commencing in 2008, the Company developed a regional geological model based on geophysical information, acquired 2D seismic data and carried out an aeromagnetic gravimetry survey. The Company conducted well re-entries in the following old fields, Beshtentak, Komsomolsk and Khoja Sartez with new drilling in Komsomolsk, and also drilled two shallow to mid-depth exploration wells on prospects East Olimtoi and Persea.

As part of the farm-out completion, the formerly producing Beshtentak 20 (BST20) well was relinquished to the State and all other wells and potential liabilities on the Beshtentak Field. In addition, the plugging and abandoning of the wells KPL had drilled, namely KOM200, KOM201, EOL09 and PRS01, was completed in Q3 2013 by Tethys Services Tajikistan Limited, a wholly owned subsidiary of SSEC, at the request of the Bokhtar Contractor Parties.

Since the completion of the farm-out, the new joint venture has been focused on the completion of a full regional 2D seismic acquisition programme across the PSC area particularly targeted at the deeper exploration potential.

On October 30, 2014, the Company announced that the next phase of the seismic acquisition programme planned to identify the location of the first deep well to be drilled has commenced. Bokhtar Operating Company has signed a contract to acquire a large seismic programme to add to the surveys already acquired by Tethys. The 826km 2D Phase 1 programme should have been completed by late 2015, however the Company cannot be certain due to information restrictions imposed whilst in default under the BOC JOA. (See "*Description of the Business – Tajikistan – Tajikistan default*")

### Oil and Gas Sales

Under the Bokhtar PSC and the Bokhtar JOA with CNPC and Total, the Company has the right to independently market and export any oil and gas production from the contract area. Currently, there are no oil and gas sales from the contract area. In the event of a discovery, the Company will evaluate the optimal solution for marketing hydrocarbon production. Depending upon market conditions, volume of production, hydrocarbon type and CNPC and Total's approach to marketing, the Company may elect to market production by itself, jointly with CNPC and Total, with one of CNPC or Total, sell domestically or export production. Under the Bokhtar PSC and the Bokhtar JOA with CNPC and Total, the Company retains the right to market production to any party in any jurisdiction at the sole decision of the Company. There are no forward contracts currently in place.

## *Socio-Economic Obligations*

In Tajikistan, according to the Bokhtar PSC, BOC has an obligation to invest in the socio-economic development of the Bokhtar area annually and a socio-economic budget for each year is proposed and approved at the Coordinating Committee of the Bokhtar PSC; however, no minimum amount is provided in the Bokhtar PSC. In addition, BOC has an unquantified obligation to implement appropriate training programmes for Tajik staff with the intention of replacing foreign staff with suitably trained and experienced local specialists. BOC has an annual budget provision for staff training which has been effectively used for both in-house and international training. Training opportunities are also offered to partner government agencies such as MEI and TajikGeology.

BOC conducted an Environmental and Social Impact Assessment (ESIA) in the area of the 2014-5 seismic survey.

The Company, through its subsidiary KPL, has previously contributed to several social programmes in Tajikistan, including the construction of replacement housing in the town of Kulob, Khatlon Region, South Tajikistan, to benefit the population in an area suffering from catastrophic flooding, as well as generators to local maternity hospitals, together with funding and organization of a Novruz Holiday celebration and support for 42 disadvantaged children and their families of the Hamadoni District and provision of rehabilitation equipment, computers and canteen equipment for disabled children in a Dushanbe orphanage.

## **Georgia**

Georgia is an independent state with a population of approximately 4.5 million in the Caucasus region of Eurasia. It is located at the strategically important crossroads of Western Asia and Eastern Europe, bounded to the west by the Black Sea, Russia to the north, Turkey and Armenia to the south and Azerbaijan to the south-east. The country is represented by a democratically elected government and is a member of the international community, including United Nations, Euro-Atlantic Partnership Council, Organization for Security and Cooperation in Europe, International Monetary Fund, World Bank, and World Trade Organization.

Georgia supports a good business environment and is ranked 24<sup>th</sup> (out of 189 economies) on the ease of doing business by the World Bank's "Doing Business" Index.<sup>4</sup> With well-developed infrastructure and major operational oil and gas pipelines – Georgia is becoming increasingly significant in linking Europe and Asia providing direct access to European, GCC and CIS markets.

Georgia is a historical oil and gas producing country with a world class source rock; this source rock for oil and gas is the Upper Eocene and Oligocene-Lower Miocene, Maikop Formation, partly organic rich black mudstones, which is up to 2.5 km thick in total and over pressured. It is younger than, but can underlie, the main reservoirs, was likely mature during the Pliocene Pleistocene and then hydrocarbons migrated up complex structures and along faults. A possible secondary source rock is the Jurassic. Thin sandstone and siltstone intervals occur in the Maikop sequence providing some conventional plays and this horizon can also act as a tight rock / shale unconventional reservoir.

The main productive reservoir intervals of the basin are of Tertiary age especially the Middle Eocene volcanoclastics. Prospective reservoirs consist of Upper and Lower Pliocene, Upper Miocene turbidite sands, Lower Miocene, Oligocene sands and Middle Eocene fractured reservoirs in clastic or volcano-clastic turbidite and tsunami flow sediments. Prospective reservoirs also include Cretaceous clastics and carbonates. The main seal for the Middle Eocene is a series of thick Upper Eocene shales. The Upper Cretaceous, which presents exploration upside is a proven reservoir with a shale seal both in the Manavi oil discovery in Georgia and north of the Caucasus where fractured chalks and limestones can flow up to 15,000 bopd and show a 50% recovery factor. The Chokrak fractured channel sands of Miocene age provide stacked plays in the Norio oilfield and can have good porosity; the Upper Eocene and Maikop (Oligocene/Lower Miocene) source itself can act as a reservoir as interbeds of sandstone and siltstone with reasonable porosity but low permeability, are found in the shales.

The topography is varied, from mountainous to valleys and plains and Georgia is seismically active. The climate is sub-tropical to continental. Georgia is a transit route for Azerbaijani petroleum and other products with good roads

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<sup>4</sup> 2016 The World Bank, <http://www.doingbusiness.org/rankings>



and railways plus important pipelines. Georgia oil and gas economics are assisted by these nearby major export pipelines. The Baku-Tbilisi-Ceyhan (BTC) Oil Pipeline is 1,768 km long and can transport 1 MMbopd. It runs from the Caspian Sea to the Mediterranean Sea, it connects Baku, Tbilisi and Ceyhan. The pipeline is owned and operated by BTC Co (consortium of 11 energy companies managed by its largest shareholder BP) (note: there are also plans to extend this pipeline to Central Europe). The Baku-Supsa Oil Pipeline (known as the Western Route Export Pipeline and Western Early Oil Pipeline) is 833 km long, with capacity 145 Mbopd. It is operated by BP and runs from Sangachal Terminal in Azerbaijan (Baku Port) to the Supsa terminal in Georgia. The South Caucasus Gas Pipeline is 692 km long, with capacity 8.8 Bcmpy (with plans to expand to 20 Bcmpy or even up to 60 Bcmpy by building a second line of the pipeline). It links gas production from Azeri offshore gas field ‘Shah-Deniz’ with the same route as the BTC pipeline, to Erzerum in Turkey.

In Georgia, PSC terms are stable and reasonable. Oil can be exported and the price currently is Brent minus approximately 10% at the field for oil being produced at present. Georgia also offers positive petroleum legislation and regulation combined with ease of doing business.

PROPERTY & CONTRACT	EFFECTIVE PERCENTAGE INTEREST (at December 31, 2015)	BASIN	GROSS AREA (in km <sup>2</sup> )	EXPIRY DATE (assuming no extensions)
Block XI <sup>A</sup>	49%	Kura	700	2037
Block XI <sup>M</sup>	49%	Kura	354.5	2038
Block XI <sup>N</sup>	49%	Kura	287.8	2038

### *Production Sharing Contracts*

There is a PSC for each of the blocks XI<sup>A</sup>, XI<sup>M</sup>, XI<sup>N</sup>, which give 25-year exploration and production rights subject to an obligation work programme and exploration success to Tethys, the Company, through its subsidiaries Trialeti Petroleum Limited, Lisi Petroleum Limited and Saguramo Petroleum Limited, which holds 49% equity in each of the PSCs, and GOG, through its subsidiaries, which holds 51%. GOG is the operator and Tethys farmed into the PSCs by way of a share-based payment and a USD4.4 million carry to GOG of the initial minimum work programmes on the blocks. This consists of 2D seismic plus geochemical and geological studies. After paying USD2.64 mm of this carry and earning 49% Tethys has terminated the farm in to reduce costs.

Under the Joint Operating Agreement, the contractors, Trialeti Petroleum Limited, Lisi Petroleum Limited and Saguramo Petroleum Limited (each 100% owned by Tethys Petroleum Limited) and GOG, operate through an operating company nominated by GOG called NOC (“**Iberia Joint Operating Agreement**”). The contractors retain their right to market their share of production independently of each other, or jointly, as agreed. The operator is to act on behalf of the contracting companies, following the direction and instruction of the Iberia Operating Committee for works conducted as part of the PSCs XI<sup>A</sup>, XI<sup>M</sup> and XI<sup>N</sup>. The operator is to act on behalf of the contractors on a “not for profit” basis and the operator’s assets are owned by the contractor according to their economic interest.

The PSC terms give up to 50% of hydrocarbon production to recover 100% of costs, and then the 50% profit production is shared 50% to the contractor and 50% to the State until cumulative revenues exceed cumulative costs after which the State share increases to 60%. Each contract also has a fixed “regulatory fee” (royalty) of 24.19 Lari per ton (about USD1.3/bbl as of December 31, 2015), for extracted oil. The State has the right to back in to the PSC in the event of a commercial discovery in XI<sup>A</sup>, there is a 25% option, in XI<sup>M</sup> and XI<sup>N</sup> there is a 20% option.

The government has 12 months to exercise this option. The option expires 12 months after notice is given to the government that a discovery has been made. If the government does not exercise its option within 12 months of the first discovery being made, the option expires and does not apply to any future discoveries within the PSC area. In the event that the government does exercise its option, it shall nominate the percentage option it wishes to take (in XI<sup>m</sup> and XI<sup>n</sup> up to 20%) and it will become a contractor party to the PSC; assuming all of the rights, duties,

obligations and liabilities of a contractor party under the PSC. The government will be required to fund its percentage of costs and it will receive its percentage of cost oil and profit oil.

If the option is exercised, and there is unrecovered cost recovery expenditure for the contractor, the government (acting as a contractor party) does not receive any cost recovery oil, it only receives its percentage of profit oil (as determined by the percentage stake that the government elected to take based upon its option, to a maximum of 20%). Once cost recovery expenditures that were incurred by the contractor prior to the government electing to exercise its option have been recovered, the government will receive cost recovery oil and profit oil as a normal contractor party would. On exercising its option, the government will join the Iberia Joint Operating Agreement that is in place currently. In the event that the government exercises its option, it guarantees that the contractor shall pay no taxes that may have been payable as a result of this assignment of interests. The government also ensures that “the Contractor incurs no economic damage, which may result from exercise of the Option by the State”.

In the event that the government exercises its option, it is liable for ongoing funding and for operating as a contractor party to the PSC and Iberia Joint Operating Agreement. If the government fails to meet its obligations under these agreements, it shall be treated as if it was a contractor party and therefore be in default under the PSC and Iberia Joint Operating Agreement.

For XI<sup>A</sup>, for each discovery made on the PSC area, the government has the right to exercise an option to take up to 25% of the PSC by becoming a contractor party. The government has 12 months from the date of notification of a discovery to exercise this option. In the event that a discovery is made and the government does not exercise its option, and a subsequent discovery is made at a later date, the government may exercise its option for the second (or any subsequent discovery) and take a 25% state in the PSC as a contractor party. However, for any discovery that was made that the government did not exercise its option on, these areas will be excluded from the government’s stake as a contractor party. In the event that the government does exercise its option, it shall nominate the percentage option it wishes to take (up to 25%) and it will become a contractor party to the PSC; assuming all of the rights, duties, obligations and liabilities of a contractor party under the PSC. The government will be required to fund its percentage of costs and it will receive its percentage of cost oil and profit oil; noting that the previous does not apply to any area that was previously discovered that the government did not elect to exercise its option on within 12 months.

If the option is exercised, and there is unrecovered cost recovery expenditure for the contractor, the government (acting as a contractor party) does not receive any cost recovery oil, it only receives its percentage of profit oil (as determined by the percentage stake that the government elected to take based upon its option, to a maximum of 25%). Once cost recovery expenditures that were incurred by the contractor prior to the government electing to exercise its option have been recovered, the government will receive cost recovery oil and profit oil as a normal contractor party would. On exercising its option, the government will join the Iberia Joint Operating Agreement that is in place currently. In the event that the government exercises its option, it guarantees that the contractor shall pay no taxes that may have been payable as a result of this assignment of interests. The government also ensures that “the Contractor incurs no economic damage, which may result from exercise of the Option by the State”.

In the event that the government exercises its option, it is liable for ongoing funding and for operating as a contractor party to the PSC and Iberia Joint Operating Agreement. If the government fails to meet its obligations under these agreements, it shall be treated as if it was a contractor party and therefore be in default under the PSC and Iberia Joint Operating Agreement.

### *Exploration*

XI<sup>A</sup> and XI<sup>M</sup> licence blocks are located in the eastern Achara-Trialet fold and thrust belt; XI<sup>N</sup> licence block is located in the Kura foreland. On either side of synclines the blocks offer stacked thrust anticlines capable of acting as conventional traps.

Block XI<sup>A</sup> is generally formed of Palaeogene Trialet thrust belt outcrop and has the greatest likelihood of conventional structural plays. Block XI<sup>M</sup> is low relief land north of Tbilisi where seismic acquisition is easiest. It is a syncline and thus has unconventional oil shale play potential but also sub thrust ramp anticline structural leads.



Block XI<sup>N</sup> has high relief wooded hills, contains a monocline and has Cretaceous and Miocene potential again in thrust ramp anticline structures as well as unconventional shale oil potential.

Plays can be identified based on existing seismic coverage, legacy wells and surface mapping in what have been classified as “conventional” and “unconventional” plays. The conventional plays are structural although the reservoirs are often quite tight and may rely on fracture permeability. The unconventional reservoirs are the Maikop and Upper Eocene source rocks which do contain thin sandstone and siltstone intervals and can also act as conventional reservoirs. However, they present the opportunity to be stratigraphically located in the synclines such as the Ormoiani syncline in Block XI<sup>M</sup>. Currently the Joint Venture is exploring for conventional leads only. The Joint Venture redefined the work programme over blocks XI<sup>a</sup>, XI<sup>m</sup> and XI<sup>n</sup> during negotiation with the State Agency in 2015. The premature commitment to a firm well in 2016 was withdrawn and an earlier 2015 Gravity programme was introduced to locate the remaining 2D seismic selectively. The 2D seismic firm commitment was then also deferred to 2016 and reduced in amount.

The total 2D seismic survey firm obligation programme over the three part blocks is now 300 km, and of this, 250 km has already been acquired and was funded as a result of the farm in agreement. The forward exploration programme thus contains the additional 50 km of 2D seismic surveying which must be completed and interpreted by mid-2017, this will fulfil the last outstanding work obligation on these blocks. This seismic acquisition programme has been designed based on the results of the ground gravity survey carried out in 2015 over XI<sup>N</sup> XI<sup>M</sup> and XI<sup>A</sup>. Processing and interpretation of all these data along with further studies, will then be undertaken with a view to making an informed drill or drop decision over each block. However any decision to drill will be based upon a successful farm out of the drill costs, the final aim being the drilling a successful exploration well and establishing production. The Company has determined to farm down its net equity in the Georgian blocks in return for a carry on the future work programme or other monetization of the acreage.

### ***Socio-Economic Obligations***

In Georgia, there is no formal obligation to invest in socio-economic development under the PSCs.

### ***Rigs and Equipment***

The Company sees significant benefit both operationally and from a cost perspective in owning and operating its own drilling and production equipment. In the areas in which the Company operates, it is often difficult and expensive to source third party drilling and related contractors, and this not only has cost implications but also has the potential for delays and lack of flexibility. It is not the Company’s strategy to become a service provider – its equipment is primarily for its own projects. However, if the equipment is not being utilised for the Company’s operations, then such equipment may be hired out to third parties.

The Company has established a wholly-owned Cayman subsidiary, Imperial Oilfield Services Limited, to own some of its drilling rigs and other production equipment.

Currently the main pieces of equipment which are owned by the Company are as follows:

- |               |   |
|---------------|---|
| Rig “Telesto” | ZJ70/4500L 2,000 hp (1,470 kW) 450 tonne hookload diesel mechanical drilling rig which was constructed for the Company at the Sichuan Honghua Petroleum Equipment Co., Ltd. factory in Chengdu, China. This has a nominal drilling depth of over 7,000 m (23,000 ft.) and is one of the largest rigs in Central Asia and is expected to be further enhanced with the installation of a top drive. Telesto is currently in Kazakhstan. |
| Rig “Tykhe”   | ZJ30/1700 CZ 1,080 hp (792 kW) 180 tonne hookload diesel truck mounted mechanical drilling rig, which was constructed for the Company at a factory in Nanyang, China. This rig has a nominal drilling depth of approximately 3,000 m (9,843 ft.). Tykhe is currently in Kazakhstan.   |

Rig “Thoe” UP60/80 400 hp (294 kW) 80 tonne hookload diesel truck mounted mechanical drilling rig with a nominal drilling depth of 2,000 m (6,562 ft.) (with 24 kg/m drilling pipes) and workover depth of 4,000 m (13,123 ft.) (with 14 kg/m pipes). Thoe is currently in Kazakhstan.

In addition, the Group owns two smaller workover rigs not currently in use in Tajikistan and Kazakhstan, together with 25 and 50 tonne cranes, GJC40-17 Cementing Unit and miscellaneous vehicles.

### **Competitive Conditions**

The oil and gas industry is highly competitive. The Company competes for acquisitions and in the exploration, development, production and marketing of oil and gas with numerous other participants, some of whom may have greater financial resources, staff and facilities than the Company. The Company’s ability to increase reserves in the future will depend not only on its ability to develop or continue to develop existing properties, but also on its ability to select and acquire suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and gas include price, methods and reliability of delivery and availability of imported products.

The Company’s principal competitive advantages relate to its experience in Central Asia and the FSU, geological expertise and, subject to market conditions, access to capital. Senior management of the Company have developed a thorough understanding of the geology of Central Asia and the region, and of its operational challenges and opportunities. The Company’s senior management also has a comprehensive understanding of the commercial and regulatory environments in Kazakhstan, Tajikistan and Georgia and elsewhere in Central Asia and the surrounding area. As a publicly listed issuer, the Company has certain competitive advantages over other foreign entities operating in Kazakhstan, Tajikistan and Georgia, in terms of access to capital (subject to market conditions). However, state-owned companies and certain multi-national oil companies have greater financial resources than the Company. The continued success of the Company will be based on its ability to raise capital to expand its production capabilities and further its exploration initiatives.

### **Environmental**

The Company’s operations and assets are subject to environmental regulations in the jurisdictions in which it operates, and the Company carries out its activities and operations in material compliance with all relevant and applicable environmental regulations and pursuant to industry best practices. As is standard practice, provisions for abandonment, site restoration and remediation costs associated with the Company’s drilling operations are required in each of the countries in which it operates. At present, the Company along with its partners, strives to meet all applicable environmental standards and regulations, and has included appropriate amounts in its capital expenditure budget to continue to meet its environmental obligations.

### **Kazakhstan**

In Kazakhstan, quarterly environmental compliance reports are required to be submitted by the Company to the relevant government authorities. The Company may be required to make payments to the Kazakh State in respect of certain emissions. Prior to the introduction of enhanced environmental regulations in 2007, the payments made by the Company in terms of environmental issues were quite small.

In 2010, the Kazakh State introduced enhanced environmental regulations which included relevant payments and costs for emissions, industrial waste, environmental monitoring and the implementation of nature conservation measures, together with an additional payment for each well drilled. These regulations take into consideration the well depth, the amount of waste produced during drilling, and the amount of gas that may be flared. The Company paid USD73,731 in 2015 for emissions (2014: USD150,204).

### *Tajikistan*

KPL implemented international HSE standards in their operations and upgraded facilities from 2011 onwards before BOC took over the responsibility and oversight for environmental and Health and Safety standards from mid-2013.

### *Georgia*

In 2014 Tethys implemented its international standard HSE policies into the three PSC's with inductions of relevant stakeholders, it also instructed the current operator NOC in these standards. In 2015, NOC continued to implement the international standard HSE policies to all three PSC's.

### **Employees**

As of December 31, 2015, the Company had a total of 310 full-time employees worldwide (2014: 419).

### **Specialised Skill and Knowledge**

The Company believes its success is largely dependent on the performance of its management and key employees, many of whom have specialised skills and knowledge relating to oil and gas operations. The Company believes that they have adequate personnel with the specialised skills and knowledge to successfully carry out the Company's business and operations.

### **Foreign Operations**

The Company's assets are currently located in Kazakhstan, Tajikistan (subject to being able to reach an agreement to remedy the default described under "Description of the Business – Tajikistan – Tajikistan Default") and Georgia. Consequently, the Company is subject to certain risks, including currency fluctuations and possible political or economic instability. See "Risk Factors" for a further description of the risk factors affecting the Company's foreign operations.

## STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION

The following is a statement of reserves data presented for Kazakhstan. The Company engaged Gustavson Associates LLC (“**Gustavson**” as defined in “*Glossary*” section) to evaluate the Company’s oil and natural gas reserves in Kazakhstan (note that there are no reserves associated with the Company’s acreage in Tajikistan or Georgia). In connection therewith, Gustavson prepared an independent evaluation of the Company’s oil and natural gas reserves in respect of Kazakhstan dated March 1, 2016 (the “**Statement**”) with a joint effective date of the Statement of December 31, 2015. The Statement has been prepared in accordance with NI 51-101.

In accordance with the requirements of NI 51-101, attached hereto are the following appendices:

Appendix A-1: Report on Reserves Data by Independent Qualified Reserves Evaluator in Form 51-101F2 for Gustavson

Appendix B-1: Report of Management and Directors on Oil and Gas Disclosure in Form 51-101F3

### Disclosure of Reserves Data

#### *Kazakhstan*

The Company engaged Gustavson to evaluate the Company’s crude oil and natural gas reserves as at December 31, 2015, and in connection therewith, Gustavson prepared the Gustavson Reserves Report evaluating the Company’s crude oil and natural gas reserves as at December 31, 2015.

The reserves data set forth below is based upon evaluations by Gustavson with an effective date of December 31, 2015. The reserves data summarise the crude oil and natural gas reserves of the Company and the net present values of future net revenue for these reserves using forecast prices and costs. The reserves data set forth complies with the requirements of NI 51-101. The Company has included additional information not required by NI 51-101 which the Company believes to be pertinent to investors and to provide continuity with earlier disclosure. Gustavson was engaged by the Company to provide evaluations of proved, probable and possible crude oil and natural gas reserves.

In preparing the Gustavson Reserves Report, basic information was obtained from Tethys, which included land data, well information, geological information, production data, estimates of on-stream dates, contract information, current hydrocarbon product prices, operating cost data, capital budget forecasts, financial data and future operating plans. Other engineering, geological or economic data required to conduct the evaluations and upon which the Gustavson Reserves Report are based was obtained from public records, other operators and from Gustavson non-confidential files. The extent and character of ownership and the accuracy of all factual data supplied for the independent evaluation, from all sources, was accepted by Gustavson as represented.

