

# **Tethys Petroleum Limited**

Interim Financial Information  
(Unaudited)  
**June 30, 2016**

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

We confirm on behalf of the Board that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting and gives a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the consolidation as a whole as required by DTR 4.2.4 R;
- the interim management report includes a fair review of the information required by DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
- the interim management report includes a fair review of the information required by DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Company during that period; and any changes in the related party transactions described in the last annual report that could do so.

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

For and on behalf of the Board

**A. Abramov**  
Chairman  
August 15, 2016

**A. Ogunsemi**  
Director  
August 15, 2016

# Tethys Petroleum Limited

## Condensed Consolidated Statements of Financial Position (unaudited)

(in thousands of US dollars)

		As at	
	Note	June 30, 2016	December 31, 2015
<b>Non-current assets</b>			
Intangible assets	7	66,626	64,202
Property, plant and equipment	8	107,903	113,397
Restricted cash	9	2,235	2,233
Investment in joint arrangements		4	4
Trade and other receivables		2,235	2,457
Deferred tax	5	215	226
		<b>179,218</b>	<b>182,519</b>
<b>Current assets</b>			
Cash and cash equivalents		700	3,272
Trade and other receivables		4,747	3,710
Inventories		904	879
Restricted cash	9	65	215
		<b>6,416</b>	<b>8,076</b>
<b>Total assets</b>		<b>185,634</b>	<b>190,595</b>
<b>Non-current liabilities</b>			
Trade and other payables		93	133
Financial liabilities - borrowings	10	2,114	22,873
Deferred tax	5	10,362	10,792
Provisions		878	846
		<b>13,447</b>	<b>34,644</b>
<b>Current liabilities</b>			
Financial liabilities - borrowings	10	28,388	9,159
Derivative financial instruments	11	6	275
Current taxation	5	460	398
Trade and other payables		15,760	14,189
Provisions		147	360
		<b>44,761</b>	<b>24,381</b>
<b>Total liabilities</b>		<b>58,208</b>	<b>59,025</b>
<b>Equity</b>			
Share capital	12	40,000	33,696
Share premium	12	321,803	321,803
Other reserves		43,329	43,166
Accumulated deficit		(283,642)	(273,189)
Non-controlling interest		5,936	6,094
<b>Total equity</b>		<b>127,426</b>	<b>131,570</b>
<b>Total equity and liabilities</b>		<b>185,634</b>	<b>190,595</b>
Going concern	2		
Commitments and contingencies	15		

The notes on pages 6 to 25 form part of these condensed consolidated interim financial statements. The condensed consolidated interim financial statements were approved by the Board on August 15, 2016 and were signed on its behalf.

**A. Abramov**  
Chairman  
August 15, 2016

**A. Ogunsemi**  
Director  
August 15, 2016

# Tethys Petroleum Limited

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

	Note	Three months ended June 30		Six months ended June 30	
		2016	2015	2016	2015
Sales and other revenues	3	3,529	6,838	6,984	12,792
Sales expenses		(733)	(1,279)	(1,467)	(2,381)
Production expenses		(1,328)	(4,159)	(2,524)	(6,767)
Depreciation, depletion and amortisation		(2,927)	(20,614)	(5,783)	(21,288)
Administrative expenses		(1,230)	(3,103)	(3,025)	(5,924)
Restructuring costs		(676)	(1,613)	(1,423)	(1,932)
Transaction costs of assets held for sale		-	(945)	-	(1,065)
Share based payments	4	(81)	(118)	(163)	(265)
Profit on sale of fixed assets		-	29	10	43
Foreign exchange gain/(loss)		50	(208)	123	(215)
Fair value gain/(loss) on derivative financial instrument	11	65	(1,547)	269	(469)
Profit/(loss) from jointly controlled entity		-	15	-	(235)
Finance costs		(2,012)	(1,949)	(3,942)	(2,527)
		(8,872)	(35,491)	(17,925)	(43,025)
<b>Loss before tax from continuing operations</b>		<b>(5,343)</b>	<b>(28,653)</b>	<b>(10,941)</b>	<b>(30,233)</b>
Taxation	5	409	3,375	330	2,921
<b>Loss from continuing operations</b>		<b>(4,934)</b>	<b>(25,278)</b>	<b>(10,611)</b>	<b>(27,312)</b>
<b>Loss from discontinued operations net of tax</b>		<b>-</b>	<b>(36)</b>	<b>-</b>	<b>(77)</b>
<b>Loss and total comprehensive income</b>		<b>(4,934)</b>	<b>(25,314)</b>	<b>(10,611)</b>	<b>(27,389)</b>
<b>Loss and total comprehensive income attributable to:</b>					
Shareholders		(4,776)	(25,313)	(10,453)	(27,386)
Non-controlling interest		(158)	(1)	(158)	(3)
<b>Loss and total comprehensive income</b>		<b>(4,934)</b>	<b>(25,314)</b>	<b>(10,611)</b>	<b>(27,389)</b>
<b>Loss per share attributable to shareholders:</b>					
Basic and diluted - from continuing operations (USD)	6	(0.01)	(0.08)	(0.03)	(0.08)
Basic and diluted - from discontinued operations (USD)	6	-	-	-	-

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

The notes on pages 6 to 25 form part of these condensed consolidated interim financial statements.

# Tethys Petroleum Limited

## Condensed Consolidated Statements of Changes in Equity (unaudited)

(in thousands of US dollars)

	Note	Attributable to shareholders					Non-controlling interest	Total equity
		Share capital	Share premium	Accumulated deficit	Option reserves	Warrant reserves		
<b>At January 1, 2015</b>		<b>33,645</b>	<b>321,724</b>	<b>(198,560)</b>	<b>26,244</b>	<b>16,601</b>	<b>6,096</b>	<b>205,750</b>
Comprehensive loss for the period		-	-	(27,386)	-	-	(3)	(27,389)
<b>Transactions with shareholders</b>								
Shares issued		26	40	-	-	-	-	66
Share-based payments		-	-	-	198	-	-	198
Total transactions with shareholders		26	40	-	198	-	-	264
<b>At June 30, 2015</b>		<b>33,671</b>	<b>321,764</b>	<b>(225,946)</b>	<b>26,442</b>	<b>16,601</b>	<b>6,093</b>	<b>178,625</b>
<b>At January 1, 2016</b>	12	<b>33,696</b>	<b>321,803</b>	<b>(273,189)</b>	<b>26,565</b>	<b>16,601</b>	<b>6,094</b>	<b>131,570</b>
Comprehensive loss for the period		-	-	(10,453)	-	-	(158)	(10,611)
<b>Transactions with shareholders</b>								
Shares issued		6,304	-	-	-	-	-	6,304
Share-based payments		-	-	-	163	-	-	163
Total transactions with shareholders		6,304	-	-	163	-	-	6,467
<b>At June 30, 2016</b>	12	<b>40,000</b>	<b>321,803</b>	<b>(283,642)</b>	<b>26,728</b>	<b>16,601</b>	<b>5,936</b>	<b>127,426</b>

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

The notes on pages 6 to 25 form part of these condensed consolidated interim financial statements.

