



March 31, 2017

Tethys Petroleum Press Release (TSX: TPL, LSE:TPL)

2016 Annual Results

GRAND CAYMAN, CAYMAN ISLANDS- Tethys Petroleum Limited today announced its Annual Results for the year ended December 31, 2016.

Corporate Highlights – 2016

- Conversion of USD6.3m of loans by Olisol Petroleum Limited (together with Olisol Investments Limited “Olisol”) into ordinary shares of Tethys at USD0.10 per share;
- Binding Amended and Restated Investment Agreement entered into with Olisol for a private placement of 181m shares for proceeds of CAD9.8m and underwriting of a further equity fundraising of 50m shares for proceeds of CAD2.7m for a total of CAD12.5m.

Olisol failed to provide Tethys with any of the purchase price by the extended closing date of October 27, 2016 and has sought to terminate the Amended and Restated Investment Agreement and to demand repayment of working capital funding provided;

- Olisol affiliated company, Eurasia Gas Group (“EGG”), makes claims against the company in the Kazakhstan courts leading to restrictions over the Company’s Kazakhstan bank accounts which, despite several court rulings in Tethys favour and a temporary lifting of the restrictions, remain in place to this day;
- Gas supply contract agreed with Intergas Central Asia (“ICA”) for the period January 1, 2016 to December 31, 2016. There was a temporary stoppage of gas supplies in mid-October although gas supplies to ICA resumed in early December;
- The Company’s partners in Tajikistan filed for arbitration following the Company’s cash call defaults from September 2015 onwards seeking the Company’s withdrawal from the project and assignment of its interest, as well as payment of unpaid cash calls;
- Reduction in par value of the Company’s ordinary shares from USD0.10 to USD0.01 approved by shareholders and the Grand Court in the Cayman Islands;
- In connection with the transactions with Olisol, John Bell moved from Executive Chairman to co-Non-Executive Chairman along with Alexander Abramov, who also became co-Non-Executive Chairman. John Bell, David Henderson, David Roberts and James Rawls all informed the Company that they would not stand for re-election at the Company’s May 31, 2016 Annual General Meeting. Alexander Abramov was removed from the Board and was replaced as Chairman of the Board by William Wells. Following the appointment of Mattias Sjoborg and Medgat Kumar the Board of Directors of the Company now comprises William Wells (Chairman), Adeola Ogunsemi, Mattias Sjoborg and Medgat Kumar.

In other board and management changes Kenneth May was appointed as interim Chief Executive Officer replacing Julian Hammond and subsequently confirmed as permanent CEO.

- The Company announced a new cost optimisation programme that once fully implemented should save the Company an estimated USD2.5m a year. The programme followed an extensive review into costs and operations that was started after the Company's Annual General Meeting in May;
- The Company successfully defended legal proceedings brought against it in Kazakhstan in relation to the USD7.5m debenture originally issued to AGR Energy Limited No.1.;
- Private placements with two individual investors raised USD1.4m for the issuance to each investor of 43,951,698 ordinary shares at USD0.01593 per share and 96,150,000 warrants exercisable at USD0.031 per share for three years from the date of grant. The investors each have the right to be appointed to the Board, have entered into a Relationship Agreement with the Company and provide strong in-country partners for the Company in Kazakhstan and internationally;
- Allegations were made against employees of the Company's Kazakhstan subsidiary, Tethys Aral Gas LLP, by the former Chairman of Tethys and owner of Olisol, Alexander Abramov and resulted in searches and seizures at the Company's offices in Almaty. The allegations were dismissed by the authorities but have since been appealed by Alexander Abramov and investigations are ongoing;
- Loan restructuring, including three year extension of maturity dates and no interest or principal payments until the maturity dates agreed with Annuity and Life Reassurance Ltd in relation to two loan agreements comprising USD5.3m of borrowings.

Corporate Highlights – Q1 2017

- Georgian exploration commitments modified so that Tethys will not be required to complete the previously agreed 50 km of 2D seismic acquisition in Block XIN by June 30, 2017. This avoids potential penalties of up to USD2.0m which may have been imposed if the commitments had not been met;
- Transfer of the registered legal addresses of the Company's three Kazakhstan subsidiaries, Tethys Aral Gas, Kul-bas and Tethys Services Kazakhstan from Almaty to Aktobe City completed and plans announced to relocate Tethys main administrative office from Almaty to Aktobe City during the first half of 2017;
- Tethys and each of its Kazakhstan subsidiaries commenced legal action against Olisol, EGG and certain of their respective principals and in the Court of Queen's Bench of Alberta. The legal action was to seek, among other things, damages arising from failure to meet contractual obligations under the Amended and Restated Investment Agreement on October 27, 2016 and damages arising from unlawful interference with Tethys' business activities, including issuing erroneous press release information about Tethys as alleged. Tethys intends to enforce its rights and legitimate interests to the fullest extent permitted by law, to protect its investors, assets, investments, management and employees;
- Amendments agreed to the Company's rig loan including extending the maturity date by 18 months;
- The Company applied to the United Kingdom Listing Authority ("UKLA") to cancel the standard listing of the Company's ordinary shares from the Official List of the UKLA and the cancellation of trading in the Shares on the Main Market of the London Stock Exchange with effect from May