Estimated future net revenue based on the Gustavson Reserves Report is presented in USD (note: oil and gas sales and qualifying expenditure are subject to VAT at 12% in Kazakhstan; however, these are outside the scope of the NI 51-101 evaluation). All evaluations and reviews of future net cash flow are stated prior to any provision for interest costs or general and administrative costs (other than Kazakhstan-related general and administrative costs) and after the deduction of estimated future capital expenditures for wells to which reserves have been assigned. It should not be assumed that the estimated future net cash flow shown below is representative of the fair market value of the Company’s properties. There is no assurance that such price and cost assumptions will be attained and variances could be material. The recovery and reserve estimates of crude oil and natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil and natural gas reserves may be greater than or less than the estimates provided herein.

#### *Tajikistan*

Due to the relinquishment of the BST20 well and the surrounding Beshtentak Field and the Komsomolsk Field as part of the farm-out process and further to the current plan not to pursue these prospects under the JOA, there are no reserves attributed to Tajikistan as at December 31, 2015.

Throughout the following summary tables differences may arise due to rounding.

**Summary of Oil and Natural Gas Reserves<sup>(1)</sup>**  
**As of December 31, 2015**  
**Forecast Prices and Costs**

<b>Reserves Category</b>	<b>Light and Medium Crude Oil</b>		<b>Natural Gas</b>		<b>Total</b>	
	<b>Gross (Mbbbl)</b>	<b>Net (Mbbbl)</b>	<b>Gross (Bcf)</b>	<b>Net (Bcf)</b>	<b>Gross (MBoe)</b>	<b>Net (MBoe)</b>
<b>KAZAKHSTAN</b>						
<b>Proved</b>						
Developed Producing	1,265	1,226	17,529	16,014	4,187	3,895
Developed Non-Producing	507	489	7,291	6,515	1,723	1,575
Undeveloped	4,190	4,024	18,455	16,441	7,266	6,764
<b>Total Proved</b>	<b>5,963</b>	<b>5,739</b>	<b>43,275</b>	<b>38,971</b>	<b>13,175</b>	<b>12,234</b>
Probable	5,262	5,053	33,185	29,596	10,793	9,986
<b>Total Proved Plus Probable</b>	<b>11,224</b>	<b>10,792</b>	<b>76,460</b>	<b>68,567</b>	<b>23,968</b>	<b>22,219</b>
Possible	10,244	9,680	35,979	32,098	16,241	15,029
<b>Total Proved Plus Probable Plus Possible</b>	<b>21,469</b>	<b>20,471</b>	<b>112,440</b>	<b>100,665</b>	<b>40,209</b>	<b>37,249</b>

**Notes:**

(1) Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. There is a 10% probability that the quantities actually recovered will equal or exceed the sum of proved plus probable plus possible reserves.

**Summary of  
Net Present Values of Future Net Revenue  
As of December 31, 2015  
Forecast Prices and Costs<sup>(1)(2)</sup>**

Reserves Category	Before Income Taxes Discounted at (%/year)					After Income Taxes Discounted at (%/year)					Unit Value Before Income Taxes Discounted at 10%/year
	0	5	10	15	20	0	5	10	15	20	(\$/boe)
	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	
<b>KAZAKHSTAN</b>											
<b>Proved</b>											
Developed Producing	\$53,277	\$43,971	\$36,938	\$31,501	\$27,214	\$36,144	\$30,281	\$25,820	\$22,344	\$19,579	\$9.61
Developed Non-Producing	\$41,461	\$32,821	\$26,581	\$21,938	\$18,395	\$23,770	\$19,011	\$15,549	\$12,950	\$10,947	\$16.34
Undeveloped	\$173,342	\$132,693	\$103,694	\$82,466	\$66,578	\$96,497	\$73,349	\$56,844	\$44,780	\$35,774	\$15.33
<b>Total Proved</b>	<b>\$268,080</b>	<b>\$209,484</b>	<b>\$167,212</b>	<b>\$135,905</b>	<b>\$112,187</b>	<b>\$156,411</b>	<b>\$122,641</b>	<b>\$98,213</b>	<b>\$80,075</b>	<b>\$66,300</b>	<b>\$13.67</b>
Probable	\$314,729	\$237,716	\$184,344	\$146,055	\$117,804	\$146,903	\$110,396	\$85,388	\$67,594	\$54,542	\$18.46
<b>Total Proved Plus Probable</b>	<b>\$582,809</b>	<b>\$447,199</b>	<b>\$351,556</b>	<b>\$281,961</b>	<b>\$229,991</b>	<b>\$303,314</b>	<b>\$233,037</b>	<b>\$183,601</b>	<b>\$147,668</b>	<b>\$120,842</b>	<b>\$15.82</b>
Possible	\$462,342	\$326,485	\$239,794	\$181,873	\$141,653	\$216,301	\$150,353	\$109,238	\$82,410	\$64,213	\$15.96
<b>Total Proved Plus Probable Plus Possible</b>	<b>\$1,045,151</b>	<b>\$773,684</b>	<b>\$591,350</b>	<b>\$463,833</b>	<b>\$371,644</b>	<b>\$519,615</b>	<b>\$383,390</b>	<b>\$292,838</b>	<b>\$230,078</b>	<b>\$185,055</b>	<b>\$15.88</b>

**Notes:**

(1) The unit value for Kazakhstan and Total is presented in USD/boe.

(2) Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. There is a 10% probability that the quantities actually recovered will equal or exceed the sum of proved plus probable plus possible reserves.

**Total Future Net Revenue  
(Undiscounted)  
As of December 31, 2015  
Forecast Prices and Costs<sup>(1)(2)(3)</sup>**

<u>Reserves Category</u>	<u>Revenue</u>	<u>Royalties</u>	<u>Export Rent Tax</u>	<u>Operating Costs</u>	<u>Development Costs</u>	<u>Abandonment and Reclamation Costs</u>	<u>Other Expenses</u>	<u>Future Net Revenue Before Income Taxes</u>	<u>Income Taxes</u>	<u>Future Net Revenue after Income Taxes</u>
	(MM\$)	(MM\$)	(MM\$)	(MM\$)	(MM\$)	(MM\$)	(MM\$)	(MM\$)	(MM\$)	(MM\$)
<b>KAZAKHSTAN</b>										
Total Proved	505.91	38.27	32.91	81.01	49.89	0.50	35.26	268.08	111.67	156.41
Total Proved Plus Probable	983.98	72.25	67.48	109.17	80.03	0.66	71.59	582.81	279.50	303.31
Total Proved Plus Probable Plus Possible	1,724.20	128.12	141.01	162.92	99.62	0.86	146.52	1,045.15	525.54	519.61
<b>TOTAL</b>										
Total Proved	505.91	38.27	32.91	81.01	49.89	0.50	35.26	268.08	111.67	156.41
Total Proved Plus Probable	983.98	72.25	67.48	109.17	80.03	0.66	71.59	582.81	279.50	303.31
Total Proved Plus Probable Plus Possible	1,724.20	128.12	141.01	162.92	99.62	0.86	146.52	1,045.15	525.54	519.61

**Notes:**

- (1) "Other expenses" refers to the repayment of historical costs.
- (2) "Royalties" include the Mineral Extraction Tax.
- (3) Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. There is a 10% probability that the quantities actually recovered will equal or exceed the sum of proved plus probable plus possible reserves.

**Future Net Revenue  
By Production Group  
As of December 31, 2015  
Forecast Prices and Costs (1) (2)**

<b>Reserves Category</b>	<b>Production Group</b>	<b>Future Net Revenue Before Income Taxes (discounted at 10%/year)</b>	<b>Unit Value<sup>3</sup></b>
		(MM\$)	
<b>TOTAL PROVED</b>	Light and Medium Crude Oil Kazakhstan	<b>\$51,704</b>	<b>\$8.74</b>
	Associated Gas and Non-Associated Gas Kazakhstan	<b>\$115,508</b>	<b>\$18.28</b>
<b>TOTAL PROVED PLUS PROBABLE</b>	Light and Medium Crude Oil Kazakhstan	<b>\$137,538</b>	<b>\$12.42</b>
	Associated Gas and Non-Associated Gas Kazakhstan	<b>\$214,019</b>	<b>\$19.21</b>
<b>TOTAL PROVED PLUS PROBABLE PLUS POSSIBLE</b>	Light and Medium Crude Oil Kazakhstan	<b>\$292,871</b>	<b>\$13.89</b>
	Associated Gas and Non-Associated Gas Kazakhstan	<b>\$298,480</b>	<b>\$18.47</b>

**Notes:**

- (1) See table below “*Summary of Pricing and Inflation Rate Assumptions*” for pricing assumptions.
- (2) Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. There is a 10% probability that the quantities actually recovered will equal or exceed the sum of proved plus probable plus possible reserves.
- (3) \$/bbl for light and medium crude oil; \$/Mcf for associated gas and non-associated gas.



**Summary of Pricing and Inflation Rate Assumptions  
As of December 31, 2015  
Forecast Prices and Costs<sup>(1,2)</sup>**

	KAZAKHSTAN						
	Oil			Natural Gas			
	Brent Crude Oil Price (\$/bbl)	Akkulka Export Crude Oil Price (\$/bbl)	Akkulka Domestic Crude Oil Price (\$/bbl)	Kyzylloi Domestic Gas Price (\$/Mcf)	Akkulka Domestic Gas Price (\$/Mcf)	Gas Export Price (\$/Mcf)	Inflation rate %/year
<b>Historical</b>							
2015	\$52.32	\$39.68	\$33.00	\$1.75	\$1.75	N/A	N/A
<b>Forecast</b>							
2016	\$40.90	\$28.26	\$8.94	\$1.65	\$1.65	\$4.11	1.50%
2017	\$45.51	\$32.87	\$12.48	\$1.65	\$1.65	\$4.77	1.50%
2018	\$70.00	\$57.36	\$18.56	\$1.92	\$1.92	\$7.42	1.50%
2019	\$80.00	\$67.36	\$20.38	\$2.98	\$2.98	\$7.42	1.50%
2020	\$81.20	\$68.56	\$20.59	\$2.98	\$2.98	\$7.42	1.50%
2021	\$82.42	\$69.78	\$20.81	\$2.98	\$2.98	\$7.42	1.50%
2022	\$83.65	\$71.01	\$21.03	\$2.98	\$2.98	\$7.42	1.50%
2023	\$84.91	\$72.27	\$21.25	\$2.98	\$2.98	\$7.42	1.50%
2024	\$84.91	\$72.27	\$21.25	\$2.98	\$2.98	\$7.42	1.50%
2025	\$84.91	\$72.27	\$21.25	\$2.98	\$2.98	\$7.42	1.50%
2026	\$84.91	\$72.27	\$21.25	\$2.98	\$2.98	\$7.42	1.50%
2027	\$84.91	\$72.27	\$21.25	\$2.98	\$2.98	\$7.42	1.50%
2028	\$84.91	\$72.27	\$21.25	\$2.98	\$2.98	\$7.42	1.50%
2029	\$84.91	\$72.27	\$21.25	\$2.98	\$2.98	\$7.42	1.50%
2030	\$84.91	\$72.27	\$21.25	\$2.98	\$2.98	\$7.42	1.50%
2031	\$84.91	\$72.27	\$21.25	\$2.98	\$2.98	\$7.42	1.50%
2032	\$84.91	\$72.27	\$21.25	\$2.98	\$2.98	\$7.42	1.50%
2033	\$84.91	\$72.27	\$21.25	\$2.98	\$2.98	\$7.42	1.50%
2034	\$84.91	\$72.27	\$21.25	\$2.98	\$2.98	\$7.42	1.50%
Thereafter	\$84.91	\$72.27	\$21.25	N/A	N/A	N/A	N/A

**Notes:**

- (1) The un-contracted gas price was calculated by Gustavson for the Gustavson Reserves Report based on gas sales in the Central Asia and European markets.
- (2) 2016 expected net domestic gas sales price for Kyzylloi and Akkulka non-associated gas (net after the Marketing Agent fee) as communicated by Tethys, not finalised as at the date of the report

**Reserves Reconciliation**

**Kazakhstan**

The following table sets forth a reconciliation of Tethys' total gross proved, probable and proved plus probable reserves as at December 31, 2015, against such reserves as at December 31, 2014, based on forecast prices and cost assumptions.

Factors	Light and Medium Crude Oil			Associated and Non-Associated Natural Gas		
	Gross Proved	Gross Probable	Gross Proved Plus Probable	Gross Proved	Gross Probable	Gross Proved Plus Probable
	(Mbbl)	(Mbbl)	(Mbbl)	(Bcf)	(Bcf)	(Bcf)
<b>December 31, 2014</b>	<b>6,557</b>	<b>5,804</b>	<b>12,361</b>	<b>60.4</b>	<b>27.9</b>	<b>88.3</b>
Extensions and Improved Recovery	0	0	0	0.0	0.0	0.0
Technical Revisions	-375	-373	-748	-10.1	4.5	-5.6
Discoveries	0	0	0	0.0	0.0	0.0
Acquisitions	0	0	0	0.0	0.0	0.0
Dispositions	0	0	0	0.0	0.0	0.0
Economic Factors	353	-169	184	-0.2	0.8	0.6
Production	-572	-0	-572	-6.8	-0.0	-6.8
<b>December 31, 2015</b>	<b>5,963</b>	<b>5,262</b>	<b>11,224</b>	<b>43.3</b>	<b>33.2</b>	<b>76.5</b>

### Additional Information Relating to Reserves Data

#### Undeveloped Reserves

The following tables disclose the volumes of Proved and Probable Undeveloped Reserves as at the dates noted therein. The references to “First Attributed” refer to “Proved or Probable Undeveloped Reserves” as at the earliest date in the relevant year when such Undeveloped Reserves were first attributed to the Company. Undeveloped Reserves are those Reserves that are expected to be recovered from known accumulations where a significant expenditure is required to render them capable of production.

#### KAZAKHSTAN

Proved Undeveloped	Associated and Non-Associated Gas <sup>(1)</sup>		Light and Medium Crude Oil	
	First Attributed (Bcf)	Total at Year End (Bcf)	First Attributed (Mbbl)	Total at Year End (Mbbl)
Prior	16.3	1.1	1,509	1,509
2012	2.5	18.0	646	3,492
2013	2.8	20.8	464	3,956
2014	-	19.4	119	4,075
2015	-	18.5	115	4,190
Probable Undeveloped	First Attributed (Bcf)	Total at Year End (Bcf)	First Attributed (Mbbl)	Total at Year End (Mbbl)
Prior	14.6	7.0	4,975	4,975
2012	-	11.0	-	5,593
2013	3.8	14.8	-	5,579
2014	4.3	19.1	-	4,710
2015	2.7	21.8	-	4,643

#### Note:

- (1) Based on the forecast prices and costs evaluations carried out by Gustavson and reflected in the Gustavson Reserves Report.

With respect to the Company’s Undeveloped Reserves in Kazakhstan, the Company is currently in the process of finalizing its plans with regard to developing its Proved Undeveloped and Probable Undeveloped Reserves. For the shallow gas, the Company plans further development from 2016 onwards. For the oil reserves, a full field

development programme will be finalised over the next twelve months based on the performance of existing wells together with funding and pricing conditions.

### *Significant Factors or Uncertainties*

#### Kazakhstan

There are numerous uncertainties inherent in estimating quantities of proved reserves, including many factors beyond the control of the Company. The reserve data included herein represent estimates only. In general, estimates of economically recoverable gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as test rate production from the properties, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary considerably from actual results. The actual production, revenues, taxes and development and operating expenditures of the Company with respect to these reserves will vary from such estimates, and such variances could be material.

Estimates with respect to reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history will result in variations, which may be substantial, in the estimated reserves.

Consistent with the securities disclosure legislation and policies of Canada, the Company has used forecast prices and costs in calculating reserve quantities included herein. Actual future net cash flows will also be affected by other factors such as actual production levels, supply and demand for gas, curtailments or increases in consumption by gas purchasers, changes in governmental regulation or taxation, currency exchange rates and the impact of inflation on costs. TAG has previously sold gas domestically from the Akkulka and Kyzylloi gas fields but can export too. See “*Description of the Business — Marketing*”.

#### *Future Development Costs*

The following table sets forth the estimated future development capital expenditure costs based upon the Gustavson Reserves Report. Future development costs are expected to be funded by internally generated cash flow from production and/or through equity financing or debt issuance. Future development costs are associated with reserves as disclosed in the Gustavson Reserves Report and do not necessarily represent the Company’s full exploration and development budget.

Year	Total Proved Estimated Using Forecast Prices and Costs (MM\$)	Total Proved Plus Probable Estimated Using Forecast Prices and Costs (MM\$)	Total Proved Plus Probable Plus Possible Estimated Using Forecast Prices and Costs (MM\$)
<b>KAZAKHSTAN</b>			
2016	3.3	3.3	3.4
2017	14.6	16.5	13.5
2018	20.8	41.7	55.4
2019	6.8	10.1	13.0
2020	1.0	1.2	1.3
Thereafter	3.4	7.2	13.0
<b>Total for all years undiscounted<sup>(1)</sup></b>	<b>49.9</b>	<b>80.0</b>	<b>99.6</b>

**Note:**

- (1) All figures show Capex (2016).
- (2) Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. There is a 10% probability that the quantities actually recovered will equal or exceed the sum of proved plus probable plus possible reserves.

## Other Oil and Gas Information

### Oil and Gas Properties

#### Kazakhstan

There are certain relinquishment requirements under the Kul-Bas Exploration and Production Contract. See “Description of the Business – Kazakhstan – Kul-Bas Block and Kul-Bas Exploration and Production Contract”.

#### Oil and Gas Wells

The number of producing and non-producing wells in which the Company had an interest as of December 31, 2015 is presented in the table below. The number of net wells corresponds to the number of gross wells as the Company has a 100% working interest in each well, subject to revenue sharing and royalties under the relevant contracts.

	Natural Gas			
	Producing		Non-Producing <sup>(1)</sup>	
	Gross	Net	Gross	Net
<i>Kazakhstan</i>				
Kyzyloi Gas Field	8	8	4	4
Akkulka Gas Field	6	6	3	3
<b>Total</b>	<b>14</b>	<b>14</b>	<b>7</b>	<b>7</b>

#### Note:

- (1) “Non-Producing” wells means wells which are not producing but which are considered capable of production. Of the seven wells non-producing at December 31, 2015 a total of 2 are temporarily shut-in whilst 5 require construction of a pipeline and/or workover.

	Light and Medium Crude Oil			
	Producing		Non-Producing <sup>(2)</sup>	
	Gross	Net	Gross	Net
<i>Kazakhstan</i>				
Akkulka Block (Doris / Dione)	1	1	3	3
<b>Total</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>3</b>

#### Note:

- (2) “Non-Producing” wells means wells which are not producing but which are considered capable of production. Two wells are AKD05 and AKD06, are temporarily shut-in whilst the other Non-Producing well is AKD03, which has been shut-in since 2011. To convert AKD03 to production, the well will need to be worked over and produced oil will initially be trucked from the site. Most likely a 10km pipeline would be built to connect with the Doris facilities to the north-east, these works are included in the reserve report.

#### Properties with No Attributed Reserves

Undeveloped land holdings of the Company consist of the Kul-Bas Exploration and Production Contract area in Kazakhstan and the Bokhtar PSC in Tajikistan, as well as the Georgian PSCs in Georgia. The following table sets forth the Company’s undeveloped land position in Kazakhstan, Tajikistan and Georgia as at December 31, 2015 on a gross and net basis, after giving effect to third parties’ ownership interests. For all three countries the main technical risk factors at present are associated with discovering commercially viable quantities of hydrocarbons and require significant exploration investment, primarily in seismic and/or drilling. There are gas pipelines either built or planned to be built regionally in all three countries as well as oil delivery points. The size of what is deemed commercially viable is dependent on a number of variables between countries including government/investor split, proximity to infrastructure, depth and nature of the horizon and flow rates.

Area	Gross Acres	Net Acres
<b>Kazakhstan</b> - Kul-Bas Exploration and Production Contract <sup>(1)</sup>	1,885,867	1,885,867
<b>Tajikistan</b> - Bohktar PSC <sup>(2)</sup>	8,891,688	2,519,015
<b>Georgia</b> - Blocks XI <sup>A</sup> , XI <sup>M</sup> , XI <sup>N(3)</sup>	331,682	162,524

**Note:**

- (1) Work programmes for the calendar years 2013 to 2015 had been agreed totalling USD14,904,300 which included a commitment for 2015 of USD9,441,100. Commitments up to December 31, 2014 were not met and an application was made by the Company to reschedule the remaining commitments. The commitments were rescheduled in Q4 2014 for the work programme up to November 11, 2015 for a total of USD 8,855,000 comprising up to two wells but these also were not met; the Company is going through a process of approvals for an appraisal extension to November 11, 2017.
- (2) The Company has an effective 28.33% interest (33.33% interest via its 85% owned subsidiary) in Bokhtar Operating Company BV with partners Total and CNPC each having a 33.33% interest.
- (3) Work programmes have been agreed with the Georgian Government which require the Company to conduct at least 50km of seismic studies by July 1, 2017 on Block XI<sup>N</sup> at an estimated cost of USD1.0 million. The Company has a 49% interest in three blocks in Eastern Georgia.

**Forward Contracts**

**Kazakhstan**

As of 31 December, 2015, no Gas Supply Contract had been signed. A 2016 Gas Supply Contract was entered into and signed on March 24, 2016, between TAG and ICA as described in “*Description of the Business – Kazakhstan – Gas Production and Sales.*”

***Abandonment and Reclamation Costs***

The Company estimates well abandonment and reclamation costs area by area by taking into consideration the costs associated with remediation, decommissioning, abandonment and reclamation, as well as salvage values of existing equipment. These costs are adjusted to reflect working interests held and are time discounted in accordance with NI 51-101.

**Kazakhstan**

The Company is responsible at the present time for costs associated with abandoning and reclaiming wells, processing facilities and pipelines which it may use for production of hydrocarbons. Abandonment and reclamation of such facilities and the costs associated therewith is often referred to as “decommissioning”. The Company pays 1% of its total annual investments into an abandonment fund and the costs of decommissioning are expected to be paid from these proceeds. Abandonment and reclamation costs were estimated for all legal obligations associated with the retirement of long lived tangible assets such as wells, facilities and plants based on market prices or on the best information available where no market price was available. The asset retirement obligation is recorded at fair value and accretion expense, recognised over the life of the property, increases the liability to its expected settlement value. If the fair value of the estimated asset retirement obligation changes, an adjustment is recorded for both the asset retirement obligation and the asset retirement cost. The Company’s asset retirement obligations consist of costs related to the plugging of wells, the removal of facilities and equipment and site restoration on oil and gas properties. The Company has estimated these costs to be USD15,000 per well for both shallow gas and deeper wells. An accretion cost is added each year in respect of asset retirement obligations. Accretion expense is calculated by multiplying the balance of the recorded liability by the Company’s credit-adjusted discount rate each year, and is simply the amortization of the present value discount associated with the asset retirement obligation’s initial recording.

The Company has recorded a provision for abandonment and reclamation costs, net of estimated salvage value, for surface leases, wells, facilities and pipelines, discounted at 7.4%, of USD966,000 which undiscounted is

USD1,797,000. It is anticipated that two Kul-Bas wells and one Akkulka well will be remediated at the end of the current contract periods, with all remaining wells remediated by end of 2029.

### Tajikistan

The following description is subject to remedy of the default described under “*Description of the Business – Tajikistan – Tajikistan Default*”.

As of December 31, 2015, the Company had no wells for which abandonment and reclamation costs are expected to be incurred in respect of the Bokhtar Contract Area. Those wells the Company participated in prior to the June 2013 Farm-Out were either returned to the Tajik State (with any liabilities, i.e. Beshtentak) or plugged and abandoned in Q3 2013 with Tethys’ costs being part of the part carry.

The Company will be liable for its share of ongoing environmental obligations and for the ultimate reclamation of the properties held by it upon abandonment. Ongoing environmental obligations are expected to be funded out of cash flow from operations of the Company.