# Tethys Petroleum Limited

## Condensed Consolidated Statements of Cash Flows (unaudited)

(in thousands of US dollars)

	Note	Three months ended June 30		Six months ended June 30	
		2016	2015	2016	2015
<b>Cash flow from operating activities</b>					
Loss before tax from continuing operations		(5,343)	(28,653)	(10,941)	(30,233)
Loss before tax from discontinued operations <sup>1</sup>		-	(36)	-	(77)
Adjustments for:					
Share based payments		81	118	163	265
Net finance cost		2,012	1,949	3,942	2,527
Depreciation, depletion and amortisation		2,927	20,614	5,783	21,288
Profit on sale of fixed assets		(10)	(29)	(10)	(43)
Fair value gain on derivative financial instruments		(65)	1,547	(269)	469
Net unrealised foreign exchange (gain)/loss		(293)	147	(357)	26
(Profit)/loss from jointly controlled entity		-	(15)	-	235
Movement in provisions		(845)	(1,197)	(1,636)	(1,990)
Net change in working capital	14	(79)	1,474	(216)	2,115
<b>Cash used in operating activities</b>		<b>(1,615)</b>	<b>(4,081)</b>	<b>(3,541)</b>	<b>(5,418)</b>
Corporation tax paid		(21)	(4)	(21)	(134)
<b>Net cash used in operating activities</b>		<b>(1,636)</b>	<b>(4,085)</b>	<b>(3,562)</b>	<b>(5,552)</b>
Cash flow from investing activities:					
Interest received		-	46	-	91
Expenditure on exploration and evaluation assets		(177)	(2,737)	(455)	(3,942)
Expenditure on property, plant and equipment		(165)	(1,297)	(281)	(2,039)
Proceeds from sale of fixed assets		33	113	33	113
Movement in restricted cash		(3)	(147)	148	(151)
Movement in advances to construction contractors		(203)	99	(199)	190
Movement in value added tax receivable		206	368	428	719
Net change in working capital	14	61	605	39	(1,522)
<b>Net cash used in investing activities</b>		<b>(248)</b>	<b>(2,950)</b>	<b>(287)</b>	<b>(6,541)</b>
Cash flow from financing activities:					
Proceeds from issuance of borrowings, net of issue costs		1,500	9,100	3,500	18,235
Repayment of borrowings		(234)	(4,198)	(574)	(4,665)
Interest paid on borrowings		(544)	(554)	(1,713)	(908)
Movement in other non-current liabilities		(21)	(27)	(68)	(56)
<b>Net cash generated from financing activities</b>		<b>701</b>	<b>4,321</b>	<b>1,145</b>	<b>12,606</b>
Effects of exchange rate changes on cash and cash equivalents		750	669	132	561
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(433)</b>	<b>(2,045)</b>	<b>(2,572)</b>	<b>1,074</b>
Cash and cash equivalents at beginning of the period		1,133	6,987	3,272	3,868
<b>Cash and cash equivalents at end of the period</b>		<b>700</b>	<b>4,942</b>	<b>700</b>	<b>4,942</b>

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

The notes on pages 6 to 25 form part of these condensed consolidated interim financial statements.

# Tethys Petroleum Limited

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

(in thousands of US dollars)

### 1 General information

Tethys Petroleum Limited is incorporated in the Cayman Islands and the address of the Company's registered office is 89 Nexus Way, Camana Bay, Grand Cayman, Cayman Islands. Tethys is an oil and gas company operating within the Republic of Kazakhstan, Republic of Tajikistan and Georgia. Tethys' principal activity is the acquisition of and exploration and development of crude oil and natural gas fields.

The Company has its primary listing on the Toronto Stock Exchange ("TSX") and a standard listing on the London Stock Exchange ("LSE"). The Company is also listed on the Kazakhstan Stock Exchange ("KASE").

### 2 Basis of preparation and accounting policies

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

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

#### *Going concern*

The Management and the Board has considered the Company's current activities, funding position and projected funding requirements for the period of at least twelve months from the date of approval of the Condensed Consolidated Interim Financial Statements in determining the ability of the Company to adopt the going concern basis in preparing the Condensed Consolidated Interim Financial Statements for the six months period ended June 30, 2016. The Company currently does not have sufficient funding to fund its obligations for the next twelve months.

Although these Condensed Consolidated Interim Financial Statements have been prepared on a going concern basis in accordance with IFRS, which contemplates the realisation of assets and settlement of liabilities in the normal course of business as they come due, events and uncertainties which are discussed below raise substantial doubt about the Company's ability to continue as a going concern, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

The Company reported a loss of USD10.6m for the six months period ended June 30, 2016 (year ended December 31, 2015: USD74.6m) and an accumulated deficit as at that date of USD283.6m (December 31, 2015: USD273.2m) and negative working capital of USD38.3m (December 31, 2015: negative USD16.3m). In addition, the Company reported negative cash flow from operating



# Tethys Petroleum Limited

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

(in thousands of US dollars)

activities before tax of USD3.5m for the six months period ended June 30, 2016 (year ended December 31, 2015: USD 11.6m).

The Company also has various commitments and contingencies as described in note 15. These include a USD5.8m loan repayment demand which has led to an asset seizure order being made by a Kazakhstan Court on August 5, 2016. The Company has submitted applications to the Court for relief from the actions taken by the Claimant. Pending consideration by the Court of these applications restrictions are in place over the operation of the Kazakhstan subsidiaries' bank accounts.

In order to support the Company's short term liquidity position, which has been adversely affected by the decrease in world oil prices, management has been implementing a cost reduction programme with respect to its operational, G&A costs and capital expenditures. During 2015 the Company pursued multiple different opportunities to raise additional financing including sourcing a number of loans under which it raised total net proceeds of USD 28.1 million (refer to note 10).

On November 19, 2015 the Company announced that it had entered into an interim convertible financing facility of up to USD15 million with Olisol Petroleum Limited ("OPL") convertible into Tethys ordinary shares at C\$0.17 per share. OPL agreed to advance to Tethys up to USD15 million to be used to repay the USD5 million term loan from Nostrum Oil & Gas PLC and potentially the USD7.5 million convertible debenture from AGR Energy Limited No. 1 with the balance used for general and working capital requirements of the Company.