2, 2017 to reduce the costs of maintaining dual listings. The shares will continue to trade on the Toronto Stock Exchange and the Company will combine its UK share register with the Canadian register to further reduce costs;

- The Company announced a ten well shallow gas well drilling program which is expected to cost approximately USD6 million. The Company will have until the end of 2018 fiscal year to pay these costs and expects to be able to pay from increased production. Following mobilization, the Company hopes to begin drilling on or about May 1, 2017. Additionally, the Company will work over three existing wells and tie in two wells drilled but not tied into production. This program is designed to add twelve or more new wells to existing production;
- The Company also announced the signing of a lease contract with MSI to build and install a mini-compressor in Bozoi. Installation is expected during the July 2017 time period. This is new technology for Central Asia and is intended to enhance gas production prior to the new wells being tied in. After new production is tied in, then the mini-compressor will be used on older wells to extend the life of wells.

Financial Highlights – 2016

- Oil and gas sales and other revenues decreased by 47% to USD11.7m from USD22.1m due to a natural decline in production volumes and a price reduction for oil in USD terms as a result of the Tenge devaluation from August 2015;
- The loss for the current year of USD46.9m is lower than the loss of USD74.6m in 2015 due to additional depletion in the prior period following the reclassification of assets previously shown as held for sale and a large deferred tax charge due to the significant devaluation of the Kazakhstan Tenge. In addition to this, there was a significant reduction in production expenses and administrative costs as a result of cost optimisation efforts;
- The current year was impacted by a USD25.6m write-off of Tajikistan exploration and evaluation expenditure (2015: USD25.9m) and a USD1.2m impairment charge against Kazakhstan oil properties. Finance costs were higher due to an increase in net debt and higher interest rates. The prior year had a large foreign exchange loss following the devaluation of the Tenge and a write down of the Company's interest in the Aral Oil Terminal joint venture, neither of which recurred in 2016;
- Adjusted EBITDA at negative USD3.3m decreased by 69% from negative USD10.6m for the prior year as a result of reduced costs which more than offset the reduction in revenue;
- Net debt increased to USD32.8m from USD28.8m as a result of interim finance obtained as part of larger strategic transactions which did not complete. A number of the group's loans were restructured and maturity dates extended subsequent to the end of the year as described above;
- Total non-current liabilities reduced significantly from USD34.6m to USD12.9m due to loans becoming due in less than one year and being reclassified to current liabilities;
- The number of ordinary shares outstanding increased to 508m from 337m as a result of:
 - o 37m shares issues to Olisol in March and a further 26m in April on conversion of USD6.3m of debt at USD0.10 per share;
 - o 44m shares issued to each of Prax Pte Ltd, and Jin Guang Ltd in November 29, 2016 at USD0.01593 per share in cash;



- o 20m shares issued to Annuity and Life Reassurance Limited in December on prepayment of USD0.3m of debt at USD0.01593 per share;
- Cash and cash equivalents at December 31, 2016 were USD0.4m (2015: USD3.3m) although there was an additional USD2.6m of restricted cash which became available to the Company in January 2017.

Reserve Highlights

- Total Gross (i.e. before the application of Kazakh Mineral Extraction Tax) Oil and Gas Reserves consisting of “Proved” 1P reserves of 12.17m boe (2015: 13.18m boe) and “Proved plus Probable” 2P reserves of 22.90m boe (2015: 23.97m boe);
- The NPV10 value after tax of the Company’s Kazakh reserves (Proved plus Probable) as at December 31, 2016 was USD157.6m (2015: USD183.6m);
- The reserves in this press release are estimated with an effective date of December 31, 2016.

The reserve report was prepared by Gustavson Associates in full accordance with the requirements of National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities of the Canadian Securities Administrators. The Company’s 2016 Annual Information Form dated March 31, 2017 includes more detailed disclosure and reports relating to petroleum and natural gas activities for 2016. Both oil and gas reserves are based on availability of sufficient funding to allow development of the known accumulations. The estimated value (NPV10) of the reserves does not represent fair market value.

A barrel of oil equivalent (“boe”) conversion ratio of 6,000 cubic feet (169.9 cubic metres) of natural gas = 1 barrel of oil has been used and is based on the standard energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Outlook

The Company's objective is to become a leading oil and gas exploration and production Company in Central Asia, by exercising capital discipline, 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 and currently operates in three separate jurisdictions in Central Asia and the Caspian Region, though the Board is considering farming down or selling 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 during 2015 although is contesting this in arbitration proceedings.