Under the Bokhtar PSC, any development plan in Tajikistan must also include an abandonment and site restoration programme together with a funding procedure for such programme. All funds collected pursuant to the funding procedure shall be allocated to site restoration and abandonment and will be placed in a special interest bearing account originally by KPL, and since the farm out by the Bokhtar Contractor Parties, shall now be held in the joint names of the Tajik State and the Bokhtar Contractor Parties or their respective nominees or designee. The Bokhtar Contractor Parties’ responsibilities for environmental degradation, site restoration and well abandonment obligations, and any other actual contingent and potential activity associated with the environmental status of the development area, shall be limited to the obligation to place the necessary funds in the approved account. In addition, any relinquished areas must be brought into the same condition as they were prior to their transfer to KPL and the other contractor parties (specifically, soil fertility condition, quality of the ground and environment). All expenditures incurred in abandonment and site restoration are cost recoverable. (See “*Description of the Business – Tajikistan*”).

### Georgia

All three Georgian PSCs require an abandonment reserve fund to be set up to cover the cost of future abandonment and site restoration. The value of this fund shall be based upon the contractor’s estimated abandonment and site restoration costs, determined in accordance with international oilfield practice, and is subject to approval by the Iberia Coordination Committee. As of December 31, 2015, no wells have been drilled and no facilities constructed therefore the requirement for a fund to be set up in 2015 was not necessary.

### Tax Horizon

#### Kazakhstan

The tax system applied to the Company’s operations in subsoil activity in Kazakhstan is mainly based on a combination of corporate income tax, excess profit tax, MET and property tax.

Capital equipment and wells are depreciated at various rates, and corporate income tax is applied at the rate of 20% on the taxable income. The Company still has tax losses to be carried forward and corporate income tax payments are not expected to commence until 2017.

Excess profit tax is applicable to income after corporate income tax, calculated using tax rates on a sliding scale ranging from 0% to 60% on income exceeding a tax allowable base.

No excess profit tax has been incurred to date.

MET ranges from 0.5% to 1.5% of the value of produced volumes of natural gas being sold to domestic market and at a rate of 10% of the value of produced gas volumes being sold for export. Currently, both KyzylOI and Akkulka gas is sold on the domestic market and so is subject to the domestic sales rate of 0.5%.

MET for crude oil is differentiated not only by production volumes but also by type of sales. Domestic deliveries are taxed at half the export sales rates. Additionally, the tax base for volumes sold domestically is not linked to the market oil price but rather to the domestic price. For local sales where the oil is sold to third parties for refining/tolling, as the Company does, MET is calculated on operating costs, including depreciation plus 20%. On this basis the Company would anticipate a MET rate on its domestic sales in 2015 to be approximately 3% of the value of the extracted oil.

Property tax is levied on certain immovable assets at a rate of 1.5%.

### Tajikistan

Under the Bokhtar PSC, the Tajik State's share of petroleum production includes all taxes, levies and duties which would otherwise be payable. (See "Description of the Business – Tajikistan – Bokhtar PSC – Exploration and Appraisal Potential" for a description of the revenue sharing provisions of the Bokhtar PSC). Accordingly, the Company does not expect that additional corporate income tax will become due on any net revenue earned in Tajikistan under the Bokhtar PSC.

### Georgia

The Company is liable for the payment of profit tax (as stipulated under Section XIII of Chapter 5 of the Georgia Tax Code) at rates applicable on the effective date of the Georgian PSCs i.e. 15%. There is an exemption from the payment of VAT. As there is currently no production under the Georgian PSCs, there is currently no tax obligation.

### Costs Incurred

The following table summarises capital expenditures related to the Company's activities for the year ended December 31, 2015:

	<b>Year ended December 31, 2015</b>			
	<b>Kazakhstan</b>	<b>Tajikistan</b>	<b>Georgia</b>	<b>Total</b>
<b>Property Acquisition Costs</b>				
Proved Properties	-	-	-	-
Unproved Properties	-	-	-	-
Exploration Costs	365	9,100	908	10,373
Development Costs	3,051	-	-	3,051
<b>Total<sup>(1)</sup></b>	<b>3,416</b>	<b>9,100</b>	<b>908</b>	<b>13,424</b>

#### **Note:**

(1) Does not include the costs incurred in respect of the acquisition of the drilling rigs and ancillary equipment.

### Exploration and Development Activities

The following table summarises the gross and net exploration and development wells in which the Company participated during the year ended December 31, 2015 in Kazakhstan.

<b>Exploration Wells</b>	<b>Gross</b>	<b>Net</b>
Natural Gas	0	0
Oil	0	0
Service	0	0
Dry Holes	0	0
<b>Total Exploration Wells</b>	<b>0</b>	<b>0</b>

### ***Development Wells***

Natural Gas	2	2
Oil	1	1
Service	0	0
Dry Holes	0	0
<b>Total Development Wells</b>	<b>3</b>	<b>3</b>

In Kazakhstan, two shallow gas wells (AKK14 and AKK05) were re-entered and put on production and oil well AKD05 was re-entered to replace a downhole pump. No new development oil or gas wells drilled during that period. See “Description of the Business” for a discussion of the Company’s development and exploration plans.

### ***Production Estimates***

The following discloses the estimated production of Tethys in 2016 by product type associated with the future net revenue estimates reported in the Gustavson Reserves Report.

	<b>Natural Gas (Bcf)</b>	<b>Crude Oil (Mbbbl)</b>
<b>Kazakhstan</b>		
Gross Proved	5.81	528.4
Gross Proved plus Probable	6.39	667.9

The following table sets forth the volume of production estimated in the Gustavson Reserves Report for the Kyzylloi, Akkulka Gas Fields and the Akkulka deep Oil fields in Kazakhstan being fields that account for 100% of the estimated production disclosed under the above table, for the year ending December 31, 2016:

<b>Reserves Category</b>	<b>Natural Gas (Bcf)</b>	<b>Light and Medium Crude Oil (Mbbbl)</b>
<i>Kyzylloi, Kazakhstan</i>		
Gross Proved	3.03	-
Gross Proved plus Probable	3.15	-
<i>Akkulka, Kazakhstan</i>		
Gross Proved	2.73	-
Gross Proved plus Probable	3.17	-
<i>Akkulka Deep Oil, Kazakhstan</i>		
Gross Proved	0.05	528.4
Gross Proved plus Probable	0.07	667.9

### ***Production History***

The following tables show the Company’s average daily sales production volume, before deduction of royalties, payable to others by major producing region for each of the last four fiscal quarters and the year ended December 31, 2015.



## Kazakhstan

2015 <sup>(1)(2)</sup>	Natural Gas (Mcmpd)	Light and Medium Crude Oil (bopd)
Daily Production Volume (Gross Mcmpd for natural gas and gross bopd for oil)		
■ Year Ended December 31, 2015	523	1,568
■ Quarter ended March 31, 2015	539	1,195
■ Quarter ended June 30, 2015	552	1,954
■ Quarter ended September 30, 2015	530	1,702
■ Quarter ended December 31, 2015	470	1,416
Prices Received <sup>(3)</sup>	\$31.88 / Mcm	\$12.02 / bbl
Royalties Paid	-	-
Production Costs <sup>(3)</sup>	\$21.87 / Mcm	\$10.06 / bbl
Resulting Netback <sup>(3)</sup>	\$10.01 / Mcm	\$1.96 / bbl

### Notes:

- (1) Kyzylai and Akkulka were the only producing gas fields in Kazakhstan in 2015 although a small amount of gas was flared from the Doris oil field under the Pilot Production Scheme.
- (2) The annual average value is based on a full 365-day year.
- (3) Net of VAT and marketing commission (with respect to gas).

### *Production Volume by Field*

The following table indicates the Company's total sales production for the year ended December 31, 2015 from each important field (before taxes, royalties and State take unless otherwise noted):

2015	Natural Gas (Mcm)	Light and Medium Crude Oil (bbl)	Barrels of Oil Equivalent (boe)	Boepd
Kyzylai Gas Field, Kazakhstan	53,487	-	314,789	862
Akkulka Gas Field, Kazakhstan	137,312	-	808,132	2,214
Doris Oil Field <sup>(1)</sup> Kazakhstan	-	572,164	572,164	1,568
<b>Total<sup>(2)</sup></b>	190,799	572,164	1,695,085	4,644

### Notes:

- (1) Boepd is calculated on total days in year including non-production days, and also discounts the smaller volumes of gas used for power generation and a small volume of flared gas from the Doris oil field
- (2) The average oil and gas production per production day for the fourth quarter of 2015 was 4182 boepd.

## RISK FACTORS

An investment in Ordinary Shares is speculative and involves a high degree of risk that should be considered by potential investors. An investor should carefully consider the following risk factors in addition to the other information contained in this Annual Information Form before purchasing Ordinary Shares. The risks and uncertainties below are not the only ones the Company is facing. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Annual Information Form. In addition, there are additional risks and uncertainties of which the Company is not presently aware or that the Company currently considers immaterial but which may also impair the Company's business operations and cause the price of the Ordinary Shares to decline. If any of the following risks actually occur, the Company's business may be harmed and the Company's financial condition and results of operations may suffer significantly. In that event, the trading price of the Ordinary Shares could decline, and an investor may lose all or part of his or her investment. Please also see the Company's Management Discussion and Analysis for the year ended December 31, 2015 (the Company's "2015 MD&A") filed on SEDAR at [www.sedar.com](http://www.sedar.com) for a discussion of risks relevant to the Company's financial performance. The risks disclosed in the Company's 2015 MD&A are specifically incorporated by reference herein.

### Risks Related to the Company and its Business

#### *Olisol Transaction*

The Company is dependent on the completion of a corporate transaction to fund its operations through recapitalization of the Company. Refer to "*Description of the Business – Corporate Transaction*". The Olisol Transaction will be subject to a number of conditions, as outlined in the transaction documents, including;

- shareholder approval;
- TSX approval for the transaction and the listing of the shares;
- approval by Ministry of Energy of the Government of Kazakhstan;
- approval by the Kazakhstan Stock Exchange; and
- approval by the National Bank of Kazakhstan.

One element of the Facility Amendment Agreement announced on March 2, 2016 involved Tethys Aral Gas LLP securing a loan with a Kazakh Bank acceptable to Tethys in the amount of USD10 million with Olisol's assistance. This is an important part of the broader transaction but there can be no guarantee that Tethys Aral Gas LLP will be successful in securing this loan. In the Company's current financial position, and given the difficult market environment in Kazakhstan and globally for oil and gas companies, the provision of credit by lenders tends to be done sparingly. If a loan cannot be secured with a Kazakh bank there can be no guarantee that the broader Olisol Transaction will proceed.

The Facility Amendment Agreement does not provide for a specific price for the placing of 181,240,793 shares, or the conversion of USD1 million of the Interim Facility, or the conversion of the amounts provided under the obligation of Olisol to provide working capital support for the Company. The Company currently cannot issue shares below USD0.10 per share as this is the Company's par value but if this is to change following approval by shareholders to do so, it is not currently known how many shares in Tethys Olisol will ultimately own or how much capital will be provided to the business and therefore whether the Company will be able to continue as a going concern.

Furthermore, the transactions with Olisol involve a high degree of counterparty risk. Olisol have failed to meet their original commitments and it has been necessary to renegotiate material terms. There can be no guarantee that they will be able to honour the current agreements between Olisol and Tethys, or that the transactions with Olisol can be completed prior to expiration of the Company's current working capital. This depends on a number of factors

including Olisol's ability to honour its commitment to provide working capital under the Amendment Agreement dated February 2, 2016. Several of the Company's major creditors have been in touch seeking to potentially enforce default provisions of their loans. Whilst the Company has disputed any default having occurred, there can be no guarantee that creditor action will not prevent the Company from being able to complete the transactions with Olisol.

### *Competition*

The oil and gas industry is intensely competitive. Competition is particularly intense in the acquisition of prospective oil properties and oil and gas reserves. The Company's competitive position depends on its geological, geophysical and engineering expertise, its financial resources, its ability to develop its properties and its ability to select, acquire and develop proved reserves. The Company competes with a substantial number of other companies which have a larger technical staff and greater financial and operational resources. Many such companies not only engage in the acquisition, exploration, development and production of oil and gas reserves, but also carry on refining operations and market refined products. The Company also competes with major and independent oil and gas companies and other industries supplying energy and fuel in the marketing and sale of oil and gas to transporters, distributors and end users, including industrial, commercial and individual consumers. The Company also competes with other oil and gas companies in attempting to secure drilling rigs and other equipment necessary for drilling and completion of wells. Such equipment may be in short supply from time to time. In addition, equipment and other materials necessary to construct production and transmission facilities may be in short supply from time to time. Finally, companies not previously investing in oil and gas may choose to acquire reserves to establish a firm supply or simply as an investment. Such companies will also provide competition for the Company.

### *Substitute Energy Sources*

As with any other product, the Company's production of oil and gas is subject to substitution. Alternative energy sources such as renewable electricity (for example, wind power or hydroelectric power), nuclear power, liquefied natural gas, biofuel or biomass and other alternative forms of energy for usage in transport, heating and power generation all represent competing sources of energy to the Company's products. If the prices of these forms of energy fall and/or the prices of the Company's products rise dramatically, then the Company's products will face substitution as economic agents look for cheaper forms of energy. The Company currently produces low-cost forms of energy (i.e. onshore oil and gas). There is no guarantee that the Company's products will remain competitive in the future marketplace due to changes in technology, governmental regulations, economic and taxation or other as yet unforeseen scenarios. Further, the continuous call from the international community for a reduction in the use of fossil fuels may have an impact upon oil and gas companies of all sizes operating world-wide in being required to reduce production or output or lacking market for their product. The demand for alternative sources of energy, especially renewables, could affect the Company's production of oil or gas or sale of its products, which may in turn materially adversely affect the business, results of operation and prospects of the Company.

### *Marketability of Production*

The marketability and ultimate commerciality of oil and gas acquired or discovered is affected by numerous factors beyond the control of the Company. These factors include reservoir characteristics, market fluctuations, the proximity and capacity of oil and gas pipelines and processing equipment and government regulation. The Company currently produces gas into the transcontinental gas trunkline system which ultimately supplies gas to Russia and Europe and, the Company expects, eventually to China. Political issues, system capacity constraints, export issues and possible competition with Russian gas supplies may in the future cause problems with marketing production, particularly for export. Oil and gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government, which may be amended from time to time. Restrictions on the ability to market the Company's production could have a material adverse effect on the Company's revenues and financial position.

### *Commodity Price Fluctuations*

Oil and gas prices are unstable and are subject to fluctuation. Any material decline in oil and/or natural gas prices could result in a reduction of the Company's net production revenue and overall value and could result in ceiling test write downs.

The Company's oil contract in Kazakhstan is subject to commodity price fluctuation and it may become uneconomic to produce from some wells as a result of lower prices, which could result in a reduction in the volumes and value of the Company's reserves. The Company might also elect not to produce from certain wells because of lower prices. These factors could result in a material decrease in the Company's net production revenue causing a reduction in its acquisition and development activities.

Beyond 2016, fluctuations in oil and gas prices could materially and adversely affect the Company's business, financial condition, results of operation and prospects and ability to continue as a going concern. In particular, the decrease in prices realised for oil produced from Kazakhstan in late 2014 and through to date in 2016 has negatively impacted the Company's results of operation. There is no government control over the oil and gas price in the countries where the Company operates.

Although the Company believes that the medium to long term outlook for oil and gas prices in the region is good, the recent events in various parts of the world demonstrate the volatility and uncertainties of the oil and gas industry. Also, consideration needs to be given to production and other factors such as OPEC, refinery shut-ins and inventory. Any discussion of price or demand is subjective and, as such, there are many differing opinions on the cause of recent price changes.

During 2015, gas was sold at fixed prices, at least until the end of 2015, and so the fluctuation in world commodity prices should have no effect on the Company's revenue from the Kazakh gas operations up to the end of 2015, however, it was affected by exchange rate risk. A similar contract has been signed for the 2016 Gas Supply Contract, whereby produced gas is sold at a fixed price in KZT, as described in "*Description of the Business – Kazakhstan – Gas Production and Sales*", hence exchange rate risks will still apply. Refer to the 2015 Management Discussion and Analysis "Sensitivities".

### *Nature of the Oil and Gas Business*

An investment in the Company should be considered speculative due to the nature of the Company's involvement in the exploration for, and the acquisition, development and production of, oil and natural gas in Central Asia and the Caspian Region. The volume of production from oil and natural gas properties generally declines as reserves are depleted, with the rate of decline depending on reservoir characteristics and development plan. The Company's proved reserves will decline as reserves are produced from its properties unless it is able to acquire or develop new reserves. The business of exploring for, developing or acquiring reserves is capital intensive. To the extent cash flow from operations is reduced and external sources of capital become limited or unavailable, the Company's ability to make the necessary capital investment to maintain or expand the Company's asset base of oil and natural gas reserves will be impaired. In addition, there can be no assurance that even if the Company is able to raise capital to develop or acquire additional properties to replenish the Company's reserves, the Company's future exploration, development and acquisition activities will result in additional proved reserves or that the Company will be able to drill productive wells at acceptable costs.

The cost of drilling, completing and operating wells is often uncertain, and drilling operations may be curtailed, delayed or cancelled as a result of a variety of factors, including unexpected drilling conditions, pressure or irregularities in formations, equipment failures or accidents, adverse weather conditions, non-compliance with governmental requirements and shortages or delays in the availability of drilling rigs and the delivery of equipment.

### *Dependence on Gas Pipeline*

The Company is partly economically dependent on the pipeline from the Kyzylai and Akkulka Fields to a booster compression station constructed at "910 km" on the Bukhara-Urals gas trunkline and onwards, should anything

adverse happen to these pipelines then the gas sales revenue (which is the majority of the Company's revenue at present) would cease. The Bukhara-Urals trunkline was initially designed to carry gas from Central Asia through Kazakhstan and into the Russian export system. The Bukhara-Urals trunkline is a twin line system currently supplying gas to the Aktobe region of Kazakhstan by way of northward transport with export into the Russian system, and southwards to the Bozoi underground storage facility. In October 2013, the Bozoi-Shymkent pipeline opened, and gas from the Western Kazakhstan area is being transported by this new line to Shymkent. The Bozoi/Shymkent pipeline is being linked to the Kazakhstan-China gas pipeline; this link has been completed and gas is being pumped through it from Bozoi towards Shymkent; this will allow for an alternative route for the sale of the Company's gas. It is currently considered likely that the Company will be able to utilize this pipeline to transport its gas to China, however, there is no guarantee that this will occur.

### ***Dependence on Refinery and Transportation Facilities***

On January 30, 2012, the Company announced the official inauguration of AOT, a storage and rail loading facility for its oil shipments from the Doris oilfield. Any loss of capacity or delay in truck or rail shipments or significant problems with AOT may negatively affect the Company's oil sales revenue from the Pilot Production Project.

Oversupply into the local market may cause refineries to run at capacity, which may in turn impact the volumes of oil sold as refineries no longer accept new oil. This in turn could potentially impact the pricing of oil as oversupply is created on the domestic market.

### ***Dependence on Key Personnel***

The Company is dependent on its key executive officers to manage its affairs and operations. The departure of any one key executive officer may negatively impact on certain of the Company's operations until a suitable replacement candidate is appointed.

The Company does not carry key man insurance on any of its executives as at the date hereof. In the event that the Company is unable to attract, retain and train key personnel, the Group's business, operations and prospects could be materially and adversely affected.

### ***Hedging Activities***

From time to time the Company may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Company will not benefit from such increases. Similar risks will apply to any hedging agreements the Company may enter into in order to set exchange rates or fix interest rates on its debt.

As at December 31, 2015, no hedging agreements or contracts were in place.

The Company's subsidiary, TAG, has entered into a fixed price 2016 Gas Supply Contract as outlined in "*Description of the Business – Kazakhstan – Gas Production and Sales.*"

### ***Financial Resources***

The Company's cash flow from operations has not been, to date, and may not be in the future sufficient to fund its ongoing activities and implement its business plans. From time to time the Company may enter into transactions to acquire assets or the shares of other companies. These transactions along with the Company's ongoing operations may be financed partially or wholly with debt, which may increase the Company's debt levels above industry standards and lead to increased borrowing costs, reducing the Company's income. Alternatively, the Company may seek further funding through issue of equity but there can be no assurance, particularly in the current economic climate, that debt or equity financing will be available when required or sufficient to meet the Company's requirements, or if debt or equity financing is available, that it will be on terms acceptable to the Company. The inability of the Company to access sufficient capital for its operations could have a material adverse impact on the Company's financial condition, results of operations, prospects and ability to continue as a going concern. See Notes

2 and 3 of the audited 2015 Consolidated Financial Statements for a description of the financial condition of the Company as at the date of this Annual Information Form.

### *International Operations*

International operations are subject to political, economic and other uncertainties, including but not limited to, risk of terrorist activities, revolution, border disputes, expropriation, renegotiations or modification of existing contracts, import, export and transportation regulations and tariffs, taxation policies, including royalty and tax increases and retroactive tax claims, exchange controls, limits on allowable levels of production, currency fluctuations, labour disputes and other uncertainties arising out of foreign government sovereignty over the Group's international operations. The Group is subject to risks related to its operations in or interests relating to Kazakhstan, Tajikistan and Georgia, including those related to the exploration, development, production, marketing, transportation of natural gas, taxation and environmental and safety matters. The Group's operations may also be adversely affected by applicable laws and policies of Kazakhstan, Tajikistan, Georgia or other countries in which it operates in the future, the effect of which could have a negative impact on the Company.

In particular, Tajikistan borders Afghanistan. Afghanistan is currently in a situation of instability. Such stability and security issues may have an adverse effect on the ability of the Group to gain access to equipment and personnel. In addition, any particular domestic or international incidents in the region may have an adverse effect on the sentiment of the market towards energy companies that operate in Central Asia and the Caspian Region, as well as an adverse effect on the willingness of lenders and new investors to provide financing to the Group. Currently, the Group is not subject to any foreign investment restrictions in Kazakhstan, Tajikistan or Georgia.

The government of the Russian Federation and Russian oil and gas companies may exert a significant degree of influence in the region. Russian regulations and policies may have a significant impact on the market prices of natural gas in the Company's current markets. Actions taken by Russian authorities and companies may also have an impact on the Company's ability to provide its products to market although this is mitigated by the Group's oil product exports to other markets and the planned natural gas pipelines from Central Asia to the People's Republic of China. Actions taken by the Russian government and competitors in Russia may be unpredictable and would be out of the Group's control. There is no guarantee that actions taken by Russian and other foreign entities will not have a material adverse effect on the Company's prospects and the trading price of the Ordinary Shares.

### *Foreign Currency and Fiscal Matters*

The Company is exposed to risks resulting from fluctuations in foreign currency exchange rates. A material change in the value of any such foreign currency could result in a material adverse effect on the Company's cash flow and future profits. The Company is exposed to exchange rate risk to the extent that balances and transactions are denominated in a currency other than the USD. In addition, a portion of expenditures in Kazakhstan, Tajikistan and Georgia are denominated in local currency, the Tenge, Somoni and Lari respectively. The Company also attempts to negotiate exchange rate stabilization conditions in new local Tenge denominated service and supply contracts in Kazakhstan. In the 3rd and 4th quarters of 2015, Kazakhstan devalued its currency to approximately KZT270.4 and KZT339.47, respectively, versus the USD compared with the rate as at December 31, 2014 of KZT182.35 = USD1.

While the Company holds the majority of its cash and cash equivalents in USD it does hold other balances, mainly Pounds Sterling and Tenge, to meet the requirements to fund ongoing general and administrative and other spending requirements in these currencies. For further details please refer to note 3 of the audited 2015 Annual Consolidated Financial Statements.