On December 8, 2015 the Company announced that it had entered into a binding investment agreement with Olisol Investments Limited setting out the terms and conditions upon which OPL had agreed to purchase 150 million new ordinary shares in Tethys at a price of C\$0.17 per share, for total proceeds of C\$25.5 million, by way of a private placement and to commit to backstop a further equity fundraising of 50 million Shares at C\$0.17 per Share.

On March 2, 2016 the Company announced it had signed a legally binding amendment to the USD15 million convertible debt facility entered into on November 19, 2015 with Olisol the key terms of which are as follows:

- Olisol to convert approximately USD6.25 million of the interim facility into ordinary shares at a price of USDD0.10 per share;
- Olisol will work with a bank in Kazakhstan to secure a loan for TethysAralGas LLP, in the amount of USD10 million within 60 days which together with the conversion would satisfy the outstanding obligations of Olisol under the Interim Facility;
- Olisol to provide additional working capital reasonably required by Tethys, until completion of a placement under an amended investment agreement;
- Olisol committed to purchasing 181,240,793 new shares at a price to be agreed by Tethys and Olisol. This purchase, together with the conversion of the amounts outstanding under the interim facility would result in Olisol owning approximately 42% of the Company's shares.

# Tethys Petroleum Limited

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

(in thousands of US dollars)

To date, Olisol has converted USD6.3 million of the interim facility into ordinary shares.

On April 29, 2016 the Company announced that it had entered into a binding investment agreement (the "Investment Agreement") with Olisol setting out the terms and conditions upon which OPL has agreed to purchase the 181,240,793 new ordinary shares in Tethys at a price of C\$0.054 per Share, for total proceeds of C\$9.8 million, by way of a private placement (the "Placing") and to commit to backstop a further equity fundraising of 50 million Shares at C\$0.054 per Share (the "Further Financing", together the "Transaction"). The Further Financing will generate proceeds of C\$2.7 million for a total of C\$12.5 million under the Transaction. The Investment Agreement amends and restates the investment agreement that was signed by the Parties and announced on December 8, 2015.

The Transaction was approved by shareholders at the Company's Annual General Meeting on May 31, 2016. The Company has applied for Cayman Islands court approval for a reduction in the par value of its shares and a hearing date has been set for August 19, 2016. If the court gives its approval as expected then the proceeds from the Placing are expected to be received during September.

Tethys' future operations and earnings will depend upon the results of its operations in the Republic of Kazakhstan, Tajikistan and Georgia. There can be no assurance that Tethys will be able to successfully conduct such operations, and a failure to do so would have a material adverse effect on Tethys' financial position, results of operations and cash flows. Also, the success of Tethys' operations will be subject to numerous contingencies, some of which are beyond management's control. These contingencies include general and regional economic conditions, prices for crude oil and natural gas, competition and changes in regulation. Since Tethys is dependent on international operations, Tethys will be subject to various additional political, economic and other uncertainties. Among other risks, Tethys' operations may be subject to the risks and restrictions on transfer of funds, import and export duties, quotas and embargoes, domestic and international customs and tariffs, and changing taxation policies, foreign exchange restrictions, political conditions and regulations.

These circumstances indicate the existence of a material uncertainty related to events or conditions that may cast significant doubt about the Company's ability to continue as a going concern and accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

The Company's ability to continue as a going concern is dependent upon its ability to secure and deliver the above-described additional funding required to meet capital expenditure programs including its contractual obligations, its ability to renew and maintain access to debt facilities, equity issuances, manage risks associated with depressed oil prices and potential Tenge devaluation and ability to generate positive cash flows from operations. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported revenues, expenses and balance sheet classifications that would be necessary if the Company was unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

# Tethys Petroleum Limited

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

(in thousands of US dollars)

### *New accounting policies*

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

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

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

- IFRS 15, "Revenue from contracts with customers" deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard replaces IAS 18 "Revenue" and IAS 11 "Construction contracts" and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted. The Company is assessing the impact of IFRS 15.
- IFRS 16, "Leases" replaces IAS 17 and related interpretations. It introduces a new approach to lease accounting that requires a lessee to recognize assets and liabilities for the rights and obligations created by leases. It brings most leases on-balance sheet for lessees, eliminating the distinction between operating and finance leases. However, lessor accounting remains similar to previous guidance and the distinction between operating and finance leases is retained. The standard is effective for annual periods beginning on or after January 1, 2019. The Company is assessing the impact of IFRS 16.

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

## **3 Segmental Reporting**

### *Geographical segments*

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

The Directors consider the business from predominantly a geographic perspective and the Company currently operates in three geographical markets: Kazakhstan, Tajikistan and Georgia. In Kazakhstan, the Company is producing oil and gas from the Kyzylai and Akkulka fields and is undertaking exploration and evaluation activity in the Kul-bas field. In Tajikistan and Georgia, the Company is currently undertaking exploration and evaluation activity. The Company also operates a corporate segment which acquired a number of drilling rigs and related oil and gas equipment which are utilised in Kazakhstan according to operational requirements.

# Tethys Petroleum Limited

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

(in thousands of US dollars)

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

	Kazakhstan	Tajikistan	Georgia	Other and corporate	Total
Gas sales	5,870	-	-	-	5,870
Oil sales	1,132	-	-	-	1,132
Other income	(20)	-	-	2	(18)
Other operating income	-	-	-	382	382
<b>Segment revenue and other income</b>	<b>6,982</b>	-	-	<b>384</b>	<b>7,366</b>
Inter-segment revenue	-	-	-	(382)	(382)
<b>Segment revenue and other income from external customers</b>	<b>6,982</b>	-	-	<b>2</b>	<b>6,984</b>
Loss from jointly controlled entity	-	-	-	-	-
<b>Loss before taxation</b>	<b>(2,867)</b>	-	2	<b>(8,076)</b>	<b>(10,941)</b>
Taxation	409	-	-	(79)	330
<b>Loss for the period</b>	<b>(2,458)</b>	-	<b>2</b>	<b>(8,155)</b>	<b>(10,611)</b>
Total assets	134,801	23,806	13,146	13,881	185,634
Total liabilities	18,713	11,122	-	28,373	58,208
Cash expenditure on exploration & evaluation assets, property, plant and equipment	403	81	239	13	736
Depreciation, depletion & amortisation	4,375	1	7	1,400	5,783

Borrowing costs of USD22,000 incurred in the Corporate segment were capitalised in the Kazakhstan segment respectively during the period.