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:

- resolve the Company’s current issues in Kazakhstan, including disputes with EGG and Olisol;



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- work with the Company's new partner in Kazakhstan to market the Company's oil and gas for better pricing and obtain funding from a Kazakh bank to restructure loans and fund operations;
- complete the process of restructuring the Company's loans which are falling due in 2017;
- seek drilling company partners, or other investors, to fund drilling in the Company's licence areas in Kazakhstan on a deferred payment or contingent production sharing basis. This would include shallow and deep gas targets, Akkulka enhanced oil recovery and the Klymene exploration well on the Kul-bas licence;
- continue to evaluate farm-out or other value realisation opportunities with respect to Tajikistan and Georgia;
- continue to review and implement further restructuring and cost optimisation across the business; and
- maintain and increase shallow gas production in the near-term and drill for deep gas in the medium-term with the objective to supply gas to China through the newly built pipeline, once operational and additional funding is secured.

Full Annual Results and other documents

The full Annual Results together with Management's Discussion and Analysis and Annual Information Form will be filed with the Canadian securities regulatory authorities. Copies of the filed documents may be obtained via SEDAR at www.sedar.com or on Tethys' website at www.tethyspetroleum.com. The summary financial statements are attached to this press release.

The Company's 2016 Consolidated Financial Statements are prepared under International Financial Reporting Standards ("IFRS").

We draw attention to the section entitled "Going concern" in note 1 to the Consolidated 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 year ended December 31, 2016 that may cast significant doubt about Tethys Petroleum Limited's ability to continue as a going concern.

About Tethys

Tethys is focused on oil and gas exploration and production activities in Central Asia and the Caspian Region. This highly prolific oil and gas area is rapidly developing and Tethys believes that significant potential exists in both exploration and in discovered deposits.

Disclaimer

Some of the statements in this document are forward-looking. Forward-looking statements include statements regarding the intent, belief and current expectations of the Company or its officers with respect to the potential that exists in both exploration and in discovered deposits in Central Asia and the Caspian Region, the savings to be achieved under the cost optimisation programme, the outcome of the appeal regarding allegations made against employees of Tethys Aral Gas LLP, the Company's plans to relocate its main administrative office in Kazakhstan from Almaty to Aktobe City, the outcome of legal action against Olisol, EGG and certain of their respective principals, the Company's plans to cancel its listing in the United Kingdom and combine its United Kingdom share register with



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its Canadian register, the cost, timing and success of the proposed shallow gas drilling programme in adding 12 new wells to production, the timing of installation and success of the mini compressor in enhancing gas production, the availability of sufficient funding to allow development of the known accumulations described above under "Reserve Highlights" and the Company's objectives, ambitions and short-term focus areas described above under "Outlook". When used in this document, the words "expects," "believes," "anticipates," "plans," "may," "will," "should" and similar expressions, and the negatives thereof, are intended to identify forward-looking statements. Such statements are not promises or guarantees, and are subject to risks and uncertainties that could cause actual outcomes to differ materially from those suggested by any such statements including risks and uncertainties with respect to the potential that exists in both exploration and in discovered deposits in Central Asia and the Caspian Region, the savings to be achieved under the cost optimisation programme, the outcome of the appeal regarding allegations made against employees of Tethys Aral Gas LLP, the Company's plans to relocate its main administrative office in Kazakhstan from Almaty to Aktobe City, the outcome of legal action against Olisol, EGG and certain of their respective principals, the Company's plans to cancel its listing in the United Kingdom and combine its United Kingdom share register with its Canadian register, the cost, timing and success of the proposed shallow gas drilling programme in adding 12 new wells to production, the timing of installation and success of the mini compressor in enhancing gas production, the availability of sufficient funding to allow development of the known accumulations described above under "Reserve Highlights" and the Company's objectives, ambitions and short-term focus areas described above under "Outlook".

No part of this announcement constitutes, or shall be taken to constitute, an invitation or inducement to invest in the Company or any other entity, and shareholders of the Company are cautioned not to place undue reliance on the forward-looking statements. Save as required by the Listing Rules and applicable law, the Company does not undertake to update or change any forward-looking statements to reflect events occurring after the date of this announcement.

See our Annual Information Form for the year ended December 31, 2016 for a description of risks and uncertainties relevant to our business, including our exploration activities.