Currently, there are no significant restrictions on the repatriation of capital and distribution of earnings from Kazakhstan, Tajikistan or Georgia to foreign entities, however, there can be no assurance that restrictions on repatriation of capital or distributions of earnings from Kazakhstan or Tajikistan will not be imposed in the future. Moreover, there can be no assurance that the Tenge, Somoni or Lari will continue to be exchangeable into USD or that the Company will be able to exchange sufficient amounts of Tenge, Somoni or Lari into USD or GBP to meet its foreign currency obligations.



The Ordinary Shares trade in CAD on the TSX and GBP on the LSE and, accordingly, the variation in exchange rates between the USD, CAD and GBP may also affect the market price of the Company's shares on the TSX and LSE.

Refer to the section "Currency and Exchange Rates" for information on exchange rates of the Tenge, Somoni, Lari and GBP relative to the USD.

### *Political and Regulatory*

The Company decided in December 2013 and announced on January 2, 2014 that it had made a decision to exit Uzbekistan and surrender its rights under the PEC due to changes in the business climate and political environment. The Company's decision was principally as a result of problems encountered by Tethys Production Uzbekistan (the trading name of the Company's subsidiary, BHCL) in receiving allocation and payment for the delivery of crude oil to the Fergana refinery. Uzbek authorities have requested access to certain records of BHCL. Although the Company does not expect that claims or charges against the Company or its subsidiaries will be initiated by the authorities, the Company will incur expenses, which may be significant, relating to its exit from Uzbekistan and possible assessments of costs as a result of inspections or reviews of its records by Uzbek authorities. Moreover, as a result of problems encountered by the Company with the Fergana refinery, the Company may be unable to recover payment for oil previously delivered to the Fergana refinery (estimated at USD1.6 million) which has been written down in the audited 2014 Consolidated Financial Statements. Political, regulatory and similar risks are reviewed by Management and were further reviewed by the Strategic Risk Committee of the Board at which mitigating strategies and policies were discussed and agreed. The Strategic Risk Committee was discontinued in November 2014 by the new Board with strategic risk being reserved for the entire Board.

The oil and gas industry in general is subject to extensive government policies and regulations, which result in additional cost and risk for industry participants. Environmental concerns relating to the oil and gas industry's operating practices are expected to increasingly influence government regulation and consumption patterns which favour cleaner burning fuels such as natural gas. The Company is uncertain as to the amount of operating and capital expenses that will be required to comply with enhanced environmental regulation in the future. The Company is also subject to changing and extensive tax laws, the effects of which cannot be predicted. Among other things, the Company and TK SA are subject to regulatory filings with respect to the repatriation of funds to its shareholders which must be complied with to avoid sanctions. Legal requirements are frequently changed and subject to interpretation, and the Company is unable to predict the ultimate cost of compliance with these requirements or their effect on its operations. Existing laws or regulations, as currently interpreted or reinterpreted in the future, or future laws or regulations may change in the future and materially adversely affect the Company's results of operations and financial condition.

The Company is conducting exploration and development activities in Kazakhstan, Tajikistan and Georgia and December 2013 was in Uzbekistan and is dependent on receipt of government approvals or permits to develop its properties. Based on past performance, the Company believes that the governments of Kazakhstan, Tajikistan and Georgia support the exploration and development of their oil and gas properties by foreign companies. Nevertheless, there is no assurance that future political conditions in Kazakhstan, Tajikistan or Georgia will not result in their respective governments adopting different policies respecting foreign development and ownership of oil and gas, environmental protection and labour relations. This may affect the Company's ability to undertake exploration and development activities in respect of present and future properties, as well as its ability to raise funds to further such activities. Any delays in receiving government approvals or permits or no objection certificates may delay the Company's operations or may affect the status of the Company's contractual arrangements or its ability to meet its contractual obligations. Similar risks apply in other countries in which the Company may operate in the future.

### *Legal Systems*

The Company is governed by the laws of the Cayman Islands and the Company's principal subsidiaries are incorporated under the laws of Kazakhstan, Tajikistan, Belgium, Cyprus, British Virgin Islands, Delaware, the Netherlands, Georgia and England. The Company through its subsidiaries carries on operations directly in Kazakhstan and indirectly in Tajikistan and Georgia. Accordingly, the Company is subject to the legal systems and regulatory requirements of a number of jurisdictions with a variety of requirements and implications for

shareholders of the Company. Shareholders of the Company will not have rights identical to those available to shareholders of a corporation incorporated under the federal laws of Canada. Moreover, in certain circumstances, the Company may require a shareholder to divest itself of its Ordinary Shares if the ownership or holding of such Ordinary Shares would be in breach of laws or a legal requirement of any country or if such shareholder is not qualified to hold the Ordinary Shares and if such ownership or holding would in the reasonable opinion of the Board of Directors cause a pecuniary or tax disadvantage to the Company or any other shareholder.

Exploration and development activities in Central Asia and the Caucasus may require protracted negotiations with host governments, national oil and gas companies and third parties. Foreign government regulations may favour or require the awarding of drilling contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. If a dispute arises with foreign operations, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons, especially foreign oil and gas ministries and national oil and gas companies, to English, Cayman or Canadian law.

Kazakhstan, Tajikistan and Georgia may have less developed legal systems than jurisdictions with more established economies, which may result in risks such as: (i) effective legal redress in the courts of such jurisdictions, whether in respect of a breach of law or regulation or in an ownership dispute, being more difficult to obtain; (ii) a higher degree of discretion on the part of governmental authorities; (iii) the lack of judicial or administrative guidance on interpreting applicable rules and regulations; (iv) inconsistencies or conflicts between and within various laws, regulations, decrees, orders and resolutions; or (v) relative inexperience of the judiciary and courts in such matters. In certain jurisdictions the commitment of local business people, government officials and agencies and the judicial system to abide by legal requirements and negotiated agreements may be more uncertain, creating particular concerns with respect to licences and agreements for business. These may be susceptible to revision or cancellation and legal redress may be uncertain or delayed. There can be no assurance that joint ventures, licences, licence applications or other legal arrangements will not be adversely affected by the actions of government authorities or others and the effectiveness and enforcement of such arrangements in these jurisdictions cannot be assured.

#### ***Production Variances from Reported Reserves***

The Company's reserve evaluations have been prepared in accordance with NI 51-101. There are numerous uncertainties inherent in estimating quantities of reserves and cash flows to be derived therefrom, including many factors that are beyond the control of the Company. The reserves information set forth in this Annual Information Form represent estimates only. The reserves from the Company's properties have been independently evaluated by Gustavson in the Gustavson Reserves Report. The Gustavson Reserves Report includes a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future prices of natural gas, operating costs and royalties and other government levies that may be imposed over the producing life of the reserves. These assumptions were based on price forecasts in use at the date the relevant evaluations were prepared and many of these assumptions are subject to change and are beyond the control of the Company. Actual production and cash flows derived therefrom will vary from these evaluations, and such variations could be material. These evaluations are based, in part, on the assumed success of exploitation activities intended to be undertaken in future years. The reserves and estimated cash flows to be derived therefrom contained in such evaluations will be reduced to the extent that such exploitation activities do not achieve the level of success assumed in the evaluations.

The Company is subject to risks related to its operations in Kazakhstan, Tajikistan, and Georgia, including those related to the development, production, marketing, transportation of natural gas, taxation and environmental and safety matters. The Company may be adversely affected by changes in governmental policies or social instability or other political or economic developments that are outside the Company's control including among other things, expropriation, risks of war and terrorism, foreign exchange and repatriation restrictions, changing political conditions and monetary fluctuations and changing governmental policies including taxation policies.

#### ***Availability of Equipment and Access Restrictions***

Oil and gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Company and may delay exploration and



development activities. There can be no assurance that sufficient drilling and completion equipment, services and supplies will be available when needed. Shortages could delay the Company's proposed exploration, development, and sales activities and could have a material adverse effect on the Company's financial condition. If the demand for, and wage rates of, qualified rig crews rise in the drilling industry then the oil and gas industry may experience shortages of qualified personnel to operate drilling rigs. This could delay the Company's drilling operations and adversely affect the Company's financial condition. To the extent that the Company is not the operator of its oil and gas properties, the Company will be dependent on such operators for the timing of activities related to such properties and will be largely unable to direct or control the activities of the operators.

### *Operating Hazards and Limited Insurance Coverage*

Oil and gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts and oil spills, each of which could result in substantial damage to oil wells, production facilities, other property and the environment or in personal injury and/or death and/or interruption of operations. Due to the nature of its business, the Company has to handle highly inflammable, explosive and toxic materials and other dangerous articles. The Company has implemented safety precautions and measures for the safe operation and maintenance of its operational facilities; however, there can be no assurance that industry-related accidents will not occur during the operation of the Company. Significant operating hazards and in some cases natural disasters may cause partial interruptions to the Company's operations and environmental damage that could have an adverse impact on the financial condition of the Company. In accordance with industry practice, the Company is not fully insured against all of these risks, nor are all such risks insurable. Although the Company maintains liability insurance in an amount that it considers adequate and consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event the Company could incur significant costs that could have a material adverse effect upon its financial condition. Oil and gas production operations are also subject to all the risks typically associated with such operations, including premature decline of reservoirs and the invasion of water into producing formations.

### *Seasonality and Weather Patterns*

The level of activity in the Central Asia oil and gas industry is influenced by seasonal and unexpected weather patterns which may lead to declines in production and exploration activity. Harsh winter conditions may impede access to remote locations and drilling activities and limit the Company's ability to perform maintenance on equipment. Also, certain oil and gas producing areas may be located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. Moreover, wet weather and spring thaw may make the ground unstable. Consequently, the movement of rigs and other heavy equipment may be restricted, thereby reducing activity levels. As an example, extreme weather conditions in the Kazakh production area during the construction phase of the pipelines and compressors did cause some delays and excess muddy conditions in spring may cause delays in future construction and the transport of equipment. In addition, the Group is susceptible to the risks of unexpected weather changes that may cause delay in its oil and gas exploration and production activities. For example, oil production and specifically trucking of the oil to AOT is particularly affected in the first quarter of each year, due to extreme winter weather conditions in Kazakhstan.

### *Environmental*

The Company's operations are subject to environmental regulations in the jurisdictions in which it operates and the Company carries out its activities and operations in material compliance with all relevant and applicable environmental regulations and pursuant to best industry practices. In Kazakhstan, quarterly reports are required to be submitted by the Company to the Shalkar (Bozoi) Tax Committee. The Company is also required to prepare reports on any pollution of air, toxic waste and current expenses on environmental protection which have been made by the Company and which are submitted to the appropriate Kazakh authorities. Reports are submitted on a semi-annual basis for information purposes and no payments are applicable.

The Company strives to meet all environmental standards in all areas in which it operates, and has included appropriate amounts in its capital expenditure budget to meet its current environmental obligations. However the ability to meet deadlines imposed by legislation for the implementation of projects to enhance and comply with environmental legislation is subject to the availability of funding under the planned budgets, and investment is

required in order to comply in a timely manner. As of March 29, 2016, no claim has been made by the Kazakh state regarding non-compliance of environmental laws. However, the discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to foreign governments and third parties and may require the Company to incur significant costs to remedy such discharge. No assurance can be given that changes in environmental laws or their application to the Company's operations will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company's financial condition, results of operations or prospects.

Under the Bokhtar PSC, any development plan in Tajikistan must also include an abandonment and site restoration programme together with a funding procedure for such programme. All funds collected pursuant to the funding procedure shall be allocated to site restoration and abandonment and will be placed in a special interest bearing account originally by KPL, and since the Farm Out by the Bokhtar Contractor Parties, which now shall be held in the joint names of the State and the Bokhtar Contractor Parties or their respective nominees, or designee. The Bokhtar Contractor Parties' responsibilities for environmental degradation, site restoration and well abandonment obligations, and any other actual contingent and potential activity associated with the environmental status of the development area shall be limited to the obligation to place the necessary funds in the approved account. In addition, any relinquished areas must be brought into the same condition as they were prior to their transfer to KPL (soil fertility condition, quality of the ground and environment). All expenditures incurred in abandonment and site restoration are cost recoverable.

#### ***Reliance on Third Party Operators and Key Personnel***

To the extent that the Company is not the operator of its properties, the Company will be dependent upon other guarantors, contractors or third parties' operations for the timing of activities and will be largely unable to control the activities of such operators. In addition, the Company's success depends, to a significant extent, upon management and key employees. The loss of key employees could have a negative effect on the Company. Attracting and retaining additional key personnel will assist in the expansion of the Company's business. The Company faces significant competition for skilled personnel, in particular to certain areas where the oil and gas industry is less developed. The Company's inability to retain and recruit sufficient skilled personnel may cause delays in completing certain exploration and production projects on time or within the budgeted costs. There is no assurance that the Company will successfully attract and retain personnel required to continue to expand its business and to successfully execute its business strategy.

#### ***Recurring Losses and Going Concern***

Since inception, the Company has incurred significant losses from operations and negative cash flows from operating activities and has an accumulated consolidated deficit of USD273.2 million as at December 31, 2015. Since the Group intends to invest in developing its business, further losses and negative cash flows may be incurred. While management of the Company has confidence in the future potential of the Group, there is no assurance that the Group will become or remain profitable in the future. The ability of the Company to successfully carry out its business plan is primarily dependent upon its ability not only to maintain the current level of production but also to achieve further production of commercial oil and gas and to control the costs of operating and capital expenditures. No assurance can be given that the Group will not experience operating losses in the future. In the event that the Company is unable to generate sufficient revenue and cash flow from its operations, it may need to seek further funding from the equity or debt markets or alternative sources. Particularly in the current market conditions, there can be no assurance that debt or equity financing will be available when required or sufficient to meet the Company's requirements or, if debt or equity financing is available, that it will be on terms acceptable to the Company. The inability of the Company to access sufficient capital for its operations could have a material adverse impact on the Company's financial condition, results of operations, prospects and ability to continue as a going concern. See note 2 of the audited 2015 Consolidated Financial Statements.

#### ***Tajikistan Default***

On October 11, 2015, the Company, through its 85% indirectly owned subsidiary, KPL, received a "Notice to Withdraw," from the JOA relating to the Bokhtar PSC in Tajikistan and the underlying PSC from CNPC and Total. The Notice of Withdrawal was served on the basis that Tethys had not made the payment on October 9, 2015 for the

September Cash Call issued by the Bokhtar Operating Company. Pursuant to the Notice of Withdrawal, Total and CNPC state that they jointly require Tethys' subsidiary, Kulob Petroleum Limited to completely withdraw from the JOA and assign all of its participating interests derived from the Contract and the JOA to Total and CNPC in proportion to their respective participating interests.

On 30 October, 2015, KPL responded to the Notice to Withdraw, refusing to assign its participating interest and requested that discussions take place to reach an amicable resolution to remedy the defaults.

Since then and as of the 31 December, 2015, meetings have been held and discussions are ongoing to come to a resolution that is mutually beneficial to the Company, partners and Tajik state. There is no certainty that the Company will succeed in retaining any interest in the JOA or Bokhtar PSC or receive any form of compensation in respect of its withdrawal.

### *Cost of New Technologies*

The oil and gas industry is characterised by rapid and significant technological advancements and introductions of new products and services utilizing new technologies. Other oil and gas companies may have greater financial, technical and personnel resources that allow them to enjoy technological advantages and may in the future allow them to implement new technologies before the Company does. There can be no assurance that the Company will be able to respond to such competitive pressures and implement such technologies on a timely basis or at an acceptable cost. One or more of the technologies currently utilised by the Company or implemented in the future may become obsolete. In such case, the Company's business, financial condition and results of operations could be materially adversely affected. If the Company is unable to utilise the most advanced commercially available technology, the Company's business, financial condition and results of operations could be materially adversely affected.

### *Production Delays*

There is a possibility of delays in obtaining the necessary governmental approvals to commence or increase production. Any such delays could reduce the Company's revenues and income below those anticipated in the Company's business plan. Unanticipated delays in drilling or production could materially and adversely affect the Group's business, results of operation and prospects.

### *Disclosure Controls and Procedures; Internal Controls Over Financial Reporting*

Disclosure controls and procedures have been designed by the Company's management to ensure that information required to be disclosed by the Company is accumulated, recorded, processed and reported to the Company's management as appropriate to allow timely decisions regarding disclosure. While the Company's management has concluded that the Company's disclosure controls and procedures are sufficiently effective to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is communicated to them as appropriate to allow timely decisions regarding required disclosure this cannot be guaranteed and changes may be required to ensure their effectiveness.

The Company's management has designed and implemented a system of internal controls over financial reporting as of December 31, 2015 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with IFRS. While management believes that these controls are effective for a company of its size there can be no guarantee that errors will not occur.

### *Conflicts of Interest*

Certain of the directors of the Company may have associations with other oil and gas companies or with other industry participants with whom the Company does business or competes with for capital. The directors of the Company are required by applicable corporate law to act honestly and in good faith with a view to the Company's best interests and to disclose any interest, which they may have in any project or opportunity to the Company.

However, their interests in the other companies may affect their judgment and cause such directors to act in a manner that is not necessarily in the best interests of the Company.

Alexander Abramov is a shareholder in, and director of, Olisol and its subsidiary OPL. Tethys is currently seeking to execute the Olisol Transaction but appointed Mr. Abramov to the Tethys Board of Directors as a condition to drawing down on the Interim Facility. Mr. Abramov is recused from Board discussions in relation to the Olisol Transaction itself however his position on both sides of the transaction prior to successful closing, may affect his judgement on other matters from which he is not recused. He may therefore act in a manner that is not necessarily in the best interests of the Company.

William Wells was appointed to the Board of Directors of Tethys at the same time as Mr. Abramov due to the same condition referred to above. Mr. Wells is President of Pope Asset Management, LLC, the Company's largest shareholder as at December 31, 2015. In addition to representing the Company's largest shareholder, Mr. Wells is also a principal at Annuity and Life Reassurance Ltd, a creditor to the company through a USD3,500,000 loan agreement dated March 9, 2015 and a USD1,760,978 convertible debenture dated June 1, 2015. Mr. Wells' responsibilities to Pope Asset Management, LLC and Annuity and Life Reassurance Ltd and to the Company in his role as director may not always be aligned.

### ***Relinquishment of Exploration Rights***

The Company is contractually obliged to relinquish certain exploration rights pursuant to the exploration and production contracts to which the Company (or its subsidiaries) is a party. There are mandatory relinquishments under the Kul-Bas Exploration and Production Contract, which require the Company to relinquish contract areas annually (with the exception of areas in which a discovery is made). As of December 31, 2015, 30% of the total contract area has been relinquished. The Kul-Bas Exploration Contract was amended firstly in December 2010, when the Company received approval for the extension of the exploration period to November 11, 2013, and it was further extended in 2013 until November 11, 2015. Most recently, the Company has extended this further to November 11, 2017 (subject to achieving final approvals from the State) without further relinquishment.

In addition, there are also mandatory relinquishments under the Bokhtar PSC in Tajikistan after the initial seven contract years and after that after every five years, the first relinquishment is due in 2020 following a re-set in 2013.

In regards to the Georgian PSCs, 25% of the Contract Area will be relinquished after 5 years, 25% of the remainder of the Contract Area will be relinquished after 10 years, 50% of the remainder of the Contract Area will be relinquished after 15 years, and 100% of the remainder of the Contract Area will be relinquished after 20 years. Relinquishments do not apply to areas where a discovery has been made.

Save as aforesaid, the Group is not subject to relinquishment of exploration rights under any of its other contracts. A relinquishment of exploration rights may affect the Group's exploration prospects and its ability to expand production in the relevant Contract Areas. See "*Description of the Business – Kazakhstan – Kul-Bas Block and Kul-Bas Exploration and Production Contract*", "*Description of the Business – Kazakhstan – Akkulka Block and Akkulka Exploration Licence and Contract*", "*Description of the Business – Tajikistan – Bokhtar PSC – Exploration and Appraisal Potential*" and "*Description of the Business – Georgia – Contracts*".

### ***Current Market Conditions***

Along with other oil and gas issuers, the Company faces the potential that the demand and prices for oil and gas may fall, perhaps significantly, which may result in reduced cash flow and restricted access to capital. In the event of a future prolonged period of adverse market conditions, the Company's ability to finance planned capital expenditures and operating expenses may be limited. Adverse conditions in global commodities markets and credit markets may negatively affect the Company's ability to maintain and grow its reserves and fully exploit its properties for the benefit of the Shareholders.

### ***Potential Declines in Reserves***

The Group intends to continue to explore for further reserves in its contract areas and seek to add new reserves to its reserve base. However, the Group cannot guarantee that its exploration programmes will be successful. Except to the extent the Group completes successful exploration and development projects or acquires properties containing proved reserves, or both, the Group's reserves will decline as its natural gas and liquid hydrocarbons are produced and its reserves are depleted. The Group's future production is highly dependent upon the Group's ability to develop its existing reserve base and, in the longer term, finding or acquiring additional reserves. If the Group is unsuccessful in developing its current reserve base and if the Group fails to add new reserves through exploration or acquisitions, its total proved reserves will decline, which would adversely affect the Group's business, financial condition, prospects or the market price of the Shares. In addition, the volume of production from oil and natural gas fields generally declines as reserves are depleted, with the rate of decline depending on reservoir characteristics. This may cause unit production cost to increase. As production efficiency decreases, the Group's business and results of operations could be adversely affected.

### ***Leased Properties***

All of the Group's offices are located in leased properties. The Group has not obtained relevant building ownership certificates and/or land use right certificates from the respective landlords to prove their titles or rights to these properties as may be required under the relevant laws. It is uncertain what the legal implications are in the absence of such certificates. It is also uncertain whether the absence of the certificates and/or lack of registration will affect the validity or performance of the leases. In the event that the Group is required to cease its occupation and use of the properties as a result thereof, its business or operations at such location may be disrupted although the Group believes any such disruption would not be material.

### ***Risks Related to the Republics of Kazakhstan, Tajikistan, and Georgia***

#### ***Political, Economic, Legal and Fiscal Instability***

Kazakhstan, Tajikistan and Georgia are former constituent republics of the Soviet Union. At the time of their respective independence in 1991, each became a member of the CIS. Because Kazakhstan, Tajikistan and Georgia have a relatively short history of political stability as independent nations and have experienced significant change in adapting to a market-oriented economy, there is significant potential for social, political, economic, legal and fiscal instability. These risks include, among other things:

- local currency devaluation;
- civil disturbances;
- exchange controls or availability of hard currency and other banking restrictions;
- changes in crude oil and natural gas export and transportation regulations;
- changes with respect to taxes, royalty rates, import and export tariffs, and withholding taxes on distributions to foreign investors;
- changes in legislation applicable to oil and gas exploration, development, acquisition and investment activities;
- restrictions, prohibitions or imposition of additional obligations on investors;
- nationalisation or expropriation of property;
- interruption or blockage of oil or natural gas exports;

- non-fulfilment of work programmes or financial commitments.

Many of these risks are common to other countries in the world and perhaps more so. However, the occurrence of any of these factors could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, adverse economic conditions in Kazakhstan, Tajikistan and Georgia could have a material adverse effect on the Company's business, financial condition and results of operations.

Further, Kazakhstan and Tajikistan also depend on neighbouring states to access world markets for a number of their exports, including oil and gas. Kazakhstan and Tajikistan are thus dependent upon good relations with their neighbours to ensure their ability to export. Although one of the aims of economic integration within the CIS is to assure continued access to export routes, should access to those routes be materially impaired, this could adversely impact the economies of Kazakhstan and Tajikistan. The development of export routes to China and potentially to the Indian sub-continent will dilute these problems to a degree if and when these routes are developed and allow the Company's production to access them.

Since its independence from the former Soviet Union, Tajikistan suffered a destructive civil war which not only caused significant damage to the infrastructure and industry of the country, but also led to regional and ethnic rivalries. Although the situation has stabilised since 1997, there is still the potential for instability, particularly with respect to these regional rivalries, and the potential for the emergence of radical Islamist groups. Tajikistan is the poorest country in Central Asia, and this poverty may lead to further civil unrest and potential disruption to the Company's business. Tajikistan's proximity to Afghanistan may lead to further instability dependent on the situation in that country.