The following is an analysis of the Company's revenue, results and assets by reportable segment for the six months ended June 30, 2015 are as follows:

	Kazakhstan	Tajikistan	Georgia	Other and corporate	Continuing operations	Uzbekistan <sup>1</sup>	Total
Gas sales	9,533	-	-	-	9,533	-	9,533
Oil sales	3,253	-	-	-	3,253	-	3,253
Other income	6	-	-	-	6	-	6
Other operating income	-	-	-	533	533	-	533
<b>Segment revenue and other income</b>	<b>12,792</b>	-	-	<b>533</b>	<b>13,325</b>	-	<b>13,325</b>
Inter-segment revenue	-	-	-	(533)	(533)	-	(533)
<b>Segment revenue and other income from external customers</b>	<b>12,792</b>	-	-	-	<b>12,792</b>	-	<b>12,792</b>
Loss from jointly controlled entity	(235)	-	-	-	(235)	-	(235)
<b>Loss before taxation</b>	<b>(19,172)</b>	<b>(15)</b>	<b>(2)</b>	<b>(11,044)</b>	<b>(30,233)</b>	<b>(77)</b>	<b>(30,310)</b>
Taxation	3,013	-	-	(92)	2,921	-	2,921
<b>Loss for the period</b>	<b>(16,159)</b>	<b>(15)</b>	<b>(2)</b>	<b>(11,136)</b>	<b>(27,312)</b>	<b>(77)</b>	<b>(27,389)</b>
Total assets	151,268	38,671	12,619	23,466	226,024	-	226,024
Total liabilities	14,575	2,240	14	30,424	47,253	146	47,399
Cash expenditure on exploration & evaluation assets, property, plant and equipment	2,204	3,208	569	-	5,981	-	5,981
Depreciation, depletion & amortisation	-	-	-	674	674	-	674

Note 1 - Discontinued operation in 2013.

# Tethys Petroleum Limited

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

(in thousands of US dollars)

Borrowing costs of USD18,000 and USD157,000 incurred in the Corporate segment were capitalised in the Kazakhstan and Tajikistan segments respectively during the period.

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

	Kazakhstan	Tajikistan	Georgia	Other and corporate	Total
Gas sales	2,936	-	-	-	2,936
Oil sales	615	-	-	-	615
Other income	(22)	-	-	-	(22)
Other operating income	-	-	-	191	191
<b>Segment revenue and other income</b>	<b>3,529</b>	<b>-</b>	<b>-</b>	<b>191</b>	<b>3,720</b>
Inter-segment revenue	-	-	-	(191)	(191)
<b>Segment revenue and other income from external customers</b>	<b>3,529</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,529</b>
Loss from jointly controlled entity	-	-	-	-	-
<b>Loss before taxation</b>	<b>(1,568)</b>	<b>-</b>	<b>(7)</b>	<b>(3,768)</b>	<b>(5,343)</b>
Taxation	454	-	-	(45)	409
<b>Loss for the period</b>	<b>(1,114)</b>	<b>-</b>	<b>(7)</b>	<b>(3,813)</b>	<b>(4,934)</b>
Total assets	134,801	23,806	13,146	13,881	185,634
Total liabilities	18,713	11,122	-	28,373	58,208
Cash expenditure on exploration & evaluation assets, property, plant and equipment	214	32	83	13	342
Depreciation, depletion & amortisation	2,145	1	7	774	2,927

Borrowing costs of USD12,000 incurred in the Corporate segment were capitalised in the Kazakhstan and segment respectively during the period.

# Tethys Petroleum Limited

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

(in thousands of US dollars)

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

	Kazakhstan	Tajikistan	Georgia	Other and corporate	Continuing operations	Uzbekistan <sup>1</sup>	Total
Gas sales	4,827	-	-	-	4,827	-	4,827
Oil sales	2,008	-	-	-	2,008	-	2,008
Other income	3	-	-	-	3	-	3
Other operating income	-	-	-	191	191	-	191
<b>Segment revenue and other income</b>	<b>6,838</b>	-	-	<b>191</b>	<b>7,029</b>	-	<b>7,029</b>
Inter-segment revenue	-	-	-	(191)	(191)	-	(191)
<b>Segment revenue and other income from external customers</b>	<b>6,838</b>	-	-	-	<b>6,838</b>	-	<b>6,838</b>
Loss from jointly controlled entity	15	-	-	-	15	-	15
<b>Profit/ (loss) before taxation</b>	<b>(19,995)</b>	<b>40</b>	<b>(2)</b>	<b>(8,696)</b>	<b>(28,653)</b>	<b>(36)</b>	<b>(28,689)</b>
Taxation	3,420	-	-	(45)	3,375	-	3,375
<b>Profit/ (loss) the period</b>	<b>(16,575)</b>	<b>40</b>	<b>(2)</b>	<b>(8,741)</b>	<b>(25,278)</b>	<b>(36)</b>	<b>(25,314)</b>
Total assets	151,268	38,671	12,619	23,466	226,024	-	226,024
Total liabilities	14,575	2,240	14	30,424	47,253	146	47,399
Cash expenditure on exploration & evaluation assets, property, plant and equipment	1,376	2,341	317	-	4,034	-	4,034
Depreciation, depletion & amortisation	19,358	-	-	1,256	20,614	-	20,614

Note 1 - Discontinued operation in 2013.

Borrowing costs of USD9,000 and USD136,000 incurred in the Corporate segment were capitalised in the Kazakhstan and Tajikistan segments respectively during the period.

## 4 Share based payments

### Share options

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

In respect of both share options (and in the prior period shares issued) a charge for the value of services of USD163,000 (2015: USD264,000) was recorded for the period. No amounts were capitalised in the current or prior periods.

# Tethys Petroleum Limited

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

(in thousands of US dollars)

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

	Six months ended June 30			
	2016		2015	
	Number of options	Weighted average exercise price (\$)	Number of options	Weighted average exercise price (\$)
Outstanding at January 1	11,025,500	0.31	15,362,400	1.58
Granted	14,307,500	0.03	10,022,500	0.23
Forfeited	(1,080,000)	0.20	(290,000)	0.42
Expired	(357,000)	0.95	(8,838,400)	1.85
<b>Outstanding at June 30</b>	<b>23,896,000</b>	<b>0.13</b>	<b>16,256,500</b>	<b>0.62</b>
<b>Exercisable at June 30</b>	<b>5,196,833</b>	<b>0.36</b>	<b>7,344,000</b>	<b>1.09</b>

### *Warrants classified as derivative financial instruments*

The Company has issued warrants which are classified as derivative financial instruments. Details of these are given in note 11.

### *Warrants issued in connection with loans*

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

	Six months ended June 30			
	2016		2015	
	Number of warrants	Weighted average exercise price (\$)	Number of warrants	Weighted average exercise price (\$)
Outstanding at January 1	2,090,000	2.50	2,090,000	2.50
Expired				
<b>Outstanding at June 30</b>	<b>2,090,000</b>	<b>2.50</b>	<b>2,090,000</b>	<b>2.50</b>
<b>Exercisable at June 30</b>	<b>2,090,000</b>	<b>2.50</b>	<b>2,090,000</b>	<b>2.50</b>

# Tethys Petroleum Limited

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

(in thousands of US dollars)

### 5 Taxation

Tethys is domiciled in the Cayman Islands which has no Company income tax. The Company also operates in other tax jurisdictions, the most significant of which is Kazakhstan where the tax rate is 20%.