FOR FURTHER INFORMATION PLEASE CONTACT:

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Tethys Petroleum Limited
Consolidated Statement of Financial Position
(in thousands of US dollars)

	2016	2015
Non-current assets		
Intangible assets	42,732	64,202
Property, plant and equipment	103,115	113,397
Restricted cash	2,238	2,233
Investment in joint arrangements	4	4
Trade and other receivables	1,237	2,457
Deferred tax	208	226
	149,534	182,519
Current assets		
Cash and cash equivalents	449	3,272
Trade and other receivables	6,532	3,710
Inventories	676	879
Restricted cash	2,713	215
	10,370	8,076
Total assets	159,904	190,595
Non-current liabilities		
Trade and other payables	44	133
Financial liabilities - borrowings	-	22,873
Deferred tax	11,913	10,792
Provisions	910	846
	12,867	34,644
Current liabilities		
Financial liabilities - borrowings	33,249	9,159
Derivative financial instruments	-	275
Current taxation	522	398
Trade and other payables	19,838	14,189
Provisions	200	360
	53,809	24,381
Total liabilities	66,676	59,025
Equity		
Share capital	5,081	33,696
Share premium	358,444	321,803
Other reserves	43,648	43,166
Accumulated deficit	(320,041)	(273,189)
Non-controlling interest	6,096	6,094
Total equity	93,228	131,570
Total equity and liabilities	159,904	190,595

Tethys Petroleum Limited
Consolidated Statements of Comprehensive Income (Loss)
 (in thousands of US dollars except per share information)

	2016	2015
Sales and other revenues	11,734	22,135
Sales expenses	(2,443)	(4,210)
Production expenses	(5,285)	(10,232)
Depreciation, depletion and amortisation	(9,971)	(28,731)
Exploration and evaluation expenditure written off	(25,627)	(25,918)
Impairment charges	(1,176)	-
Administrative expenses	(5,461)	(9,492)
Restructuring costs	(1,915)	(3,247)
Transaction costs of assets held for sale	-	(1,065)
Share based payments	(482)	(450)
Profit on sale of fixed assets	-	53
Foreign exchange gain/(loss)	117	(1,715)
Fair value gain on derivative financial instrument	275	824
Loss from jointly controlled entity	-	(2,796)
Finance costs	(5,313)	(3,329)
	(57,281)	(90,308)
Loss before tax from continuing operations	(45,547)	(68,173)
Taxation	(1,303)	(6,430)
Loss for the year from continuing operations	(46,850)	(74,603)
Loss for the year from discontinued operations net of tax	-	(28)
Loss and total comprehensive income for the year	(46,850)	(74,631)
Loss and total comprehensive income attributable to:		
Shareholders	(46,852)	(74,629)
Non-controlling interest	2	(2)
Loss and total comprehensive income for the year	(46,850)	(74,631)
Loss per share attributable to shareholders:		
Basic and diluted - from continuing operations (USD)	(0.12)	(0.22)
Basic and diluted - from discontinued operations (USD)	-	-

Tethys Petroleum Limited
Consolidated Statements of Cash Flows
(in thousands of US dollars)

	2016	2015
Cash flow from operating activities		
Loss before tax from continuing operations	(45,547)	(68,173)
Loss before tax from discontinued operations	-	(28)
	(45,547)	(68,201)
Adjustments for:		
Share based payments	482	450
Net finance cost	5,313	3,329
Depreciation, depletion and amortisation	9,971	28,731
Unsuccessful exploration and evaluation expenditures	25,627	25,918
Impairment charges	1,176	-
Profit on sale of fixed assets	-	(53)
Fair value gain on derivative financial instruments	(275)	(824)
Net unrealised foreign exchange gain	(318)	(114)
Loss from jointly controlled entity	-	2,796
Movement in provisions	(1,901)	(4,646)
Net change in working capital	1,249	752
Cash used in operating activities	(4,223)	(11,862)
Corporation tax paid	(33)	(136)
Net cash used in operating activities	(4,256)	(11,998)
Cash flow from investing activities		
Interest received	-	183
Expenditure on exploration and evaluation assets	(619)	(5,798)
Expenditure on property, plant and equipment	(789)	(2,495)
Proceeds from sale of fixed assets	23	121
Movement in restricted cash	(2,503)	214
Movement in advances to construction contractors	(47)	416
Movement in value added tax receivable	650	1,284
Net change in working capital	225	(1,275)
Net cash generated used in investing activities	(3,060)	(7,350)
Cash flow from financing activities		
Proceeds from issuance of borrowings, net of issue costs	7,930	28,107
Repayment of borrowings	(1,395)	(10,269)
Interest paid on borrowings	(3,369)	(1,448)
Proceeds from issuance of equity	1,400	-
Movement in other non-current liabilities	(114)	(313)
Net cash generated from financing activities	4,452	16,077
Effects of exchange rate changes on cash and cash equivalents	41	2,675
Net decrease in cash and cash equivalents	(2,823)	(596)
Cash and cash equivalents at beginning of the year	3,272	3,868
Cash and cash equivalents at end of the year	449	3,272