Like other countries in Central Asia and the Caucasus, Kazakhstan, Georgia and Tajikistan could be affected by military action taken in the region, including in Afghanistan, and the effect such military action may have on the world economy and political stability of other countries. In particular, countries in Central Asia, such as Kazakhstan and Tajikistan, whose economies and state budgets rely in part on the export of oil, gas and other commodities, the import of capital equipment and significant foreign investments in infrastructure projects, could be adversely affected by any resulting volatility in oil, gas and other commodity prices and by any sustained fall in them or by the frustration or delay of any infrastructure projects caused by political or economic instability in countries engaged in such projects. In addition, instability in other countries, such as Russia, has affected in the past, and may materially affect in the future, economic conditions in Kazakhstan, Tajikistan and Georgia. The Russo-Georgian war of 2008 resulted in a significant impact on Georgia as well as loss of territory. Although the relationship between Russia and Georgia is currently stable there is no guarantee that this stability will continue in the future.

The transition of Kazakhstan, Tajikistan and Georgia to market oriented economies was marked in the earlier years by political uncertainty and tension, a recessionary economy marked by high inflation and instability of the local currency and rapid, but incomplete, changes in the legal environment. Although reforms designed to establish a free market economy have been adopted, there can be no assurance that such reforms will continue or that such reforms will achieve all or any of their intended aims.

### *Legal and Regulatory Environment in Kazakhstan*

Kazakhstan's foreign investment, petroleum, subsoil use, licensing, corporate, tax, customs, currency, banking and antimonopoly laws and legislation are still developing and uncertain. From time to time, including the present, draft laws on these subjects are prepared by government ministries and some have been submitted to Parliament for approval. Legislation in respect of some or all of these areas could be passed. Currently, the regulatory system contains many inconsistencies and contradictions. Many of the laws are structured to provide substantial administrative discretion in their application and enforcement. In addition, the laws are subject to changing and different interpretations. These factors mean that even the Company's best efforts to comply with applicable law may not always result in compliance. Non-compliance may have consequences disproportionate to the violation. The uncertainties, inconsistencies and contradictions in Kazakh laws and their interpretation and application could have a material adverse effect on the Company's business and results of operations.



The judicial system in Kazakhstan may not be fully independent of outside social, economic and political forces, and court decisions can be difficult to predict. In addition, senior Kazakh government officials may not be fully independent of outside economic forces owing to the underdeveloped regulatory supervision system enabling improper payments to be made without detection. Both Kazakhstan and TAG are signatories to the Extractive Industries Transparency Initiative promoted by the UK government. TAG was one of the first signatories to this agreement with the Kazakhstan government. This initiative supports improved governance in resource-rich countries through the verification and full publication of company payments and government revenues from oil and gas and which also works to build multi-stakeholder partnerships in developing countries in order to increase the accountability of governments. In addition, the government of Kazakhstan has stated that it believes in continued reform of the corporate governance processes and will ensure discipline and transparency in the corporate sector to promote growth and stability. However, there can be no assurance that the Kazakh State will continue such policy, or that such policy, if continued, will ultimately prove to be successful. Therefore, it is not possible to predict the effect of future legislative developments on the Company's business and prospects.

The Company's exploration and production contracts (licences), hydrocarbon contracts and other agreements may be susceptible to revision or cancellation, and legal redress may be uncertain, delayed or unavailable. In addition, it is often difficult to determine from governmental records whether statutory and corporate actions have been properly completed by the parties or applicable regulatory agencies. Ensuring the Company's ongoing rights to licences and its hydrocarbon contracts will require a careful monitoring of performance of the terms of the licences and hydrocarbon contracts, and monitoring their evolution under Kazakh laws and licensing practices.

### *Property Interests and Governmental Approvals*

The Company's subsidiaries obtain their exploration and/or production rights in Kazakhstan, Tajikistan and Georgia through entering into various contracts with governmental agencies in such countries (the "**Company Contracts**"). Ownership of the land covered by the Company Contracts usually remains with the relevant state and/or state-owned companies, with the Company only obtaining land use rights as necessary for the operations. The Company's subsidiaries are required to obtain other specific operational licences for example, to carry out their exploration and/or production activities. Some of these licences, permits and authorizations may be held by third party service providers such as drilling companies. There is no assurance that all licences, permits or authorizations have been or will be granted to the Company and there is no assurance that the Company has all the requisite licences, permits or authorization to carry out their exploration and/or production activities. There is also no assurance whether the Company has complied with all of the environmental, safety, health and sanitary regulations. In this respect, no experts or advisers have been engaged to conduct any audit or technical review of the operations of the Company, including any audit to determine if the Company has the required licences, permits or authorizations necessary to conduct operations.

There are also a number of restrictions on direct or indirect transfers or alienation of rights with respect to the Company Contracts in Kazakhstan (the "**Kazakh Contracts**") and "**User Rights**" as defined below. The Kazakh State introduced a law on subsurface use with effect from July 2010 (the "**Subsurface Law**"). The Subsurface Law replaced a prior law on subsurface use (the "**Prior Law**") and is discussed below.

Pursuant to the Subsurface Law, the objects associated with subsoil use rights include, in addition to contracts with Kazakh governmental agencies, the following:

- participatory interests or shares in a legal entity holding the subsoil use right, as well as a legal entity which may directly and/or indirectly determine and/or influence decisions adopted by a subsoil user if the principal activity of such subsoil user is related to subsoil use in Kazakhstan; and
- securities confirming title to shares or securities convertible to shares of a subsoil user as well as a legal entity who may directly and/or indirectly determine the decisions and/or influence the decisions adopted by such a subsoil user if such a legal entity's main activities are associated with subsoil use in Kazakhstan (the "**User Rights**").

### *Risks Associated with the Kazakh Subsurface Law*

The Kazakh Contracts are subject to the Subsurface Law, among other Kazakh laws. The Subsurface Law provides the Kazakh State with a statutory priority right, exercisable in the event of transfer of an interest in a legal entity that has the right to directly or indirectly make decisions and/or exert influence on decisions adopted by a subsoil user if such legal entity's main activity is related to subsoil use in Kazakhstan.

In addition, under the Subsurface Law, any transfer or alienation of subsoil use rights and/or User Rights to any third party, in whole or in part, may only be made with the prior consent of the competent authority in Kazakhstan (the “**Competent Authority**”), if the main activity of that legal entity is related to subsurface use in Kazakhstan. Under the Subsurface Law, transactions requiring the consent from the Competent Authority include the issuance of shares for circulation on an organised market by an entity whose main activity is related to subsoil use in Kazakhstan and also include the following:

- foreclosure of subsoil use rights and User Rights;
- transfer of subsoil use rights and User Rights to the third parties' charter capital;
- transfer of subsoil use rights and User Rights in the course of bankruptcy proceedings;
- obtaining a right to a participatory interest in a subsoil user or its parent company if such right arises as a result of charter capital increase or by accession of a new participant to such legal entity;
- the initial public offering on an organised market of a subsoil user or its parent companies' securities;
- a pledge of participatory interests (shares) in a subsoil user;
- the transfer of subsoil use rights or User Rights due to the reorganization of a subsoil user or its parent companies.

The Subsurface Law also provides for certain exemptions from the provisions applicable to the transfer or alienation of subsoil rights and User Rights in the following instances:

- public market transactions that take place on a recognised securities exchange and are in respect of securities already listed and in circulation, notwithstanding the fact that these transactions would otherwise be subject to the pre-emptive right of the Kazakh State;
- the transfer, in full or in part, of subsoil use rights or objects associated with subsoil use rights to a subsidiary of a subsoil user in which not less than 99% of the equity of such subsidiary is owned directly or indirectly by the subsoil user, provided that such subsidiary is not registered in a country with a preferential tax regime;
- the transfer, in full or in part, of subsoil use rights or objects associated with subsoil use rights between legal entities in which not less than 99% of the equity of both parties is owned directly or indirectly by the same entity, provided that the acquiring entity is not registered in a country with a preferential tax regime;
- transactions involving the purchase or sale of securities that would otherwise be subject to the pre-emptive right, but which would result in the transfer of less than 0.1% of the equity of the acquirer.

The transfer or alienation of subsoil use rights and User Rights by the Company's subsidiaries whose main activity is related to subsoil use in Kazakhstan will be subject to the Kazakh state's priority right and consent requirement under the Subsurface Law. In addition, should the Competent Authority decide that the Company's main activity is subsoil use rights in Kazakhstan, then the Kazakh State would have a priority right under the Subsurface Law (as it did under the Prior Law in respect of prior offerings) in respect of the transfer or alienation of subsoil use rights and User Rights (as described above). In the event the Company does not or did not comply with these provisions of the



Subsurface Law, the Competent Authority will have the right to terminate the Company's Kazakh Contracts. If the Kazakh Contracts were terminated by the Competent Authority, the Company would lose its subsurface use rights in the Kazakh Contracts and any revenue generated from them. In addition, the Subsurface Law provides that any transaction involving the transfer of subsoil use interests which are subject to the Subsurface Law without the Competent Authority's consent is invalid.

The Company is not aware of any instances to date when the Kazakh State has exercised its waiver of its priority right to purchase, nor is it aware of any instances when the Kazakh State has terminated a subsoil use contract when a transfer occurred without the Kazakh State's waiver.

A previous acquisition of the Company's interests in Kul-Bas resulted in a non-material minor technical infringement of article 10 of the limited liability partnership law of Kazakhstan. That law prohibits a Kazakh limited liability partnership to have another Kazakh partnership as a single participant, which in turn is owned by a single entity. This infringement was cured by transfer of the 100% participating interest in Kul-Bas from TAG to TK SA (which is the 100% owner of TAG). Kul-Bas has obtained MEMR's consent and therefore Kazakh State's waiver under the relevant articles of the sub-surface law in respect of such restructuring.

The Company works to fulfil its minimum work programme commitments under each of its sub-soil user contracts, however if it fails to meet the annual work programme value for a particular contract and cannot provide sufficient justification to the relevant state authorities for non-fulfilment and/or a plan to rectify the deficit then the Company is potentially liable for sanctions on top of the non-fulfilled amount for that year and ultimately the potential cancellation of the contract. Based on the under-fulfilment of commitments outlined in "*Description of the Business – Overview of Properties – Kazakhstan*", the Kazakh State could potentially seek to impose penalties of up to USD1.9 million, however, the Company would seek to argue mitigating circumstances to have any such penalties which may be levied, waived or reduced.

The Company has received several extensions to its Kazakh Contracts, including extensions effective since the adoption of the Subsurface Law, as are more detailed in this Annual Information Form under the heading "*Description of the Business – Overview of Properties*".

#### ***Risks Associated with Kazakh Regulatory Authorities***

The main government authority responsible for supervising and regulating the oil and gas industry in Kazakhstan was MEMR. As of March 12, 2010, MEMR's responsibilities with respect to the oil and gas industry were transferred to MOG and subsequent to that in 2014 to the MOE.

The Subsurface Law establishes the general and specific powers for MOE which include, but are not limited to, the authority to: (i) tender subsoil use rights; (ii) supervise subsoil users' compliance with their obligations under relevant subsoil use contracts including the authority to supervise compliance with local content requirements; and (iii) grant regulatory approvals. MOE also has the specific authority to grant permission for flaring of associated gas and natural gas and the determination of the volumes of crude oil to be supplied by subsoil users to the internal Kazakh market.

The Subsurface Law also attempts to clarify the roles and specific duties of other committees and commissions involved in the regulation of various aspects of subsoil use operations. Despite this, Kazakhstan is an emerging market and as witnessed in the past, the structure of the Kazakh Regulatory Authorities is subject to change, hence there is no assurance with respect to which role each ministry, agency and committee will play in the future.

#### ***Risks Associated with Antimonopoly Regulations***

Prior consent from the Antimonopoly Agency is needed for certain transactions, which may reduce or restrict competition in the Kazakh market. Specifically, the consent of the Antimonopoly Agency, among others, is required for an acquisition by a person (or group of persons) of voting shares in the capital of an entity, whereby such person (or group of persons) gains the right to control more than 50% of such voting shares, where such person (or group of persons) prior to the purchase did not hold voting shares of that entity, or held 50% or less of the voting shares in the

capital of such entity, provided that certain turnover or asset thresholds are met or where one of the parties to the transaction holds a dominant position in a certain market. The consent is required in respect of a transaction involving entities outside Kazakhstan, where such transaction either directly or indirectly affects fixed or intangible assets, shares, property or non-property rights in relation to Kazakh legal entities, or restricts competition in Kazakhstan.

A transaction which occurs without the Antimonopoly Agency's approval is not void under the law, but may be challenged in a Kazakh court. The Company is not aware of any case where a transaction involving an international company was challenged in Kazakh court.

Generally, no consent of the Antimonopoly Agency will be required if no person (or group of persons) acquires more than 50% of a legal entity's shares. However, the Antimonopoly Agency's authority is discretionary and it may, in certain instances (including instances where consent would not otherwise appear to be required), require an issuer to obtain its consent to a particular transaction.

The failure to obtain the Antimonopoly Agency's consent may be subject to an administrative fine, which is most likely to arise in the event that there is any subsequent sale that requires the Antimonopoly Agency's consent. In addition, income received as a result of anti-competition agreements between the companies, or as a result of abuse by a company of its monopoly or dominant position may be confiscated. The Company does not believe that currently it has a dominant position in the Kazakhstan oil and gas market.

The Company believes that as the Olisol Transaction is not expected to grant Olisol an interest of over 50% initially, the Antimonopoly Agency consent is likely not to be required. If Olisol acquires over 50%, the Company will seek to obtain the necessary Antimonopoly Agency approval

#### ***Kazakhstan Local Content Rules***

On September 20, 2010, the new local content rules were adopted approving a uniform procedure for calculating local content in relation to the purchase of goods, works and services ("**New Local Content Rules**"). Under the Subsurface Law, all subsoil users must give preference to local companies when procuring goods, works and services for subsoil use operations. The New Local Content Rules provide formulae for local content calculation in supply and service contracts as well as customer purchases.

On September 25, 2010, the Government of Kazakhstan approved the rules for the formation and maintenance of a register of goods, works and services used in subsoil use operations and the entities (producers) providing same ("**New Register Rules**"). The New Register Rules also set out criteria for assessing whether a producer is required to be included in the register. Under the New Register Rules the Ministry of Industry and New Technologies was named as the Competent Authority responsible for formation and maintenance of a register of goods, works and services used in subsoil use operations and their producers ("**Register**"). Information to be included in the Register is to be based on the information as to procurement of goods, works and services contained in the annual work programmes provided by subsoil users to competent authorities (i.e. MOE, formerly MOG).

In March 2012, the Company, as well as many other subsoil users, were notified by MOG that they were in violation of certain provisions of the Local Content Rules. The Company worked closely with MOG and proved that such violations were minor and mainly caused by technical reasons. In April 2012, MOG confirmed that Tethys' Kazakh subsidiaries comply with rules on Kazakh content. The Company has worked hard with the appropriate Kazakh authorities to ensure compliance with these rules and is very pleased to be one of subsoil users who currently comply.

The New Local Content Rules, which provide stringent rules and regulations governing supply and service contracts as well as customer purchases, are extremely difficult to comply with at this time given the shortage of available local services in several parts of Kazakhstan. It is generally understood that the vast majority of Kazakh subsoil users are in technical violation of the New Local Content Rules. The Company is taking all necessary steps to ensure its Kazakh subsidiaries comply with the New Local Content Rules as far as possible. The Company believes it has

submitted all required documents to MOE to support its intent to be in compliance with the New Local Content Rules.

### *Taxation Risks and Issues in Kazakhstan*

Kazakh 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. Further, the interpretation of tax legislation and legislation on transfer pricing by tax authorities as applied to the transactions and activities of the Company may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Company may be assessed for additional taxes, penalties and interest. Tax periods remain open to retroactive review by the tax authorities for five years. The Company's management believes that its interpretation of the relevant legislation is appropriate and that the Company's tax, currency legislation and customs positions will be sustained.

The Tax Code was adopted for Kazakhstan effective as of January 1, 2009. Subject to limited exceptions which do not apply to the Company's subsidiaries, the tax provisions previously applicable to subsurface use contracts were not "stabilised" and accordingly, taxes are payable under the Tax Code in respect of the Group's operations in Kazakhstan.

Under the Tax Code, subsurface users (including the Company's subsidiaries) are subject to, among others, the following taxes to the extent applicable: (i) special subsurface users payments (which include a signature bonus, commercial discovery bonus and payment for reimbursement of historical costs); (ii) MET; (iii) excess profit tax; (iv) corporate income tax; and (v) rent tax on exports, as further described below:

- a signature bonus for a production contract is required to be negotiated, with the minimum amount calculated equal to the aggregate of 0.04% of the total value of proved reserves and 0.01% of the total value of estimated reserves (in each case, as approved by the authorised state agency) and is payable within 30 days after entering into the production contract;
- a commercial discovery bonus is payable for each commercial discovery at a rate of 0.1% of the calculation base and is based on the volume of recoverable reserves (as approved by the authorised state agency);
- an amount of historical costs determined by the authorised state agency to compensate the Kazakhstan State's exploration and related expenditures incurred before the conclusion of the subsurface use contract, is payable during the production stage in quarterly instalments in accordance with a negotiated payment schedule, not to exceed 10 years;
- MET for oil and gas-condensate is payable at fixed rates, determined on a sliding scale, based on the actual production levels at rates ranging from 5% to 18%;
- MET for natural gas is payable at rates ranging from 0.5% to 1.5% of the value of annual produced gas for domestic sales and 10% for exports;
- excess profit tax is payable based on the contractor's net disposable income with the rates varying from 0% to 60%, as the profits exceed pre-set profit thresholds; and
- corporate income tax is payable at a rate of 20%.

In addition, in the case of oil exports, rent tax on oil exports is set at a rate from 0% to 32%, depending on the market price for oil, without taking into consideration transportation costs or other deductions.

Kazakhstan may increase the export customs rate in the future. The uncertainty of application and the evolution of tax laws create a risk of additional payment of tax by the Company, which could have a material adverse effect on the business, financial condition and results of operations of the Company.

### ***Legal and Regulatory Framework in Tajikistan***

Tajikistan introduced production sharing legislation in 2007, with some amendments in 2008, and the Bokhtar PSC was the first to be adopted under the new regulatory regime. As the legal and regulatory framework for oil and gas is emerging in Tajikistan, it is possible that the terms of the Bokhtar PSC may be challenged, additional taxes may be imposed, or may be found to conflict with other Tajik laws and regulations. There is no assurance that the terms of the Bokhtar PSC will not be challenged and that no claims will be made against the Company resulting in a material adverse effect. In addition, these inconsistencies may lead to potential disputes with the relevant tax authorities and result in a material adverse effect on the financial performance of the Company. There may also be problems with repatriation of currency from Tajikistan, and in the use of the banking system.

### ***Taxation Risks and Issues in Tajikistan***

Although under the Bokhtar PSC, all of the Bokhtar Contractor Parties' tax obligations are covered through the Tajik State's share of production, the taxation system in Tajikistan is at an early stage of development and the tax risks and problems with respect to its operations and investment in Tajikistan may be significant. Tax legislation is evolving and is subject to different and changing interpretations as well as inconsistent enforcement at both the local and state levels. Laws related to these taxes have not been in force for significant periods in contrast to more developed market economies and accordingly, few precedents with regard to issues have been established.

Tax declarations, together with other legal compliance areas are subject to review and investigation by a number of authorities, which are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax and other risks in Tajikistan substantially more significant than typically found in countries with more developed tax systems. In addition, amendments to current Tajikistan taxation laws and regulations which alter tax rates and/or capital allowances could have a material adverse impact on the Company.

In general terms, taxes in Tajikistan include income tax, value added tax, excise tax, social tax, land tax, property tax, transport tax, as well as fees for licences. Effective from January 1, 2013, profits are taxed at a rate of 15% for activities related to production of any kind of goods (previously 20%) of taxable income (calculated as revenue less permitted deductions) and 25% for all other types of activities (previously 20%) of taxable income (calculated as revenue less permitted deductions). VAT at a rate ranging to 18% (previously 20%) is imposed on goods imported into Tajikistan, and 5% for goods produced in Tajikistan. Payments due to State agencies in respect of oil and gas production are determined under the particular terms of production sharing contracts of which the Bokhtar PSC is an example. Under the Bokhtar PSC, the Tajik State's share of production covers all of the Company's taxes, levies and duties in respect of production thereunder. Any changes to this status or the tax treatment of the Bokhtar PSC would potentially have a negative effect on the Company.

The Company has been notified by one of its joint venture partners that it does not believe taxes are due to the Tajikistan authorities on the farm-out consideration paid to the Company in 2013, however, should it be required to pay such taxes which could amount to USD3.2 million the joint venture partner has indicated that it will pursue indemnification from the Company pursuant to the farm-out agreement.

### ***Lack of Infrastructure in Tajikistan***

Tajikistan depends on neighbouring countries to access world markets, and this could lead to problems bringing in equipment and services to the country, as well as exporting products. There are only limited oil refining facilities in Tajikistan, and as such any crude oil will require export, either to regional refineries or to world markets. There are no guarantees that this export will be allowed by the surrounding countries, and/or additional taxes or levies may not be imposed, or prices offered may not be substantially less than world market prices. Similarly, the gas infrastructure is poorly developed and maintained in Tajikistan, and although pipelines exist, it is possible that such infrastructure would not be available to the Company on commercially attractive terms, or may be unsuitable. Similarly, export of gas to world markets would require access to pipelines and infrastructure in neighbouring countries and such access may not be given, or not be given on commercially attractive terms.

### ***Legal and Regulatory Environment in Georgia***

The Company is active in Georgia. Consequently, the Company is exposed to the economic and financial markets of Georgia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes which, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in Georgia. As the Company attempts to sell or farm-out its Georgian assets, these factors may impede its ability to complete a transaction or otherwise to achieve its objectives.

### ***Taxation Risks and Issues in Georgia***

The taxation system in Georgia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying degrees of interpretation. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by the tax authorities after six years have passed since the end of the year in which the breach occurred.

These circumstances may create tax risks in Georgia that are more significant than in other countries and may create difficulties for the Company as it attempts to farm-out or sell its Georgian assets.

### ***Legal and Regulatory Environment in Uzbekistan***

The Company no longer operates in Uzbekistan having terminated the North Urtaulak PEC at the end of December 2013, however legal risks may remain.

### ***Taxation Risks and Issues in Uzbekistan***

Uzbek tax, currency and customs legislation allow for different interpretations and are subject to frequent changes. Management's interpretation of such legislation as applied to the Company's transactions and operations may be challenged by the relevant authorities. As a result, the authorities may dispute transactions and accounting methods which have never been challenged before. Significant additional taxes, penalties and interest may therefore be assessed. Fiscal periods remain open to review by the tax authorities for three calendar years prior to the year of review. Under specific conditions, even earlier periods may be re-examined.

Management undertakes regular checks in order to ensure that the Company's taxation complies with the applicable laws, norms, decrees and interpretations published by regulatory bodies of the jurisdiction where it operates. Although management believes that relevant provisions of the law have been interpreted correctly and provisions have been made for all relevant taxes, nevertheless the Company and tax authorities may have different interpretations of the tax law that may ultimately result in additional taxes and penalties being payable.

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

## **DIVIDENDS OR DISTRIBUTIONS**

The Company has not declared or paid any dividends or distributions on the Ordinary Shares to date. The payment of dividends or distributions in the future are dependent on the Company's earnings, financial condition and such other factors as the Board of Directors considers appropriate. The Company currently does not anticipate paying any dividends in the foreseeable future due to the stage of development of the Company.

No dividend was paid in 2015.