The provision for income taxes is different from the expected provision for income taxes for the following reasons:

	Six months ended June 30	
	2016	2015
Loss before income taxes from continuing operations	(10,941)	(30,233)
Income tax rate	20%	20%
<b>Expected income tax recovery</b>	<b>2,188</b>	<b>6,047</b>
Decrease resulting from:		
Non-deductible expenses net of functional currency foreign exchange impact	(165)	87
Revisions in tax estimates and foreign exchange impact on tax pools	52	(807)
Impact of effective tax rates in other foreign jurisdictions	(1,518)	(1,714)
Losses and tax assets not utilised/recognised	(227)	(692)
	<b>330</b>	<b>2,921</b>
Current tax expense	(68)	(99)
Deferred tax expense	398	3,020
<b>Total</b>	<b>330</b>	<b>2,921</b>

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

	As at	
	June 30, 2016	December 31, 2015
Tax losses	215	226
<b>Deferred tax asset</b>	<b>215</b>	<b>226</b>
Capital assets	12,630	13,008
Other	(2,268)	(2,216)
<b>Deferred tax liability</b>	<b>10,362</b>	<b>10,792</b>

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

### 6 Loss per share

Continuing operations	Units	Three months ended June 30		Six months ended June 30	
		2016	2015	2016	2015
Loss for the purpose of basic and diluted loss attributable to ordinary shareholders	\$'000	(4,776)	(25,277)	(10,453)	(27,309)
Weighted average shares	000s	396,066	336,650	368,776	336,585
Per share amount	\$	(0.01)	(0.08)	(0.03)	(0.08)

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



# Tethys Petroleum Limited

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

(in thousands of US dollars)

Basic loss per share is calculated by dividing the loss attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the year. Diluted per share information is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Potential ordinary shares, comprising share options and warrants, are currently anti-dilutive and therefore there is no difference between basic and diluted earnings per share.

### 7 Intangible assets

Exploration and evaluation assets	Kazakhstan	Georgia	Tajikistan	Total
<b>January 1, 2015</b>	-	<b>11,996</b>	<b>35,634</b>	<b>47,630</b>
Additions	129	909	12,284	13,322
Exploration and evaluation expenditure written off	-	-	(25,918)	(25,918)
Transfer from assets held for sale	29,168	-	-	29,168
<b>December 31, 2015</b>	<b>29,297</b>	<b>12,905</b>	<b>22,000</b>	<b>64,202</b>
Additions	153	238	2,033	2,424
<b>June 30, 2016</b>	<b>29,450</b>	<b>13,143</b>	<b>24,033</b>	<b>66,626</b>

### 8 Property, plant and equipment

	Oil and gas properties			Oil and gas equipment			Other fixed assets <sup>1</sup>			Total net book amount
	Cost	Amortisation	Total	Cost	Depreciation	Total	Cost	Depreciation	Total	
<b>January 1, 2015</b>	-	-	-	<b>22,184</b>	<b>(8,882)</b>	<b>13,302</b>	<b>1,690</b>	<b>(1,188)</b>	<b>502</b>	<b>13,804</b>
Additions	2,113	-	2,113	-	-	-	94	-	94	2,207
Transfer from assets held for sale (see note 2)	166,069	(43,367)	122,702	3,159	(696)	2,463	3,785	(2,764)	1,021	126,186
Disposals	-	-	-	-	-	-	(474)	405	(69)	(69)
Amortisation and depletion	-	(24,870)	(24,870)	-	(2,976)	(2,976)	-	(885)	(885)	(28,731)
<b>December 31, 2015</b>	<b>168,182</b>	<b>(68,237)</b>	<b>99,945</b>	<b>25,343</b>	<b>(12,554)</b>	<b>12,789</b>	<b>5,095</b>	<b>(4,432)</b>	<b>663</b>	<b>113,397</b>
Additions	280	-	280	-	-	-	50	-	50	330
Disposals	-	-	-	-	-	-	(846)	805	(41)	(41)
Amortisation and depletion	-	(4,118)	(4,118)	-	(1,386)	(1,386)	-	(279)	(279)	(5,783)
<b>June 30, 2016</b>	<b>168,462</b>	<b>(72,355)</b>	<b>96,107</b>	<b>25,343</b>	<b>(13,940)</b>	<b>11,403</b>	<b>4,299</b>	<b>(3,906)</b>	<b>393</b>	<b>107,903</b>

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

### 9 Restricted cash

Non-current amounts consist of interest bearing deposits held in Kazakhstan that have been placed to satisfy local Kazakh requirements in respect of asset retirement obligations. Current amounts consist of monies placed on temporary deposit as security against corporate credit cards and a deposit with the Ministry of Finance in Dubai.

# Tethys Petroleum Limited

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

(in thousands of US dollars)

### 10 Financial liabilities

	Effective interest rate per annum	Maturity date	June 30, 2016	As at December 31, 2015
<b>Current</b>				
Rig loans	14.80%	2017	4,528	1,386
Kazakh loan	11.0%-15.9%	2019	1,726	2,571
Corporate loans	22.60%	2017	12,845	-
Convertible loans	10.60%	2017	7,594	-
Olisol loan	8.20%	2016	1,695	5,202
			<b>28,388</b>	<b>9,159</b>
<b>Non-current</b>				
Rig loans	14.80%	2017	-	3,995
Kazakh loan	11.0%-15.9%	2019	2,114	-
Corporate loans	22.60%	2017	-	9,846
Convertible loans	10.60%	2017	-	9,032
			<b>2,114</b>	<b>22,873</b>
<b>Total</b>			<b>30,502</b>	<b>32,032</b>

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

#### *Rig loans*

On February 13, 2014, the Company entered into a loan agreement to borrow up to USD12 million. The loan is secured by the shares of the borrower, a wholly owned subsidiary of the Company, which in turn owns two drilling rigs and other equipment. At June 30, 2016, loans with a face value of USD4.7 million and GBP2.1 million have been borrowed under the agreement.

The lenders receive an initial repayment followed by 34 equal monthly instalments, incorporating interest and capital, together with a single balloon repayment of half of the principal amount at the maturity date.

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

#### *Kazakh loan*

On June 29, 2012, the Company announced that it had secured a loan facility from a Kazakh bank to fund capital expenditures in Kazakhstan (the "bank loan facility").

The bank loan facility was arranged by Eurasia Gas Group LLP, with the Company's consent, and is a bank loan to Eurasia Gas Group LLP, the Company's principal oil buyer and customer of the AOT, whereby Eurasia Gas Group LLP draws down on the bank loan facility with the approval of the Company and funds are transferred to the Company's subsidiary, TAG. The bank loan facility has a term of up to four years depending on the Company's requirements and bears an interest rate of between 12% and 15% per annum on sums drawn down.