## DESCRIPTION OF SHARE CAPITAL

The authorised capital of the Company consists of 700,000,000 Ordinary Shares of USD0.10 par value and 50,000,000 preference shares of USD0.10 par value (the “**Preference Shares**”). At December 31, 2015, 336,960,387 Ordinary Shares were issued and outstanding. No Preference Shares were issued or outstanding as at December 31, 2015.

### Ordinary Shares

The holders of Ordinary Shares are entitled to receive such dividends as the Company’s directors may from time to time declare. In the event of the winding-up or dissolution of the Company, whether voluntary or involuntary or for the purpose of a reorganization or otherwise or upon any distribution of capital, the holders of Ordinary Shares are entitled to the surplus assets of the Company in proportion to their respective shareholdings and generally will be entitled to enjoy all of the rights attaching to shares of the Company. At a general meeting, holders of Ordinary Shares are entitled on a show of hands to one vote and on a poll to one vote for every share held.

### Preference Shares

The Preference Shares are issuable in series. Subject to the Company’s articles, the Board of Directors is authorised to fix, before issuance, the designation, rights, privileges, restrictions and conditions (including voting rights) attaching to each series. The Preference Shares, when issued, will rank prior to the Ordinary Shares with respect to dividends and return of capital on winding up as the holders of Preference Shares are not entitled to vote at meetings of shareholders.

### Shareholder Rights Plan

The Board of Directors and the shareholders of the Company approved a shareholder rights plan (the “**Rights Plan**”) in 2008 and 2011. The Rights Plan was terminated in 2014 as the Company did not seek its reconfirmation on the third anniversary of its last shareholder approval.

## MARKET FOR SECURITIES

### Price Range and Volume of Trading of Ordinary Shares

The Ordinary Shares are listed on the TSX under the symbol “TPL”. The following table sets forth the reported high and low sales prices (which are not necessarily the closing prices) and the trading volumes for the Ordinary Shares on the TSX during the year ended December 31, 2015 (in Canadian Dollars).

Period	Price Range		Trading Volume
	High	Low	
2015			
January	0.23	0.18	50,500
February	0.20	0.16	27,700
March	0.20	0.12	47,200
April	0.13	0.03	447,100
May	0.20	0.08	385,300
June	0.19	0.13	160,600
July	0.21	0.14	148,900
August	0.19	0.11	86,200
September	0.13	0.08	103,600
October	0.11	0.06	115,500
November	0.11	0.06	273,300
December	0.11	0.06	93,800

The Ordinary Shares are also listed on the LSE under the symbol “TPL”. The following table sets forth the reported high and low sales prices (which are not necessarily the closing prices) and the trading volumes for the Ordinary Shares on the LSE during the year ended December 31, 2015 (in pence).

Period	Price Range		Trading Volume
	High	Low	
2015			
January	13.60	9.00	607,700
February	10.43	8.05	294,600
March	9.74	6.03	443,100
April	6.50	2.84	1,208,700
May	11.42	3.50	1,097,200
June	10.25	6.90	396,100
July	10.70	7.39	341,100
August	9.09	6.00	343,200
September	6.50	3.85	443,400
October	5.95	3.00	673,900
November	5.94	3.00	932,800
December	5.89	2.40	494,900

### Prior Sales

The following table summarises the issuances by the Company of Ordinary Shares or securities convertible into Ordinary Shares during the year ended December 31, 2015.

Date	Securities	Price Per Security	Number of securities
January 23, 2015 <sup>1</sup>	Restricted ordinary shares	GBP 0.1684	90,478
April 20, 2015 <sup>1</sup>	Restricted ordinary shares	GBP 0.1684	105,775
June 2, 2015 <sup>1</sup>	Restricted ordinary shares	GBP 0.1684	63,465
July 15, 2015 <sup>1</sup>	Restricted ordinary shares	GBP 0.1684	63,465



September 2, 2015 <sup>1</sup>	Restricted ordinary shares	GBP 0.1684	63,465
October 22, 2015 <sup>1</sup>	Restricted ordinary shares	GBP 0.1684	63,465
November 27, 2015 <sup>1</sup>	Restricted ordinary shares	GBP 0.1684	57,607

**Notes:**

- (1) Issued in connection with part of Executive Chairman's salary since being appointed on November 26, 2014 until November 26, 2015 totalling to 507,720 ordinary shares of USD0.10 par value fully paid.

**ESCROWED SECURITIES AND SECURITIES  
SUBJECT TO CONTRACTUAL RESTRICTIONS ON TRANSFER**

To the Company's knowledge, as at December 31, 2015, no Ordinary Shares were subject to escrow arrangements.

**DIRECTORS AND EXECUTIVE OFFICERS**

The following tables sets forth, for each director and executive officer of Tethys: his or her name; municipality, province or state and country of residence; all positions and offices held by him or her; the month and year in which he or she was first elected a director and his or her principal occupation during the preceding five years, as at December 31, 2015.

**Directors**

<b>Name and Municipality of Residence</b>	<b>Position with the Company</b>	<b>Director/Officer Since</b>
<b>John Bell</b> - West Lothian, Scotland	Director, Executive Chair	November 17, 2014
<b>David Henderson</b> - Houston, Texas, USA	Non-Executive Director	November 17, 2014
<b>James Rawls</b> - Ridgeland, Mississippi, USA	Non-Executive Director	September 1, 2009
<b>David Roberts</b> - Kirkcudbright, Scotland	Non-Executive Director	November 17, 2014
<b>Adeola Ogunsemi</b> - Richmond, Texas, USA	Non-Executive Director	June 11, 2015
<b>Alexander Abramov</b> - Moscow, Russia	Non-Executive Director	November 20, 2015
<b>William Paul Wells</b> - Memphis, Tennessee, USA	Non-Executive Director	November 20, 2015

**Principle Occupation during the past five years**

**Mr. John Bell**

Mr. Bell is Executive Chairman of Tethys Petroleum Limited. From 2012 to 2014, Mr. Bell was CEO Lebanon Non-Conventional and Conventional Upstream E&P at Babylon Petroleum. From 2010 to 2012 Mr. Bell was Managing Director Syria Conventional Upstream Onshore E&P at Suncor. From 2008 to 2010, Mr. Bell was Vice President Egypt Conventional and Upstream Deep Water Offshore E&P at BP. Mr. Bell is also a Non-Executive Director of E&P at Gulfsands Petroleum Limited, a company listed on AIM, a position he has held since August 2014 to date. From July 2013 to June 2014 he was an Independent Non-Executive Director of E&P at Gulf Keystone Petroleum LSE Main Listed.

**Mr. David Henderson**

David Henderson has over 40 years' experience in the oil and gas industry. He is currently the principal in Herodotus Resources LLC, an oil and gas consulting entity, and was formerly President of WBH Energy Partners. Mr. Henderson previously served as Executive Vice President & Chief Operating Officer for EEX Corporation listed on the NYSE (now part of Newfield Exploration) from 1997-2002. In this role, he oversaw the acquisition and integration of producing properties onshore US valued at over USD100 million. From 1991 to 1997, Mr. Henderson



served as Senior Vice President for Exploration and President of International Exploration & Production at Pennzoil Corporation. From 1987 to 1991, Mr. Henderson served as Senior Vice President of International Exploration & Production at Maxus Energy Corporation.

Mr. Henderson graduated from Virginia Polytechnic Institute and State University in 1973 with a Bachelor of Science in Geophysics. He currently serves as Chairman of the Dean's Advisory Board at the College of Arts and Sciences, Virginia Tech, as well as being a Member of the Campaign for Virginia Tech's National Campaign Steering Committee.

#### **Mr. James Rawls**

Mr. Rawls has over 41 years oil & gas experience, and is been the president and owner of Rawls Resources Inc., an oil and gas exploration company, since June 2000.

Prior to that he served as the president of Hughes-Rawls Exploration Inc., a privately held oil and gas exploration company, as head of the Energy Lending Department of Deposit Guaranty National Bank, and was with Exxon Company USA as a senior project engineer.

Mr. Rawls is a registered professional Engineer having graduated in 1974 in petroleum Engineering and was named a Distinguished Fellow of the Miss. State University Bagwell College of Engineering in 2007.

#### **Mr. David Roberts**

David Roberts has over 30 years' experience in the oil and gas industry. He is Managing Director of Woodfall Consulting Ltd., a consultancy he founded in 1999 and which specialises in analysis of asset development and drilling performance in the upstream oil industry Mr. Roberts' primary client is Independent Project Analysis Inc., a global consultancy whose niche is capital efficiency in E&P capital projects.

Mr. Roberts is also an associate of HD Capital Partners LLP, which is an independent corporate broking and advisory firm based in the City of London. He has co-authored competent person reports (CPR's) for AIM-listed E&P companies, and has performed drilling benchmarking studies for a major operator.

He is a member of the Society of Petroleum Engineers (SPE) and acts as a SPE paper peer-reviewer.

#### **Mr. Adeola Ogunsemi**

Mr. Ogunsemi is an experienced oil and gas professional with 16 years of industry experience out of his total 20 years work history. He is currently the Chief Financial Officer of Oando Energy Resources, a leading African exploration and production company, listed on the TSX in Canada and has been with the company and its subsidiary for more than 6 years.

#### **Mr. Alexander Abramov**

Mr. Abramov is a Chartered Engineer with over 30 years of experience in energy, construction and investment. He is a shareholder and a chairman of the Board of Directors in Olisol Investments Ltd. Group, a group of companies primarily focused on investing in the oil and gas industry in Central Asia. He is a member of the Board of Directors and also co-owner of "Petrokazenergy" company. This company is engaged in processing the crude oil and exporting the oil products. Mr. Abramov is also a co-founder and a manager of "TET AvtoTrans" trucking company which has its own fleet of oil tankers, motor vehicle depots and vehicle maintenance and service stations in Shalkar, Aktobe region of Kazakhstan.

#### **Mr. William Wells**

Mr. Wells is the founder and primary portfolio manager for Pope Asset Management, LLC. He had previously worked in the Private Wealth Management division of Goldman Sachs, where he was a vice-president working

primarily with family groups throughout the south-eastern United States. Bill had been at Goldman Sachs since his graduation from the Amos Tuck School of Business at Dartmouth College in 1985. Mr. Wells is also a director of Annuity and Life Re Holdings, a company listed on Bermuda stock exchange.

The following Board Members stood down, or did not seek re-election to the Board in 2015; Marcus Rhodes, David Botting, Denise Lay, and Julian Hammond.

## Executive Officers

Set out below is a list of the Company's executive officers, as of December 31, 2015, in addition to those executive officers who are also directors (listed in the above table).

<b>Name and Municipality of Residence</b>	<b>Position with the Company</b>	<b>Principal Occupation During the Past Five Years</b>
<b>Julian Hammond</b> London, England	Chief Executive Officer and Chief Commercial Officer	Currently Chief Executive Officer and Chief Commercial Officer of Tethys, former Executive Director from January 17, 2012 to June 10, 2015. Mr. Hammond was Deputy CEO from February 2011 until July 2012 when he took over as CEO.
<b>Luka Chachibaia</b> Almaty, Kazakhstan	Vice President, Operations & General Director and Director of three Kazakh subsidiaries	Currently Vice President, Operations of Tethys. Prior to July 2008, Mr. Chachibaia was an oil and gas engineer including 11 years working for Schlumberger Oilfield International in various engineering and management positions.
<b>Rosemary Johnson</b> <b>Sabine OBE</b> London, England	Vice President, Exploration	Currently Vice President, Exploration of Tethys since September 2007.
<b>George Mirtskhulava</b> Tbilisi, Georgia	Vice President, Corporate Development & Asset Management	Currently Vice President, Corporate Development & Asset Management of Tethys. Previously Vice President, Corporate Development & Planning of Tethys and CEO of Tethys Kazakhstan SA. Prior thereto, Mr. Mirtskhulava was Vice President Commercial and Head of Kazakhstan Business Unit for Tethys.
<b>Clive Oliver</b> Guernsey, British Isles	Acting Chief Financial Officer, Corporate Secretary	Currently Acting Chief Financial Officer / Corporate Secretary of Tethys and formerly, from August 12, 2013 to September 1, 2015 Vice President, Finance. Mr. Oliver was previously Director of Financial Operations at Essar and before that held Finance Director positions with Charles Taylor plc and senior manager positions with Deloitte & Touche in London and Australia.
<b>Graham Wall</b> Tbilisi, Georgia	Chief Operating Officer	Currently Chief Operating Officer of Tethys since February 2010. Prior thereto, Mr. Wall was VP Technical of Tethys since 2006.

The following executive officers left the Company during 2015: Mark Sarssam, Stephen Elliott, Sabin Rossi, and Mamuka Murjikneli.

All of the Company's directors' terms of office will expire at the earliest of their resignation, the close of the next annual shareholders meeting called for the election of directors (if appointed by the Board of Directors), the third anniversary of the confirmation of their election by the shareholders, their retirement in accordance with the Memorandum and Articles or on such other date as they may be removed according to the Companies Law (2007 Revision) of the Cayman Islands.

As at December 31, 2015, the directors and officers of the Company, as a group, beneficially owned, or controlled or directed, directly or indirectly, 4,057,217 Ordinary Shares or approximately 1.2% of the issued and outstanding Ordinary Shares. The information as to the number of Ordinary Shares beneficially owned, not being within the knowledge of the Company, has been furnished by the respective directors and officers of the Company individually.

### Corporate Cease Trade Orders

None of the Company's directors or executive officers has, within 10 years prior to the date of this Annual Information Form, been a director, chief executive officer or chief financial officer of any company that:

- (i) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer of the relevant company; or
- (ii) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

### Bankruptcies

Except as disclosed below, none of the Company's directors or executive officers, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company:

- (i) is, as at the date of this Annual Information Form, or has been within the 10 years before the date of this Annual Information Form, a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager, or trustee appointed to hold its assets; or
- (ii) has, within the 10 years before the date of this Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

David Henderson is a member of each of WBH Energy, LP, WBH Energy Partners, LLC and WBH Energy GP, LLC (the "**WBH Entities**"). As a result of the fall in oil price the WBH Entities filed voluntary petitions pursuant to chapter 11 of the US bankruptcy Code in the Western District of Texas as of January 4, 2015. The WBH Entities were sold and dissolved effective September 9, 2015.

## Penalties or Sanctions

None of the Company's directors or executive officers, nor any shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, has been subject to:

- (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (ii) any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor making an investment decision.

## CONFLICTS OF INTEREST

Certain officers and directors of the Company are also officers and/or directors of other companies engaged in the oil and gas business generally. As a result, situations may arise where the interests of such directors and officers, as they relate to the Company, conflict with their interests as directors and officers of other companies. The resolution of such conflicts is governed by applicable laws of the Cayman Islands, which require that the directors act honestly, in good faith and with a view to the best interests of the Company. Conflicts, if any, will be handled in a manner consistent with the procedures and remedies set forth in such laws. The Memorandum and Articles provide that in the event that a director has an interest in a proposed transaction or agreement, the director shall disclose the nature and extent of any material interest of his or her interest in such proposed transaction and his or her interest in or relationship to any other party to the transaction or agreement. Such a director is not entitled to vote in respect of matters in which he has a material interest or that relate to his appointment as the holder of an office or place of profit with the Company.

See "*Risk Factors – Conflicts of Interest*" for a description of conflicts which may arise from the relationship between the Company and certain of its directors.

## PROMOTER

No person or company has been, within the two most recently completed financial years or during the current financial year, a promoter of the Company within the meaning of applicable Canadian securities legislation.

## CORPORATE GOVERNANCE STATEMENT

In terms of Corporate Governance requirements the Company is subject to National Instrument 58-101 – *Disclosure of Corporate Governance Practices*, and as such is required to include in its Management Information Circular, which will be circulated in advance of the Annual General Meeting set for May 31, 2016, the disclosure required under Form 58-101F1 with respect to the matters set out therein and under National Policy 58-201 – *Corporate Governance Guidelines* ("NP 58-201"). NP 58-201 is available on the website of the Ontario Securities Commission at [www.osc.gov.on.ca/](http://www.osc.gov.on.ca/).

In accordance with point 7.2 of the Disclosure and Transparency Rules of the UK Financial Conduct Authority, as a foreign company with a standard listing in the United Kingdom, the Company is obligated to prepare a Corporate Governance Statement.

As at December 31, 2015, the Company is in full compliance with the majority of the provisions of NP 58-201; however, there are a number of exceptions as follows:

- The independent members of the Board of Directors do not hold regularly-scheduled meetings at which the non-independent directors and members of management are not in attendance; however, non-management directors do hold such meetings when management is not present and the Board is encouraged to hold such meetings in order to facilitate the exercise of the directors' independent judgement. In addition, the Board

holds “in camera” sessions for independent members during each face-to-face Board meeting to facilitate open and candid discussion amongst the independent directors.

- The Chairman of the Board of Directors, John Bell, is not an independent director as he is the Executive Chair of the Company. In order to provide leadership of the independent directors, the Board encourages communication among the independent directors and will consider appointing an independent member as lead independent director to provide guidance to the other independent directors.
- The Company currently does not have any formal measures for independent directors receiving feedback directly from stakeholders.
- The Company has no formal procedure for assessing the performance of individual directors as the Board of Directors believes that such assessments are generally more appropriate for corporations of significantly larger size and complexity than the Company and which may have significantly larger Boards of Directors. However, the non-executive directors are encouraged to meet periodically to discuss how the executive directors are performing and to report their conclusions to the Chairman.
- The Board has not developed written position descriptions for the Chairman of the respective Board committees.
- In addition, the Company has not adopted policies for the representation of women on the Board, targets for the number of women on the Board/executive officers or director term limits, each as further described below.

## Introduction

The Board of Directors is committed to a high standard of corporate governance practices. The Board believes that this commitment is not only in the best interests of shareholders but that it also promotes effective decision making at Board level. The Board is of the view that its approach to corporate governance is appropriate and continues to work to align with the recommendations currently in effect and contained in NP 58 201. In addition, the Board monitors and considers for implementation the corporate governance standards which are proposed by various Canadian regulatory authorities.

## Board of Directors

The Board of Directors is responsible for overseeing the conduct of the business of the Company and supervising management, who are responsible for the daily conduct of the business of the Company. As at December 31, 2015 and the date of this Annual Information Form, the Board of Directors was comprised of seven directors. A director is “independent” within the meaning of Section 1.4 of NI 52-110 if he or she does not have any direct or indirect material relationship with the Company which, in the view of the Board of Directors, could reasonably interfere with the exercise of the member’s independent judgement. In addition, under NI 52-110, certain individuals are deemed to have a “material relationship” with the Company, including any individual whose immediate family member is, or has recently been, an executive officer of the Company. Based on the foregoing definition, the Board had 6 independent directors and 1 director who is not independent at December 31, 2015.

<b>Independence Status of Directors</b>				
<b>Name</b>	<b>Management</b>	<b>Independent</b>	<b>Not Independent</b>	<b>Reason for Non Independent Status</b>
John Bell	✓		✓	Mr. Bell is the Executive Chair
Alexander Abramov		✓		n/a
Adeola Ogunsemi		✓		n/a
David Henderson		✓		n/a

James Rawls		✓		n/a
David Roberts		✓		n/a
William Wells		✓		n/a

As of the date of this Annual Information Form, John Bell is an Independent Non-Executive Director, as Co-Chair with Alexander Abramov.

### Election of Directors

The Company currently has seven directors, all of whom will hold office until the next annual general meeting of shareholders or until his or her successor is duly elected, unless his or her office is earlier vacated. The directors are elected each year by the Company's shareholders at the Annual General Meeting of shareholders. The Board reviews the composition of its membership on an annual basis and determines the appropriate size of the Board.

In June and August 2015, the following directors resigned: Denise Lay, Julian Hammond, Marcus Rhodes and David Botting. The attendance of the former directors at board and committee meetings is not referred to in the table below. Adeola Ogunsemi was appointed a director in June 2015 and Alexander Abramov and William Paul Wells were appointed in November 2015. The table below refers to attendance at meetings held since the date of their appointment:

Director	Board	Audit Committee	Compensation and Nomination Committee	Reserves Committee
John Bell	41/41	n/a	n/a	n/a
James Rawls	40/41	6/6	3/3	5/5
David Henderson	39/41	5/5	5/6	5/5
David Roberts	31/41	n/a	18/18	5/5
Adeola Ogunsemi	26/34	2/2	5/6	n/a
William Paul Wells	6/6	n/a	n/a	n/a
Alexander Abramov	3/6	n/a	n/a	n/a

(1) The above only reflects attendance at meetings held in 2015 from the date of appointment in the case of Adeola Ogunsemi, William Paul Wells and Alexander Abramov.

Certain of the directors are also directors of other reporting issuers (or the equivalent) in a Canadian or foreign jurisdiction as indicated in the table below:

Name	Reporting Issuer
John Bell	Gulfsands Petroleum Limited
William P. Wells	Annuity and Life Re Holdings

### Board Mandate

The Board adopted a formal written charter (the "Board Charter") in November 2010. This was reviewed and updated in September 2013. The mandate of the Board is to supervise the management of the Company and to be the steward of the Company with a view to the best interests of the Company.

Under the Board Charter, the Board's terms of reference include the following:

- Review and approve strategic, business and capital plans for the Company.
- Review the principal risks of the Company's business and monitor the implementation by management of appropriate systems to manage such risks.
- Review recent developments that may impact the Company's growth strategy.
- Develop and implement programmes for management and Board succession planning including development within the organization.
- Review, approve and amend as required, the Disclosure, Communications and Insider Trading Policy and monitor the practices of management to ensure appropriate, fair and timely communication of information concerning the Company.
- Ensure specific and relevant corporate measurement systems are developed and adequate internal controls and management information systems are in place with regard to business performance and the integrity thereof.
- Review and approve corporate governance guidelines applicable to the Company and in accordance with statutory and regulatory requirements.
- Review compliance by the Company and its subsidiaries with their constituent documents and with the laws and regulations of their incorporating jurisdictions and other applicable laws and regulations including those of any stock exchanges on which the Company's securities may be listed.
- Approve the interim and annual financial statements.
- The Board is responsible for, to the extent feasible, satisfying itself as to the integrity of the Executive Chairman, CEO, and CFO and the other executive officers and that the Executive Chairman, CEO and CFO and the other executive officers create a culture of integrity throughout the organization.

The Board believes management is responsible for the effective, efficient and prudent management of the Company's day-to-day operation subject to the Board's stewardship.

### Position Descriptions

The Board Charter provides a position description for the Chairman of the Board. The Chairman is responsible for leadership of the Board, for the efficient organization and conduct of the Board's function and for the briefing of all Directors in relation to issues arising at Board meetings. The Chairman is also responsible for shareholder communication and arranging Board performance evaluation. The Executive Chairman is the leader of the organization and chairs the Board and Executive Board. He is expected to apply business acumen and strategic vision to lead the Company and improve its competitive standing, guiding the development of the Company's strategy in conjunction with the Board and with input from the Chief Executive Officer.

The Board has not developed written position descriptions for the Chairman of the respective Board committees. At the financial year ended, December 31, 2015, the Board had four standing committees, all of which were composed of independent directors, with the exception of the Executive Board (Executive Committee). The Board has delegated certain responsibilities to each of its committees, and they report to and make recommendations to the Board on a regular basis. The Chair of each committee is expected to be responsible for ensuring that the written terms of reference of the committee for which he or she serves as Chair is adhered to and that the objectives of each committee are accomplished.

## Board Committees

As of December 31, 2015, the Company's four standing committees are the Audit Committee, the Compensation and Nomination Committee, the Reserves Committee and the Executive Board (Executive Committee). The Executive Board is represented by John Bell, Chairman only and it held no meetings in 2015. The Strategic Risk Committee was terminated in November 2014 and its functions assumed by the Board.

The standing committees are comprised of the members and chaired by the individuals set out in the following table.