In January 2013, the Kazakh loan arrangement was terminated and replaced with an arrangement whereby funds are advanced to the Company and repaid as a deduction against oil sales. Terms

# Tethys Petroleum Limited

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

(in thousands of US dollars)

of the arrangement are principally the same (i.e. the principal repayment to be completed by April 2016 with monthly repayments of both principal and interest) and therefore, under IFRS, the amounts advanced continue to be treated as a loan.

A total of 1.9 billion KZT (USD12.9 million) of funds have been advanced to the Company under the loan agreement, with monthly repayments of both principal and interest (at a weighted average effective interest rate of between 14.0% and 15.9%). The outstanding balance of the loan at June 30, 2016 is shown in the table above.

In the event that oil production is suspended for more than 30 days, the outstanding amount is to be repaid to Eurasia Gas Group LLP within 30 days from the receipt of its notice of return.

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

On June 7, 2016, the Company received the first USD1.0 million drawdown of a newly agreed USD10.0 million loan facility from a Kazakhstan bank. The loan interest on the initial USD1.0 million is 11%, maturing in July 2017 and also includes a six month principal grace period.

### *Olisol loan*

On November 19, 2015 the Company announced that it had entered into an interim convertible financing facility of up to USD15 million (the "Interim Financing Facility") with Olisol Petroleum Limited ("OPL"). The Interim Financing Facility was convertible into Tethys ordinary shares at C\$0.17 per share. The Interim Financing Facility has a maturity date of August 31, 2016 and bears interest at a rate of 9% per annum which together with the principal is payable at the maturity date.

On March 2, 2016 the Company announced that it had signed an amendment to the Interim Financing Facility (the "Facility Agreement Amendment") under which OPL agreed, subject to certain approvals, to convert all but USD1 million of the outstanding amount of principal and accrued interest under the Interim Financing Facility (approximately USD6.25 million) into ordinary shares at a price of USD0.10 per share.

On March 21, 2016, OPL converted USD3.7 million of the outstanding amount into 37,440,042 shares. On April 15, 2016, OPL converted a further USD2.6 million of the outstanding amount into 25,604,419 shares.

### *Corporate - New USD6.0 million loan financing*

On January 16, 2015 the Company announced that it had secured a new USD6.0 million unsecured loan facility. The principal is due at the end of two years with interest payments at the rate of 8% per annum being due every 6 months. The loan has been fully drawn down by the Company.

In connection with the loan financing, the Company issued the lender with 35,600,000 warrants over the Company's shares with a price of C\$0.19. The Company valued these warrants at initial recognition at USD2.1 million. The warrants were surrendered during the prior year for the surrender value of USD2.1 million which has been added to the principal amount and is repayable on the two year maturity date.

# Tethys Petroleum Limited

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

(in thousands of US dollars)

### *Corporate - New USD3.5 million loan financing*

On March 10, 2015 the Company secured a new USD3.5 million unsecured loan facility from Annuity and Life Reassurance Ltd (“ALR”), a company controlled by Pope Asset Management, the Company’s largest shareholder. The principal is due at the end of two years with interest payments at the rate of 8% per annum being due every 6 months. The loan has been fully drawn down by the Company.

In connection with the loan financing, the Company has issued the lender with 23,333,333 warrants over the Company’s shares with a price of C\$0.19. The Company has valued these warrants at initial recognition at USD0.8 million.

### *Unsecured convertible loan facility from AGR Energy No. 1*

On May 15, 2015, the Company issued USD7.5 million aggregate principal amount of convertible debentures (the “AGR Debentures”) to AGR Energy Limited No. 1 (“AGR Energy No. 1”). The AGR Debentures are convertible into Ordinary Shares, subject to customary adjustment provisions, at a conversion price of USD0.10 per share for an aggregate of up to 75,000,000 Ordinary Shares. The conversion option has been accounted for as an embedded derivative and valued by the Company at initial recognition at USD180,000.

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

### *Unsecured convertible loan facility from ALR*

On June 1, 2015, the Company issued USD1,760,978 aggregate principal amount of convertible debentures to ALR (the “ALR Debentures”) a company controlled by Pope Asset Management, the Company’s largest shareholder. The ALR Debentures are convertible into Ordinary Shares, subject to customary adjustment provisions, at a conversion price of USD0.10 per share for an aggregate of up to 17,609,780 Ordinary Shares. The conversion option has been accounted for as an embedded derivative and valued by the Company at initial recognition at USD70,000.

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

## 11 Derivative financial instruments

### *Warrants*

	As at	
	June 30, 2016	December 31, 2015
Balance, beginning of period	275	-
Issued during the period	-	2,949
Fair value gain	(269)	(573)
Surrender of warrants (see note 10)	-	(2,101)
<b>Balance, end of period</b>	<b>6</b>	<b>275</b>

The warrant liability represents the financial liability relating to share warrants where the shares are denominated in a currency that is not the Company’s functional currency. These warrants were issued in connection with the two corporate loans described in note 10.

# Tethys Petroleum Limited

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

(in thousands of US dollars)

The liability was initially recognised at fair value. As the warrants are denominated in a foreign currency, there is a written option for the holder to exchange the foreign currency denominated warrant for a fixed number of functional currency denominated shares. This option is a derivative financial instrument and was initially recognised at fair value and subsequently measured at fair value through income.

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

	As at	
	June 30, 2016	December 31, 2015
Weighted average fair value	USD0.01	USD0.01
Risk free rate	0.54%	0.48%
Expected term	1.0 years	1.2 years
Volatility	112.42%	108.00%
Dividend	Nil	Nil

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

	Number of warrants	Weighted average exercise price \$
Outstanding at January 1, 2015	-	-
Issued	58,933,333	0.15
Surrender of warrants (see note 10)	(35,600,000)	0.15
<b>Outstanding and exercisable at December 31, 2015</b>	<b>23,333,333</b>	<b>0.15</b>
<b>Outstanding and exercisable at June 30, 2016</b>	<b>23,333,333</b>	<b>0.15</b>

There are no performance conditions attached to the warrants and all the granted warrants were immediately vested. Warrants are equity settled share based payment transactions.

In estimating expected volatility, the Company considers the historical volatility of its own share price over the most recent period that is commensurate with the expected warrant term.