Committee	Members	Independent
Audit Committee	Marcus Rhodes, Chair (until June 10, 2015)	Yes
	Adeola Ogunsemi, Chair (from June 11, 2015)	Yes
	David Botting (until March 23, 2015)	Yes
	David Henderson (from March 23, 2015)	Yes
	James Rawls	Yes
Compensation and Nomination Committee	David Botting, Chair until August 10, 2015)	Yes
	David Henderson, Chair (from August 11, 2015)	Yes
	David Roberts	Yes
	Adeola Ogunsemi (from June 11, 2015)	Yes
Reserves Committee	David Roberts, Chair	Yes
	David Henderson	Yes
	James Rawls	Yes
Executive Board (Executive Committee)	John Bell, Chair	No

The Board has established a position description for the Chief Executive Officer. The Chief Executive Officer heads up day-to-day management of the business including operations, exploration, commercial and business development implementation working closely with and providing input to the Executive Chairman on the development of the Company's strategy. The Board approves the goals, the objectives and policies within which the Company is managed and then reviews and evaluates performance against these objectives. Reciprocally, the Executive Chairman and the Chief Executive Officer keep the Board fully informed of the progress of the Company towards achievement of its established goals and of all material deviations.



## Orientation and Continuing Education

### *Director Orientation*

Under the Board Charter, the Chairman and Corporate Secretary are responsible for providing an induction programme for new Directors and for periodically providing materials for all Directors on subjects that would assist them in discharging their duties. When a new Director is elected to the Board, he or she will be given a letter of appointment outlining his or her duties, responsibilities, the role of the Board, its committees and its directors, the nature and operation of the issuer's business, remuneration and an induction package including material that will assist with the familiarization of the Director with the Company. Within three months of appointment to the Board, each new Director shall spend time visiting the Company's offices for a personal briefing by the executive on the Company's values, operations, corporate interests, strategic plans, financial statements and key policies.

### *Continuing Education of Directors*

Under the Board Charter, the Corporate Secretary shall alert Directors to opportunities to better understand their corporate governance responsibilities through continuing education programmes. In addition, Directors are encouraged to visit the Company's facilities, to interact with management and employees and to stay abreast of industry developments and the evolving business of the Company.

### **Ethical Business Conduct**

The Company has adopted a written Code of Business Conduct and Ethics (the "**Code**") which applies to the Company's directors, officers and employees, a copy of which can be obtained under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com). The Company expects all Directors, officers and employees to act ethically at all times in accordance with the Code.

The Board of Directors takes reasonable steps to monitor compliance with the Code by requiring employees, on the commencement of employment and as otherwise directed by management, to sign a copy of the Code acknowledging that the employee has read, understood and will comply with the Code. The Code encourages that an employee report to their supervisor or the Board possible unethical conduct and breaches of the Code. The Company's Secretary acts as Compliance Monitor with respect to such matters.

In addition to the Code, the Company has adopted an Audit Committee Charter and a Whistle-blower Policy (the "**Policy**") with respect to accounting and auditing irregularities. The Policy gives Directors, officers and employees a confidential independent "hot line" to report any concerns with respect to the Company's financial matters. Details of the Policy have been distributed to employees and the "hot line" operates in both English and Russian languages. In the event that an individual does not wish to use this system they may and should forward any accounting and auditing concerns to the Corporate Secretary on an anonymous basis. The Company has also adopted a disclosure and insider trading policy to ensure the communications to the investing public about the Company are timely, factual and accurate in accordance with applicable legal and regulatory requirements and to help ensure that the directors, officers and other insiders of the Company understand and comply with the insider trading restrictions under applicable securities legislation.

Since the beginning of the Company's most recently completed financial year, no material change reports have been filed that pertain to any conduct of a director or executive officer that constitutes a departure from the Code.

The Board encourages and promotes a culture of ethical business conduct by appointing directors who demonstrate integrity and high ethical standards in their business dealings and personal affairs. Directors are required to abide by the Code and are expected to make responsible and ethical decisions in discharging their duties, thereby setting an example of the standard to which management and employees should adhere.

The Board requires that the Chief Executive Officer and other executive officers are acting with integrity and fostering a culture of integrity throughout the Company. The Board is responsible for reviewing departures from the Code, reviewing and either providing or denying waivers from the Code, and disclosing any waivers that are granted

in accordance with applicable law. In addition, the Board is responsible for responding to potential conflict of interest situations, particularly with respect to considering existing or proposed transactions and agreements in respect of which directors or executive officers advise they have a material interest. Directors and executive officers are required to disclose any interest and the extent, no matter how small, of their interest in any transaction or agreement with the Company, and that directors excuse themselves from both Board deliberations and voting in respect of transactions in which they have an interest. By taking these steps the Board strives to ensure that directors exercise independent judgement, unclouded by the relationships of the directors and executive officers to each other and the Company, in considering transactions and agreements in respect of which directors and executive officers have an interest.

### **Anti-Bribery Policy**

The Company put in place an Anti-Bribery Policy in 2011. The policy prohibits the offering, giving, solicitation or acceptance of any bribe, whether cash or other inducement to or from any person or company, wherever they are situated and whether they are a public official or body or private person or company, by any individual employee, agent or other person or body acting on the Company's behalf in order to gain any commercial, contractual or regulatory advantage for the Company in a way which is unethical or in order to gain any personal advantage, pecuniary or otherwise, for the individual or anyone connected with the individual.

The policy has been implemented Company-wide and an Anti-Bribery Compliance Officer was appointed to ensure the following:

#### ***Proportionate Procedures***

Procedures are proportionate to the bribery risks faced and to the nature, scale and complexity of the Company's activities. They are also clear, practically implemented and enforced.

#### ***Top-level commitment***

Top management fosters a culture where bribery is never acceptable.

#### ***Risk assessment***

The Company assesses the nature and extent of its exposure to potential external and internal risks of bribery being committed on its behalf by persons associated with it. The assessment is periodic.

#### ***Due Diligence***

The Company applies appropriate due diligence in respect of persons who perform or will perform services for or on behalf of the Company in order to mitigate identified bribery risks. An Anti-Bribery due diligence procedure for new and existing service providers was introduced and implemented by the Company which was followed by a thorough employee training on new procedures in Kazakhstan.

#### ***Communication***

Through internal and external communication, including training, the Company seeks to ensure that its bribery prevention policies are embedded and understood throughout the Company.

#### ***Monitoring and Review***

The Company monitors and reviews procedures designed to prevent bribery by persons associated with it.

The Company's Anti-Bribery Compliance Officer implemented extensive training on the Company's Anti-Bribery Policy in Kazakhstan, Tajikistan and Uzbekistan on its initial rollout in 2012 and further training was undertaken by key staff during 2013. Senior management attended a further presentation during 2014.

In 2015 the Company updated its Anti-Bribery Policy to a more detailed, prescriptive format which includes procedures for documenting any charitable donations and any payments made for travel or engagement of any public officials.

The Anti-Bribery Compliance Officer, Compliance Review Committee and Legal Department now work together in the process of engaging any new business relationships (including service providers, vendors and buyers) and retention of existing ones to aim to mitigate bribery risks. The Compliance Review Committee was set-up to review and approve the process and to raise awareness of possible medium or high bribery risks to the Company.

### **Nomination of Directors and Compensation**

The Compensation and Nomination Committee is composed entirely of independent directors and is responsible for identifying new candidates to join the Board of Directors. The Committee is responsible for identifying qualified candidates, recommending nominees for election as directors and appointing directors to committees. The Compensation and Nomination Committee is requested to objectively consider, among other things, a candidate's independence, financial and technical acumen, skills, ethical standards, career experience, financial responsibilities and risk profile, understanding of fiduciary duty and available time to devote to the duties of the Board of Directors in making their recommendations for nomination to the Board of Directors. The Committee reviews the composition and size of the Board of Directors and tenure of directors in advance of annual general meetings when directors are most ordinarily elected by the Company's shareholders, as well as when individual directors indicate that their terms may end or that their status may change. The Compensation and Nomination Committee encourages all directors to participate in considering the need for and in identifying and recruiting new nominees for the Board of Directors; an external executive recruitment consultancy may also be used for this purpose. In doing so, the directors are requested by the Compensation and Nomination Committee to have regard to the skill sets which are deemed, from time to time, to be most desired in proposed nominees for the Board of Directors.

With respect to compensation, the Compensation and Nomination Committee reviews and approves corporate goals and objectives relevant to the Executive Chairman's compensation, evaluates his/her performance in light of those corporate goals and objectives and determines or makes recommendations to the Board of Directors with respect to compensation level based on this evaluation. This committee also considers and, if deemed appropriate, approves recommendations for compensation for executive officers and executive directors and incentive compensation plans of the Company. This includes the review of the Company's executive compensation and other human resource philosophies and policies, the review and administration of the Company's bonuses, stock options and share purchase plan and the preparation and submission of a report for inclusion in annual continuous disclosure documents, as required. The Compensation and Nomination Committee takes external professional advice where required.

The Compensation and Nomination Committee is comprised entirely of non-management members of the Board of Directors and is required to convene at least two times each year.

The Compensation and Nomination Committee has a written charter which clearly establishes the Committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations, and manner of reporting to the Board of Directors.

The function of the Audit Committee is set out in detail below.

### **Audit Committee Charter**

The Audit Committee is responsible for reviewing the Company's financial reporting procedures, internal controls and the performance of the external auditors. The Audit Committee Charter of Tethys was reviewed and updated in March 2013 and a copy of this updated charter is set forth as Appendix C-1 of this Annual Information Form.

## **Composition of the Audit Committee**

All members of the committee are considered independent and financially literate within the meaning of NI 52-110. The Audit Committee has a defined mandate and is responsible for reviewing and overseeing the external audit function, recommending the external auditor and the terms of such appointment or discharge, reviewing external auditor reports and significant findings and reviewing and recommending for approval to the Board of Directors all public financial information such as financial statements, management's discussion and analysis, annual information forms and prospectuses.

## **Relevant Education and Experience of Members of the Audit Committee**

### ***Adeola Ogunsemi (Chair from June 11, 2015)***

Adeola Ogunsemi is an experienced oil and gas professional with 16 years of industry experience out of his total 20 years work experience. He is currently the Chief Financial Officer of Oando Energy Resources, a leading African exploration and production company, listed on the TSX in Canada and has been with the company and its subsidiary for more than 6 years. He was with BP America for 5 years, rising to become Assistant Controller.

Before joining BP America, he worked for Northern Illinois Gas in Chicago, USA, for 4 years, the Chicagoland Chamber of Commerce and Midas International in Chicago, USA.

Adeola obtained a Master of Business Administration (MBA) in Finance and Strategic Management from the University of Chicago Booth School of Business in 2003 and a Bachelor of Science in Accounting and Finance from DePaul University in Chicago in 2000. He is also a Chartered Global Management Accountant (CGMA) in the USA and an Associate Chartered Accountant in Nigeria.

### ***James Rawls***

Mr. James Rawls was appointed as a non-executive Director of the Company in September 2009. Mr. Rawls was appointed to the Audit Committee on May 1, 2010. Mr. Rawls is a registered Petroleum Engineer with over 38 years industry experience in engineering and finance. Mr. Rawls is currently the owner and manager of Rawls Resources, Inc., a private oil and gas exploration company. Mr. Rawls worked for Exxon Company USA in onshore and offshore development as a Senior Project Engineer, and later went on to a successful 12 year career in banking as Manager of the Deposit Guarantee National Bank. Since the early 1990's, Mr. Rawls has been involved in drilling oil and gas wells both onshore and offshore, in the United States and elsewhere. Mr. Rawls serves or has served on the public company boards of Redcliffe Exploration Inc., Harcor Energy Lending Department., Tikal Resources Corporation and Aquest Energy, Ltd., as well as on the boards of numerous private companies, professional and philanthropic organizations. He holds a Bachelor degree in Petroleum Engineering from Mississippi State University and was named a Distinguished Fellow of the Bagwell School of Engineering in 2007.

### ***David Henderson (from March 23, 2015)***

David Henderson was appointed a director of the Company in November 2014. He has over 40 years of experience in the oil and gas business encompassing projects in the US and International venues. He is presently President of WBH Energy Partners and is involved in developing resource plays onshore US. He is presently the principal in Herodotus Resources LLC, an oil and gas consultancy, and was formerly President of WBH Energy Partners, LLC, a private company developing resource plays onshore US. Prior to that, Mr. Henderson was Senior VP of International for Pennzoil Exploration and Production Company where he expanded Pennzoil's international presence and negotiated its participation in the ACG Unit contract offshore Azerbaijan. Prior to joining Pennzoil, Mr. Henderson was Senior VP of International for Maxus Energy Corporation where he negotiated 15 contracts in 13 countries and oversaw the discovery and development of the Intan and Widuri Fields offshore Sumatra.

### Reliance on Certain Exemptions

At no time since the commencement of the Company's most recently completed financial year, has the Company relied on any of the following exemptions from NI 52-110:

- (a) the exemption in section 2.4 (*De Minimis Non-Audit Services*);
- (b) the exemption in subsection 3.2(2) (*Initial Public Offerings*);
- (c) the exemption in subsection 3.3(2) (*Controlled Companies*);
- (d) the exemption in section 3.4 (*Events Outside Control of Member*);
- (e) the exemption in section 3.5 (*Death, Disability or Resignation of Audit Committee Member*);
- (f) the exemption in section 3.6 (*Temporary Exemption for Limited and Exceptional Circumstances*);
- (g) the exemption in section 3.8 (*Acquisition of Financial Literacy*); or
- (h) an exemption from NI 52-110, in whole or in part, granted under Part 8 (*Exemptions*).

### Audit Committee Oversight

At no time since the commencement of the Company's most recent financial year, has a recommendation of the audit committee to nominate or compensate an external auditor not been adopted by the Board of Directors.

### Pre-Approval Policies and Procedures

The Audit Committee has delegated to the Chairman of the Audit Committee (or such other member of the Audit Committee who may be delegated authority), the authority to act on behalf of the Audit Committee between meetings of the Audit Committee with respect to the pre-approval of audit and permitted non-audited services provided by the external auditor. The Audit Committee is required to be notified of any non-approved services over and above audit and tax. The Chairman reports on any such pre-approval at the next meeting of the Audit Committee.

### External Auditor Service Fees

At the Annual General Meeting held in Guernsey on June 11, 2015, PricewaterhouseCoopers LLP Canada, Chartered Professional Accountants ("PwC") were re-appointed as auditors of the Company. PwC were appointed as auditors of the Company on November 25, 2014 to replace KPMG LLP, Chartered Accountants who were first appointed as auditor of the Company on April 1, 2014 and who in turn replaced KPMG Audit Plc who were first appointed as auditor of the Company on May 13, 2011.

The following table provides information about fees billed to the Company and its affiliates for professional services rendered by Tethys' external auditors.

Type of Service Provided	Year-ended December 31, 2015	Year-ended December 31, 2014
Audit fees (including quarterly reviews)	\$422,156	\$424,600
Audit-related fees	\$13,858	\$124,391
Tax fees	\$7,500	\$29,000
All other fees	-	-
<b>Total</b>	<b>\$443,514</b>	<b>\$577,991<sup>(1)</sup></b>

- (1) Of the aggregate fees of USD577,991 paid to the Corporation's auditors in 2014, USD189,991 was paid to KPMG and USD388,000 was paid to PwC.

## **Main Features of the Internal Control and Risk Management Systems Pertaining to the Financial Reporting Process**

### ***Objectives***

The objective of internal control in Tethys is to ensure efficient implementation of the Company's strategy and effective operations, assure compliance with both internal instructions and laws and regulations, achieve appropriate financial reporting, and prevent fraud and other misconduct. The main responsibility for internal control lies with the finance departments within the administration offices within each operating country or within the head office. Identifying the main risks of processes and defining adequate control points are essential to ensuring an appropriate level of control. Within each operating country levels of internal control are reviewed, both locally and by head office, with a view to developing their systems and by taking corrective actions as needed. Line management also has responsibility for organizing sufficient control to ensure compliance with the Company's overall management principles, policies, principles, and instructions.

### ***Roles and Responsibilities***

Under the TSX and the Alberta Securities Commission requirements, while the Board of Directors is responsible for ensuring that there is adequate control over the Company's accounts and finances, responsibility for arranging this control lies with the CEO and CFO, who are required to ensure that the Company's accounts are in compliance with the law and that its financial affairs have been arranged in a reliable manner and sign to this effect with each filing of financial statements.

The heads of business units are responsible for establishing and maintaining adequate and effective controls in their operations. Responsibility for the practical implementation of this lies with the finance departments. Managers at each of these levels are responsible for implementing corporate principles and instructions in their organization. Responsibility for assessing the effectiveness of the controls lies ultimately with the CFO.

In respect of financial reporting, Finance has the principal role in control activities. Other corporate functions also play a role in assisting, assuring, and monitoring the operation of internal control procedures, such as Health, Safety and Environment (HSE) audits.

Head office Finance has overall responsibility for evaluating that internal control processes and procedures operate adequately and effectively.

## **The Audit Committee oversees the Company's finances, financial reporting and participates in risk management.**

### ***Control environment***

Tethys's values and management systems are the foundation of the control environment and provide the background for shaping people's awareness and understanding of control issues. With respect to financial reporting:

- the Executive Board and corporate management are responsible for underlining the importance of ethical principles and correct financial reporting
- the Audit Committee, appointed by the Board of Directors, is responsible for overseeing the financial reporting process and related controls
- clearly defined financial reporting roles, responsibilities, and authorities have been implemented that provide a clear framework for everyone, and

- the structure of the organization and the resources allocated within it (segregation of duties, adequate financial reporting competencies recruited and retained) are designed to provide effective control over financial reporting).

### *Control activities*

Control activities are instructions, guidelines, and procedures established and executed to help ensure that the financial actions identified by management as necessary to address the relevant risks are carried out effectively. Policies and other principles to be followed are documented in Tethys's management systems. The most important areas from the standpoint of financial reporting are provided in procedures issued by the CFO or VP Finance after approval by the Executive Board. These establish the minimum controls to be used and include controls related to transactions in specific processes, as well as controls carried out as part of the monthly reporting process. Typical control activities include authorizations, automatic or manual reconciliations, third-party confirmations, control reports, access controls to financial IT systems and analytical reviews.

### *Internal communications*

Information and communication systems enable Tethys's personnel to capture and exchange the information needed to conduct, manage, and control operations. With respect to financial reporting, this means that personnel have access to adequate information and communication to enable them to apply appropriate accounting and reporting principles and practices. The main means of communicating matters relevant for appropriate financial reporting are the instructions issued by the CFO.

### *Monitoring*

Monitoring is a key component of the internal control system and enables the CFO and the Executive Board to determine whether the other components of the system are functioning as they should and to ensure that internal control deficiencies are identified and communicated in a timely manner to those responsible for taking corrective action and to management and the Board as appropriate. Effective monitoring is based on an initial evaluation of controls and whether they are effective in mitigating the risks identified. The ongoing operation of controls is regularly monitored as part of scheduled management activities, as the efficacy of controls can diminish over time due to changes in the operating environment that affect the risks that controls are designed to mitigate, or due to changes in the controls themselves caused by changes in processes, financial IT, or personnel.

### *Other Board Committees*

The functions of the Reserves Committee and Executive Board are set out or referred to below.

#### *Reserves Committee*

The primary function of the Reserves Committee is to recommend the engagement of a reserves evaluator, ensure the reserves evaluator's independence, review the procedures for disclosure of reserves evaluation, meet independently with the reserves evaluator to review the scope of the annual review of reserves, discuss findings and disagreements with management, annually assess the work of the reserves evaluator and approve the Company's annual reserve report and consent forms of management and the reserves evaluator thereto. The Reserves Committee performs an equivalent role as that described above should additional independent reserves, resources or economic valuation reports be commissioned, outside of the annual NI 51-101 compliant review of reserves.

#### *Executive Board (Executive Committee)*

In June 2008, the Board approved the formation of an "Executive Board" (which functions as an executive committee). As of December 31, 2015, the Executive Board comprises John Bell (Chair), who is a sole executive officer of the Company. The purpose of the Executive Board is to allow the Board of Directors to delegate to the Executive Board the authority to respond to day-to-day or time sensitive matters where it is impractical to call a full



meeting of the Board of Directors. The Executive Board makes a report to the Board of Directors of its meetings and actions at subsequent meetings of the Board of Directors.

### **Assessments**

Currently the Board, its Committees and individual directors are not regularly assessed with respect to their effectiveness and contribution as the previous Board believed that such assessments were generally more appropriate for corporations of significantly larger size and complexity than the Company and which may have significantly larger Boards of Directors.

The Executive Board regularly reviews the performance of the Officers of the Company and, should any issues arise, the Chairman would then discuss any issues with the Compensation Committee.

### **Director Term Limits and Other Mechanisms of Board Renewal**

Tethys does not impose director term limits or other mechanisms of Board renewal. The Company has not adopted term limits because it is committed to developing and retaining the expertise on its Board required to provide effective oversight. Moreover, the Board has experienced recent changes to its composition without the need for term limits or other mechanisms of board renewal.

### **Policies Regarding the Representation of Women on the Board**

Tethys has not adopted written policies relating to the identification and nomination of women to the Board. While committed to diversity, the Company is of the view that the identification and nomination of individuals to the Board should be made on the basis of the knowledge and experience of candidates and that the imposition of other requirements would complicate this objective.

### **Consideration of the Representation of Women in the Director Identification and Selection Process**

Tethys does not consider the level of representation of women on the Board in identifying and nominating candidates for election or re-election. The Company remains committed to diversity but is of the view that director identification and selection should focus on the knowledge and experience of candidates.

### **Consideration Given to the Representation of Women in Executive Office Appointments**

Tethys does not consider the level of representation of women in executive officer positions when making executive officer appointments. The Company is of the view that executive officer appointments should be made on the basis of the knowledge and experience of candidates.

### **Issuer's Targets Regarding the Representation of Women on the Board and in Executive Officer Positions**

Tethys has not adopted targets regarding the representation of women on the Board or in executive officer positions. The Company believes that targets are unnecessary and would detract from a focus on the knowledge and experience of candidates.

### **Number of Women on the Board and in Executive Officer Positions**

As at December 31, 2015, the Company does not have any women on its Board and one in an executive officer positions.

### **Voting Securities and Principal Holders of Voting Securities**

As at December 31, 2015, Tethys had 336,960,387 Ordinary Shares issued and outstanding.



To the knowledge of the directors and executive officers of the Company, as of the date hereof, no person or company beneficially owns, or exercises control or direction over, directly or indirectly, more than 10% of the voting rights attached to all of the issued and outstanding Ordinary Shares other than as indicated in the table below.

Name and Municipality of Residence of Shareholder	Number and Percentage of Ordinary Shares <sup>(1)</sup>
Pope Asset Management LLC Memphis, Tennessee	64,266,290 19.1%

**Note:**

(1) As of December 31, 2015.

There are no holders of shares with special voting rights.

### INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as disclosed below and elsewhere in this Annual Information Form, management of the Company is not aware of any material interest, direct or indirect, of any director or executive officer of the Company, any shareholder of the Company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of the voting securities of the Company or any associate or affiliate of such persons, in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect the Company or is otherwise disclosed in the notes to the audited 2015 Consolidated Financial Statements.

#### Vazon Energy Limited

Vazon Energy Limited (“Vazon”) is a corporation organized under the laws of the Bailiwick of Guernsey, of which Dr. David Robson, the Company’s former Executive Chairman and President, is the sole owner and managing director.

Tethys had a management services contract with Vazon that came into effect from June 27, 2007 whereby the services of Dr. Robson and other Vazon employees were provided to the Company. The total cost charged to Tethys for services from Vazon in the year ended December 31, 2014 was USD1,369,307 (2013 – USD1,341,648).

On June 17, 2013, the company made a deposit of GBP400,000 as security for amounts owing to Vazon under the management services contract.

On November 4, 2014, Vazon gave the required one year’s notice to terminate the management services contract.

During 2015 a final settlement was agreed with Vazon and payment was made out of the proceeds of the above-mentioned deposit account. Total payments made to Vazon during 2015 were USD674,792.

#### Oilfield Production Consultants

Oilfield Production Consultants (OPC) Limited, Oilfield Production Consultants (OPC) Asia LLC and Oilfield Production Consultants USA LLC (collectively “OPC”) had one common former director with the Company, Piers Johnson. Mr. Johnson resigned as a Director of the Company on November 17, 2014. Total fees for the year ended December 31, 2014 were USD 55,887 (2013 – USD133,304). These fees represented significantly less than 1% of the turnover of OPC. OPC participated in the 2014 loan financing described in note 21.1 advancing USD400,000 to the Company. The balance due to OPC at December 31, 2014 was USD349,774. During the year 2015, no transactions were made.

## Related Party Transactions With Key Management Personnel

Two officers of the Company participated in the 2011 loan financing for which they received 75,000 and 232,620 warrants at a fair value of USD6,143 and USD21,983 respectively. Loans advanced were USD150,000 and GBP300,000 respectively and were rolled over upon maturity of their one year term for a further term of one year under the same conditions and terms afforded to non-related parties, except that the warrants originally issued were not extended. Upon rollover, there was a re-issue of 75,000 and 232,620 warrants at a fair value of USD2,940 and USD25,891 respectively. These loans were repaid in full in February 2014 and the warrants expired in May and June 2014.

Ambassador Khalilzad was a non-executive director of the Company until his resignation on November 6, 2014. His company, Khalilzad Associates, provides consultancy services with respect to business development. Total fees for these services amounted to USD45,000 for the period ended December 31, 2014 (2013 – USD65,502).

Dr. David Robson, former Executive Chairman and President had a close family member employed by the Company during 2014 and 2013 on standard terms and conditions.

Three non-executive directors and one executive director of the Company participated in the 2014 rig loan financing described in note 21 of the Consolidated Financial Statements on the same terms as other participants. In addition, non-interest bearing advances have been made to three officers of the Company. Amounts advanced during each of the last three years and balances outstanding at the end of each year are shown in the table below.

	Year ended		Balance as at	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
<b>Loans advanced to Company:</b>				
Former Non-executive director	200	-	175	-
Former Non-executive director	200	-	175	-
Former Non-executive director	150	-	131	-
Former Non-executive director	100	-	82	-
Former Executive director (resigned)	167	-	139	-
<b>Amounts advanced by Company:</b>				
Officer	40	54	26	27
Officer	78	76	65	45
Officer	68	50	23	17

As of 31 December, 2015 all balances related to the Rig Loan financing described above have been paid.

## TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Ordinary Shares in Canada is Equity Financial Trust Company at its principal offices in Toronto, Ontario and Calgary, Alberta, Canada. The registrar in relation to the Company's standard listing on the LSE is Capita Registrars (Guernsey) Limited with its registered offices at Longue Hougue House, St. Sampson, Guernsey GY2 4JN, British Isles.

## MATERIAL CONTRACTS

The only material contracts entered into by the Company during the most recently completed financial year, or before the most recently completed financial year that are still in effect, other than contracts entered into during the ordinary course of business, and which are not otherwise required to be disclosed in accordance with the requirements of part 12 of NI 51-102 are as follows:

1. the Bokhtar PSC;

2. the Georgian PSCs;
3. the Kyzylol Field Licence and Production Contract;
4. the Akkulka Production Contract;
5. the Akkulka Exploration Contract;
6. the Kul-Bas Exploration and Production Contract;
7. the loan agreement between TPL and a lender (January 16, 2015, as amended March 12, 2016);
8. the Subscription Agreement between TPL and AGR Energy (May 15, 2015);
9. the Subscription Agreement between TPL and AGR Energy (June 30, 2015);
10. the Subscription Agreement between TPL and AGR Energy Holdings (June 30, 2015);
11. the Subscription Agreement between TPL and Pope Asset Management, LLC (July 14, 2015);
12. the Facility Agreement between TPL and Nostrum (August 10, 2015);
13. the Facility Agreement between TPL and Olisol (November 19, 2015);
14. the Investment Agreement between TPL and Olisol and OPL (December 7, 2015); and
15. the Amendment Agreement between TPL and Olisol and OPL (March 2, 2016).

Copies of the foregoing material contracts have been filed by the Company on SEDAR and are available online at [www.sedar.com](http://www.sedar.com).

#### **INTEREST OF EXPERTS**

There is no person or company who is named as having prepared or certified a report, valuation, statement or opinion described or included in a filing, or referred to in a filing, made under NI 51-102 by the Company during, or related to, its most recently completed financial year and whose profession or business gives authority to the report, valuation, statement or opinion made by the person or company, other than PwC and Gustavson. None of the designated professionals of Gustavson has any registered or beneficial interest, direct or indirect, in any of the Company's securities or other property or of the Company's associates or affiliates either at the time they prepared the statement, report or valuation prepared by it, at any time thereafter or to be received by them.

PwC has advised that they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Alberta.

#### **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

To the knowledge of the Company, there are no legal proceedings which the Company is or was a party to or of which any of its properties is or was the subject of, during the financial year ended December 31, 2015, which would in the aggregate exceed the threshold set out in accordance with Canadian securities legislation applicable to this Annual Information Form, being 10% of the current assets of the Company, nor are there any such proceedings known to the Company to be contemplated.

To the knowledge of the Company, there were no: (i) penalties or sanctions imposed against the Company by a court relating to securities legislation or by a securities regulatory authority during the financial year ended December 31, 2015; (ii) penalties or sanctions imposed by a court or regulatory body against the Company that would likely be

considered important to a reasonable investor in making an investment decision; or (iii) settlement agreements the Company entered into before a court relating to securities legislation or with a securities regulatory authority during the last financial year.

### **ADDITIONAL INFORMATION**

ADDITIONAL INFORMATION CONCERNING TETHYS IS AVAILABLE THROUGH THE INTERNET ON SEDAR WHICH MAY BE ACCESSED AT [WWW.SEDAR.COM](http://WWW.SEDAR.COM). COPIES OF SUCH INFORMATION MAY ALSO BE OBTAINED WITHOUT CHARGE BY REQUEST TO THE CORPORATE SECRETARY OF TETHYS BY MAIL AT P.O. BOX 524, ST. PETER PORT, GUERNSEY, GY1 6EL, BRITISH ISLES, TELEPHONE: +44 1481 725911, FACSIMILE +44 1481 725922.

Additional information, including information regarding the Company's directors' and officers' remuneration, is contained in the Company's Management Information Circular prepared in connection with its most recent annual meeting of Tethys' shareholders that involved the election of directors.

Additional financial information is provided in the Company's consolidated financial statements and management's discussion and analysis for the year ended December 31, 2015. Copies of such documents may be obtained in the manner set forth above.

**APPENDIX A-1**  
**FORM 51-101F2**  
**REPORT ON RESERVES DATA BY AN**  
**INDEPENDENT QUALIFIED RESERVES EVALUATOR**

(attached)

## 7. FORM 51-101F2

**REPORT ON RESERVES DATA  
BY  
INDEPENDENT QUALIFIED RESERVES  
EVALUATOR OR AUDITOR**

**This is the form referred to in item 2 of section 2.1 of National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101").**

1. Terms to which a meaning is ascribed in *NI 51-101* have the same meaning in this form.
2. The report on *reserves data* referred to in item 2 of section 2.1 of *NI 51-101*, to be executed by one or more *qualified reserves evaluators or auditors independent* of the *reporting issuer*, shall in all material respects be as follows:

### Report on Reserves Data

To the Board of Directors of Tethys Petroleum Limited (the "Company"):

1. We have evaluated the Company's reserves data as at 31<sup>st</sup> December 2015. The Company has oil and gas and natural gas liquid reserves estimated as at 31<sup>st</sup> December 2015. The related future net revenue has been estimated.
2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes preparing estimates of reserves data in accordance with principles and definitions presented in the COGE Handbook.

4. The following table sets forth the estimated net present value of the reserves of the Company evaluated by us as at 31<sup>st</sup> December 2015, using a forecast pricing scenario, and identifies the respective portions thereof that we have evaluated and reported on to the Company's management:

Independent Qualified Reserves Evaluator	Description and Preparation Date of Report	Location of Reserves	Net Present Value of Future Net Revenue (thousands US\$, before income taxes, 10% discount rate)			
			Audited	Evaluated	Reviewed	Total
Letha C. Lencioni	Evaluation Report 1 <sup>st</sup> March 2016	Kazakhstan	0	Proved: \$167,212 Probable: \$184,344 Possible: \$239,794	0	Proved: \$167,212 Probable: \$184,344 Possible: \$239,794

5. In our opinion, the reserves evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook. We express no opinion on reserves data that we did not audit or evaluate; however, to our knowledge, all data were evaluated.
6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their respective preparation dates.
7. Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

Executed as to our report referred to above:

Letha C. Lencioni, Boulder, Colorado, USA, 1<sup>st</sup> March 2016



APPENDIX B-1

FORM 51-101F3

REPORT OF MANAGEMENT AND DIRECTORS ON RESERVES DATA AND OTHER INFORMATION

Management of Tethys Petroleum Limited (the “Company”) is responsible for the preparation and disclosure of information with respect to the Company’s oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2015, estimated using forecast prices and costs.

Independent qualified reserves evaluators have evaluated the Company’s reserves data. The reports of these independent qualified reserves evaluators will be filed with securities regulatory authorities concurrently with this report.

**The Reserves Committee of the board of directors of the Company has:**

- (a) reviewed the Company’s procedures for providing information to the independent qualified reserves evaluators;
- (b) discussed with the independent qualified reserves evaluators, via conference call, to determine whether any restrictions affected the ability of the independent qualified reserves evaluators to report without reservation; and
- (c) reviewed the reserves data with management and the independent qualified reserves evaluators.

**The Reserves Committee of the board of directors has reviewed the Company’s procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors, on the recommendation of the Reserves Committee, has approved:**

- (a) the content and filing with securities regulatory authorities of the Form 51-101F1 containing reserves data and other oil and gas information;
- (b) the filing of the Forms 51-101F2 which are the reports of the independent qualified reserves evaluators on the reserves data; and
- (c) the content and filing of this report.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

\_\_\_\_\_  
*(signed) “David Roberts”*  
David Roberts  
Director and Chairman of the Reserves Committee

\_\_\_\_\_  
*(signed) “Graham Wall”*  
Graham Wall  
Chief Operating Officer

\_\_\_\_\_  
*(signed) “James Rawls”*  
James Rawls  
Director and Member of the Reserves Committee

\_\_\_\_\_  
*(signed) “Julian Hammond”*  
Julian Hammond  
Chief Executive Officer and Chief Commercial Officer

\_\_\_\_\_  
*(signed) “David Henderson”*  
David Henderson  
Director and Member of the Reserves Committee

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Dated March 29, 2016



**APPENDIX C-1**

**AUDIT COMMITTEE CHARTER**

(attached)

**TETHYS PETROLEUM LIMITED**



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**Audit Committee Charter**

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## TETHYS PETROLEUM LIMITED

### 1 INTERPRETATION

In these terms of reference:-

"**Auditor**" means the external auditors of the Company;

"**Board**" means the board of directors of the Company;

"**Code of Conduct and Ethics Policy**" means the Company's Code of Conduct and Ethics Policy in force at the date of adoption of this Charter, as it may be amended or replaced from time to time;

"**Committee**" means the audit committee of the Board; and

"**Company**" means Tethys Petroleum Limited.

### 2 CONSTITUTION

By a resolution dated October 5, 2006, the Board resolved, pursuant to the authority and power conferred upon the Board by Article 101 of the Company's articles of association, to establish a committee of the Board to be known as the audit committee.

### 3 GENERAL AIMS

Without prejudice to the specific duties of the Committee detailed below, the general aims of the Committee shall be to assist the Board in meeting its financial reporting responsibilities and to oversee the Company's relationship with the Auditor.

### 4 SPECIFIC DUTIES

The Committee shall perform the following duties for the Company.

#### 4.1 Financial Reporting

4.1.1 The Committee shall review the financial statements of the Company, including its:

- (a) annual and interim reports and accounts;
- (b) announcements of annual and interim results; and
- (c) any other formal announcement relating to the Company's financial results.

4.1.2 The Committee shall review and discuss with management and the Auditor:

- (a) the Company's annual audited financial statements and related documents prior to their filing or distribution, including;
  - (i) the annual financial statements, related footnotes and Management's Discussion and Analysis, including significant issues regarding accounting principles, practices and significant management estimates

- and judgements, including any significant changes in the Company's selection or application of accounting principles, any major issues as to the adequacy of the Company's internal controls and any special steps adopted in light of material control deficiencies;
- (ii) the use of off-balance sheet financing including management's risk assessment and adequacy of disclosure;
  - (iii) any significant changes to the Company's accounting policies;
  - (iv) the Auditor's audit report on the financial statements; and
- (b) the Company's quarterly unaudited financial statements and related documents prior to their filing of distribution, including.
- (i) quarterly unaudited financial statements and related documents, including Management's Discussion and Analysis including significant issues regarding accounting principles, practices and significant management estimates and judgements, including any significant changes in the Company's selection or application of accounting principles, any major issues as to the adequacy of the Company's internal controls and any special steps adopted in light of material control deficiencies;
  - (ii) if applicable, the Auditor's report of its review of the financial statements;
  - (iii) the use of off-balance sheet financing including management's risk assessment and adequacy of disclosure;
  - (iv) any significant changes to the Company's accounting policies.

4.1.3 The Committee shall review:

- (a) the Company's Annual Information Form, or other similar report filed with securities regulatory authorities, as to financial information;
- (b) all prospectuses and information circulars of the Company as to financial information;
- (c) any financial information contained in other documents, such as announcements of a price sensitive nature.

4.1.4 The Committee shall review:

- (a) the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company;
- (b) the methods used to account for significant or unusual transactions where different approaches are possible;

- (c) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the Auditor;
  - (d) the Company's reporting practices; and
  - (e) all significant financial reporting issues and all judgements which they contain.
- 4.1.5 The Committee shall review and discuss with management financial information, including earnings press releases, the use of “pro forma” or non-IFRS financial information and earnings guidance, contained in any filings with the securities regulators or news releases related thereto (or provided to analysts or rating agencies) and consider whether the information is consistent with the information contained in the financial statements of the Company or any subsidiary with public securities. Such discussion may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made).
- 4.1.6 The Committee shall review the annual financial statements of any pension funds where not reviewed by the Board as a whole.
- 4.1.7 The Committee shall recommend to the Board the approval of the annual financial statements and related documents and either approve the interim financial statements and related documents or recommend to the Board such financial statements and documents for approval.
- 4.2 Internal Controls and risk management systems**
- 4.2.1 The Committee shall:
- (a) keep under review the effectiveness of the Company's internal controls and risk management systems; and
  - (b) review and approve any statements to be included in the Company's annual report and accounts concerning internal controls and risk management.
- 4.3 Ethics Reporting**
- 4.3.1 The Committee is responsible for the establishment of a policy and procedures for:
- (a) the receipt, retention and treatment of any complaint received by the Company regarding financial reporting, accounting, internal accounting controls or auditing matters;
  - (b) the confidential, anonymous submissions by employees of the Company of concerns regarding questionable accounting or auditing matters.
- 4.3.2 The Committee will review, on a timely basis, serious violations of the Code of Conduct and Ethics Policy including all instances of fraud.
- 4.3.3 The Committee will review on a summary basis at least quarterly all reported violations of the Code of Conduct and Ethics Policy.

#### 4.4 Internal Audit

The Committee shall consider annually whether there is a need for an internal audit function and make a recommendation to the Board accordingly. In the event that an internal audit function is introduced, the Board shall extend as appropriate the terms of reference to include, inter alia, monitoring and reviewing the effectiveness of the internal audit function, senior appointments and removals in respect of that function, resourcing of that function, meetings with the internal auditors and reviewing executive management's responsiveness to findings and recommendations of the internal audit function.

#### 4.5 External Audit

##### 4.5.1 The Committee shall:

- (a) consider and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, re-appointment or removal of the Auditor. The Committee shall oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;
- (b) oversee the Company's relationship with the Auditor including (but not limited to):
  - (i) approval of their remuneration, whether fees for audit or non-audit services and ensuring that the level of fees is appropriate to enable an adequate audit to be conducted;
  - (ii) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - (iii) assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the Auditor as a whole, including the provision of any non-audit services;
  - (iv) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the Auditor and the Company (other than in the ordinary course of business) or any other conflict of interest;
  - (v) agreeing with the Board a policy on the employment of former employees of the Auditor, then monitoring the implementation of this policy;
  - (vi) ensuring receipt, at least annually, from the external auditor of a formal written statement delineating all relationships between the Auditor and the Company, including non-audit services provided to the Company;
  - (vii) monitoring the Auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees

paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements; and

- (viii) assessing annually the qualifications, expertise and resources of the Auditor and the effectiveness of the audit process, which shall include a report from the Auditor on their own internal quality procedures;
- (c) overseeing the work of the Auditor, including the resolution of disagreements between management and the Auditor;
- (d) meeting regularly with the Auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the Auditor at least once a year, without executive management being present, to discuss their remit and any issues arising from the audit;
- (e) reviewing and approving the annual external audit plan and ensure that it is consistent with the scope of the audit engagement;
- (f) reviewing the findings of the audit with the Auditor;
- (g) reviewing any representation letter(s) requested by the Auditor before they are signed by the executive management;
- (h) reviewing the executive management letter and executive management's response to the Auditor's findings and recommendations;
- (i) giving consideration to the rotation of the audit partner on a periodic basis;
- (j) reviewing any related findings and recommendations of the Auditor together with management's responses including the status of previous recommendations;
- (k) reviewing any serious difficulties or disputes with management encountered during the course of the audit, including any restrictions on the scope of the Auditor's work or access to required information; and
- (l) reviewing any other matters related to the conduct of the external audit, which are to be communicated to the Committee by the Auditor under generally accepted auditing standards.

4.5.2 The Committee shall develop and implement policies and procedures on the supply of non-audit services by the Auditor, taking into account any relevant statutory requirements on the matter. If such policies and procedures have not been adopted, the Committee shall pre-approve any non-audit services to be provided to the Company or its subsidiaries by the Auditor, except that the Committee has delegated a de minimis level of \$20,000 per annum to the Committee Chair who will report to the Committee at their next meeting of any work approved with this limit.

#### 4.6 **Other Matters**

The Committee shall:

- (a) have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required;
- (b) be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members; and
- (c) oversee any investigation of activities which are within its terms of reference.

## **5 REPORTING**

- 5.1 The chairman of the Committee shall report to the Board generally on its proceedings after each meeting.
- 5.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any matter within its remit where action or improvement is needed.
- 5.3 The Committee's Charter shall be available on request and shall be available on the Company's website (if any).

## **6 REGULATORY DUTIES**

In carrying out its duties the Committee shall:

- (a) give due regard to:
  - (i) all relevant legal and regulatory requirements; and
  - (ii) the rules of any stock exchange or which the Company's securities may be listed;
- (b) ensure that it has such information as it considers necessary or desirable to fulfil its duties as set out in these terms of reference.

## **7 MEMBERSHIP**

- 7.1 Members of the Committee shall be appointed from time to time by the Board, in consultation with the chairman of the Committee.
- 7.2 The Committee shall be made up of at least three members each of whom shall be a member of the Board.
- 7.3 The chairman of the Board shall not be a member of the Committee.
- 7.4 All members of the Committee shall be "independent" as that term is defined under the requirements of applicable securities laws and the standards of any stock exchange on which the Company's securities are listed, taking into account any transitional provisions that are permitted.
- 7.5 Members shall serve one-year terms and may serve consecutive terms to ensure continuity of experience. Members shall be reappointed each year to the Committee by the Board at the Board meeting that coincides with the annual shareholder meeting. A member of the Committee shall automatically cease to be a member upon ceasing to be a



director of the Company. Any member may resign or be removed by the Board from membership on the Committee or as Chair.

- 7.6 All members of the Committee must be “financially literate” as that qualification is interpreted by the Board and or acquire such literacy within a reasonable period of time after joining the Committee. At the present time, the Board interprets “financial literacy” to mean a basic understanding of finance and accounting and the ability to read and understand financial statements (including the related notes) of the sort released or prepared by the Company in the normal course of its business.
- 7.7 The Board shall appoint the chairman of the Committee who shall be a non-executive director of the Company. In the absence of the Chairman, the remaining members of the Committee present at a fully convened Committee meeting may elect one of their number to chair the meeting. The Board shall determine the period for which the chairman of the Committee holds office.
- 7.8 The Board may from time to time remove members from the Committee.
- 7.9 The membership of the Committee shall be set out in the annual report of the Company.

## **8 SECRETARY**

The Board shall from time to time nominate an appropriate person to be the secretary of the Committee.

## **9 MEETINGS**

- 9.1 The Committee shall meet at least two times in each year at appropriate times in the reporting and audit cycle and at such other times as the chairman of the Committee shall require.
- 9.2 Meetings of the Committee shall be summoned by the secretary of the Committee at the request of any member of the Committee or at the request of the Auditor or any internal auditor if they consider it necessary.
- 9.3 Unless otherwise agreed, at least three (3) working days notice shall be given of each meeting of the Committee.
- 9.4 Unless otherwise agreed, notice of each meeting of the Committee shall:
- (a) confirm the venue, time and date of the meeting;
  - (b) include an agenda of items to be discussed at the meeting; and
  - (c) be sent to each member of the Committee, the secretary, any other person required, invited or entitled to attend the meeting and all other non-executive directors of the Company.
- 9.5 Supporting papers shall be sent to members of the Committee and to other attendees at the same time as the relevant notice.

- 9.6 The quorum necessary for the transaction of business by the Committee shall be two members of the Committee and a duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.
- 9.7 Only members of the Committee shall have the right to attend meetings of the Committee. However, others (such as the other directors, representatives from the finance function of the Company and external advisers) may be invited to attend and speak at (but not vote at) a meeting of the Committee as and when appropriate.
- 9.8 The Auditor shall be invited to attend and speak at meetings of the Committee on a regular basis but shall not be entitled to vote at such meetings.
- 9.9 Meetings of the Committee may be held by conference telephone or similar communications equipment whereby all members participating in the meeting can hear each other; provided always however that at least once per annum a direct meeting shall be held between the Committee and the Auditor where a quorum of the members of the Committee and the Auditor are present in person at the same location.
- 9.10 Matters for decision by the Committee shall be decided by a majority decision of the members.

## 10 **MINUTES**

- 10.1 The secretary of the Committee shall minute the proceedings and resolutions of Committee meetings and record the names of those present and in attendance.
- 10.2 The secretary of the Committee shall ascertain, at the start of each Committee meeting, the existence of any conflicts of interest and minute them accordingly.
- 10.3 Following each meeting of the Committee, the secretary shall circulate, for comment, draft minutes to each member who was present at the meeting.
- 10.4 After approval and signing of the minutes by the chairman of the Committee meeting, the secretary shall circulate copies of the minutes to all members of the Board, (unless a conflict of interest exists).

## 11 **AUTHORITY**

- 11.1 The Committee is a committee of the Board and as such exercises such powers of the Board as have been delegated to it.
- 11.2 The Committee is authorised by the Board to investigate any activity within its terms of reference.
- 11.3 The Committee is authorised to:
- (a) seek any information it requires (including from any employee of the Company) in order to perform its duties;

- (b) obtain outside legal or other professional advice (including the advice of independent consultants) on any matters within its terms of reference including, without limitation, any legal matters which could have a significant effect on the Company's financial position;
- (c) to commission any reports or surveys, which it deems necessary, to help it fulfil its obligations;
- (d) to secure the attendance of external advisors at its meetings (if it considers it necessary); and
- (e) to call any employee to be questioned at a meeting of the Committee as and when required,

all at the Company's expense.

## 12 **OWN PERFORMANCE**

At least once a year, the Committee shall review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.