### *Convertible loans*

In May and June 2015 the Company issued two convertible loans, the terms of which are described in note 10. The AGR Debentures contain a cash settlement feature which does not meet the conditions for compound instrument treatment in accordance with IAS 32.25 and/or IAS 32.26. As a result, the instrument is a hybrid instrument containing an embedded derivative conversion feature. The ALR Debentures contains a separate cash settlement feature, which requires the Company to indemnify the holder for the offer amount. This is treated as a contingent settlement provision under IAS 32.25. Accordingly, the instrument is a hybrid instrument containing an embedded derivative feature. The embedded derivative has been valued at inception and revalued at the period end and details are provided below.

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

(in thousands of US dollars)

	As at	
	June 30, 2016	December 31, 2015
Balance, beginning of period	-	250
Fair value gain	-	(250)
<b>Balance, end of period</b>	<b>-</b>	<b>-</b>

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

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

## 12 Share capital

### *Share capital and share premium*

	As at	
	June 30, 2016	December 31, 2015
<b>Authorised</b>		
Ordinary shares with a par value of \$0.10 each	700,000,000	700,000,000
Preference shares with a par value of \$0.10 each	50,000,000	50,000,000

Ordinary equity share capital Allotted and fully paid	Number	As at	
		Share Capital	Share Premium
At January 1, 2015	336,452,667	33,645	321,724
Issued during the year	507,720	51	79
<b>At December 31, 2015</b>	<b>336,960,387</b>	<b>33,696</b>	<b>321,803</b>
Issued during the year (see note 10):			
Debt conversion by Olisol – March 21, 2016	37,440,042	3,744	-
Debt conversion by Olisol – April 15, 2016	25,604,419	2,560	-
<b>At June 30, 2016</b>	<b>400,004,848</b>	<b>40,000</b>	<b>321,803</b>

## 13 Related party transactions

Transactions between the Company's subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

### *Olisol Investments Limited and Olisol Petroleum Limited*

Alexander Abramov, Chairman and Non-Executive Directors of Tethys Petroleum Limited, and Alexander Skripka, the Company's Chief Commercial Officer are controlling parties of Olisol Investments Limited and its wholly owned subsidiary Olisol Petroleum Limited (together "Olisol"). Olisol and the Company are:

- (i) Equal partners in the Aral Oil Terminal ("AOT"), a limited liability partnership in Kazakhstan. All of the oil produced and sold by the Company is trans-shipped through the AOT. At June 30, 2016 the AOT had a loan owing to Olisol, including accrued interest, of USD3,170,000

# Tethys Petroleum Limited

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

(in thousands of US dollars)

(June 30, 2015: USD2,955,000) and a loan owing to the Company of USD2,636,000 (June 30, 2015: USD2,456,000);

- (ii) Parties to the Interim Financing Facility and Facility Amendment Agreement, details of which are given in note 10;
- (iii) Parties to a binding investment agreement (the "Investment Agreement") setting out the terms and conditions upon which Olisol has agreed to purchase 181,240,793 new ordinary shares in Tethys ("Shares") at a price of C\$0.054 per Share, for total proceeds of C\$9,787,003, by way of a private placement (the "Placing") and to commit to backstop a further equity fundraising of 50 million Shares at C\$0.054 per Share (the "Further Financing", together the "Transaction"). The Further Financing will generate proceeds of C\$2,700,000 for a total of C\$12,487,003 under the Transaction. The Investment Agreement amends and restates the investment agreement that was signed by the Parties on December 7, 2015.

### *Eurasia Gas Group*

Alexander Skripka, the Company's Chief Commercial Officer, is the controlling party of Eurasia Gas Group LLP ("EGG"). EGG is the sole customer for oil produced by the Company and purchases the oil at the wellhead. In the six months to June 30, 2016 oil sales of USD1,132,000 were made by the Company to EGG (2015: USD3,252,000). At June 30, 2016 amounts owing to the Company by EGG for oil sales amounted to USD854,000 (2015: USD642,000).

EGG has arranged a loan for the Company from a Kazakh bank which is repaid as a deduction from oil sales. Further details of this arrangement are given in note 10.

EGG is also the sole customer of the AOT. In the six months to June 30, 2016 EGG paid trans-shipment fees of USD228,000 to the AOT (2015: USD711,000). At June 30, 2016 the AOT had a loan owing to EGG, including accrued interest, of USD2,596,000 (June 30, 2015: USD4,833,000).

## 14 Change in working capital

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
<b>Condensed Statement of Financial Position:</b>				
Trade and other receivables	1,461	(1,790)	(1,037)	(3,014)
Inventories	(32)	315	(25)	303
Trade and other payables	(488)	3,318	1,531	2,932
Change in working capital	941	1,843	469	221
Non-cash transactions	(959)	236	(646)	372
<b>Net changes in working capital</b>	<b>(18)</b>	<b>2,079</b>	<b>(177)</b>	<b>593</b>
<b>Condensed Statement of Cash Flows:</b>				
Operating activities	(79)	1,474	(216)	2,115
Investing activities	61	605	39	(1,522)
<b>Net changes in working capital</b>	<b>(18)</b>	<b>2,079</b>	<b>(177)</b>	<b>593</b>

# Tethys Petroleum Limited

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

(in thousands of US dollars)

### 15 Commitment and contingencies

#### *Litigation, claims and assessments*

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

#### *Kazakhstan regulatory and legal environment*

The regulatory and legal environment including tax environment in the Republic of Kazakhstan is subject to change and inconsistent application, interpretations and enforcement, and in particular, existing subsurface use contracts are under close scrutiny by the tax and other authorities. This could result in unfavourable changes to the Company's tax positions. Non-compliance with Kazakhstan law and regulations as interpreted by the Kazakhstan authorities may lead to the assessment of additional taxes, penalties and interest. Kazakhstan tax legislation and practice is in a state of continuous development and therefore is subject to varying interpretations and frequent changes, which may be retroactive. Tax periods remain open to retroactive review by the tax authorities for five years. Management believes that its interpretation of the relevant legislation is appropriate and the Company's tax, currency legislation and customs positions will be sustained.

#### *Claim against the Company and its subsidiaries in Kazakhstan*

On August 5, 2016 the Almaty District Court in Kazakhstan ruled in favour of a private individual ("Claimant") for seizure of the moveable and immovable property of the Company and its Kazakhstan subsidiaries as security for the Claimant's demand for repayment of a loan amount equivalent to USD5.8 million. The Claimant alleges this amount of the Company's USD7.5 million loan from AGR Energy No. 1 (see note 10 above) has been assigned to him and he has demanded immediate repayment ahead of the contractual maturity date of June 30, 2017 alleging events of default under the loan agreement.

The Company has submitted applications to the Court for relief from the actions taken by the Claimant. Pending consideration by the Court of these applications restrictions are in place over the operation of the Kazakhstan subsidiaries' bank accounts. The Company's assessment is that the claim is unfounded as the Company has seen no evidence that proper legal process has been followed to effect the alleged assignment of loan by AGR Energy No. 1 to the Claimant. The loan agreement is between AGR Energy No. 1 and the Company and any dispute under the loan agreement should be heard by the London Court of International Arbitration. Furthermore, the Company does not operate in Kazakhstan or have any assets in Kazakhstan. The Company's



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subsidiaries, which do operate in Kazakhstan, are not parties to the loan agreement with AGR Energy No. 1.

### *Kazakhstan work programmes*

The work programme commitments Kazakhstan businesses can be summarised as follows:

	Kazakhstan Work Programme Commitments			
	Expiry date	Program 2016	Spend to date 2016	Program 2017 & later
<b>Akkulka Production Contract (Gas)</b>	2018			
Financial obligations, total		5,567	886	8,695
Investments		2,412	350	3,744
<b>Kyzyloi Production Contract (Gas)</b>	2029			
Financial obligations, total		8,309	691	46,411
Investments		3,474	336	8,519
<b>Akkulka Exploration Contract (Oil)</b>	2019			
Financial obligations, total		6,911	2,009	9,245
Investments		5,433	1,020	6,962
<b>Kul-Bas Exploration Contract</b>	2015			
Financial obligations, total		-	-	-
Investments		-	-	-
<b>Financial obligations, total</b>		<b>20,787</b>	<b>3,586</b>	<b>64,351</b>
<b>Investments, total</b>		<b>11,319</b>	<b>1,706</b>	<b>19,225</b>
<b>Total</b>		<b>32,106</b>	<b>5,292</b>	<b>83,576</b>

Work programmes for exploration and production contracts agreed with the Kazakh State include a required level of "Investments" as defined in the contracts. "Investments" includes capital expenditure, operating expenses, social sphere, sub-soil monitoring and specialist training costs. It is this required level of Investments that forms the principal financial obligation of the Company in respect of its work programme commitments and against which the Company is mainly measured by the relevant Kazakh State authorities along with production volumes in the Production Contracts. Failure by the Company to meet the required level of Investments could put the Company's licences at risk of forfeiture or give rise to penalties for non-fulfilment.

In addition, an assumed level of other costs forms part of the overall work programme (insurance, liquidation fund, indirect costs and taxes). Taken together with the Investments amount described above these form the Company's "Financial obligations, total" as defined in the contracts and as set out in the table above.

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

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costs and taxes), the reasons for this are mainly lack of funding of CAPEX in the year to date and also operational efficiency with respect to operations (OPEX and some overheads). It is expected that a some of these shortfalls will be made up in H2, subject to funding, whilst for Kyzyloui the company is in the process of submitting a project to the State authorities to rationalize the forward production profile and hence the work programme commitments.

For Kul-Bas the company awaits the ratification of the extension before the draft work programme can be made final and expenditure offset against it. Apart from the Company's work programme commitments, other amounts may become payable to the Kazakh State in certain circumstances. These are described below.

### *Akkulka Production Contract*

On December 23, 2009, the Company and the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan signed the Akkulka Production Contract giving the Company exclusive rights to produce gas from the Akkulka Block for a period of nine years. Contingent upon commencement of commercial production on the Akkulka contractual territory, an amount of USD3,500,000 was due to the Kazakh State as a reimbursement of historical costs previously incurred in relation to the contractual territory. For that part of the contractual territory from which production commenced in 2010, staged payments over a period of nine years totalling approximately USD933,997 are to be paid in equal quarterly instalments from the commencement of production until full reimbursement. To June 30, 2016, the Company had reimbursed the Kazakh State USD676,200 in respect of the Akkulka Field.

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

The Kazakhstan Government is to be compensated for the historical costs related to the contractual territory in the amount of USD3,275,780. To date, the Company has paid two amounts of USD49,137 each in relation to this balance. If and when commercial production commences, USD80,666 is due in quarterly instalments until the remaining historical costs of USD3,177,506 have been paid in full. This contract expired on November 11, 2015 and on December 29, 2015 the Company announced it had been granted an extension subject to approval of an appraisal extension project and work programme and subsequent registration of a suitable addition to the contract.

### *Tajikistan*

The Company has an effective 28.33% interest (33.33% interest via its 85% owned subsidiary) in Bokhtar Operating Company BV with partners Total and CNPC each having a 33.33% interest. Under the terms of the farm-out agreement entered into on June 18, 2013 with Total and CNPC the Company was only required to contribute 11.11% or USD9.0 million of the first USD80.0 million of the initial work programme. As at June 30, 2016, the joint venture partners had contributed USD90.0 million to the Bokhtar Operating Company of which the Company's share was USD16.3 million. At June 30, 2016, Bokhtar had contractual commitments not yet incurred or accrued relating to seismic acquisition of which Tethys share is 33.33%. The Company has not been provided with this information by the joint operating company as a result of being in default of cash calls in the amount of USD9.8 million.

The Company's indirectly held subsidiary, Kulob Petroleum Limited, ("KPL") the contracting partner in the Bokhtar Production Sharing Contract, has been informed by legal counsel

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representing Total and CNPC (the “Partners”), that on 19 May, 2016, the Partners had filed for arbitration proceedings at the International Court of Arbitration seeking to enforce KPL’s withdrawal from the project and assignment of its interest to the Partners, as well as payment of outstanding cash calls of USD9 million plus an award of costs. KPL has submitted its answer to the request for arbitration to the court setting out its arguments against the Partners’ claim and its counter-claim which is the first stage of the arbitration proceedings. The costs of the arbitration could be significant although KPL has actively sought to reach an amicable resolution with the Partners and will continue to do so. There is no guarantee in place of KPL’s obligations by The Company.

Total informed the Company in May 2016 that it has been required to pay the equivalent of USD5.0 million to the tax authorities in Tajikistan in relation to the farm-out of the Company’s interest to Total in 2013. Total is seeking to have the Company indemnify it for these taxes under the terms of the farm-out agreement. The Company does not agree with Total’s interpretation of the farm-out agreement or that it is liable to indemnify Total for these taxes. No similar claim has been received from CNPC although the terms of the farm-out with CNPC were the same for Total and CNPC.

### Georgia

The Company has a 49% interest in three blocks in Eastern Georgia and is responsible for funding its percentage interest share in the work programmes. During 2015 the Joint Venture completely redefined the work obligations and cost of exploration. The forward work programme has also been reduced and deferred on all 3 blocks: XIA, XIN and XIM. For 2016 this involves focused 2D seismic acquisition at a cost to Tethys of USD0.9m after which the Joint Venture will make an informed decision in 2017 whether to drill or cease further activity with contingent drilling of any wells in 2018.

### Uzbekistan

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

## 16 Operating leases

### *Leases as a lessee:*

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

	As at	
	June 30, 2016	December 31, 2015
Less than 1 year	293	611
1 – 3 years	169	722
Greater than 3 years	90	75