UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2018

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission File Number 001-5507

TELLURIAN

Tellurian Inc.

(Exact name of registrant as specified in its charter)

Delaware	**06-0842255**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1201 Louisiana Street, Suite 3100, Houston, TX	**77002**
(Address of principal executive offices)	(Zip Code)

(832) 962-4000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
(Do not check if a smaller reporting company)		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ☐ No ☒

As of May 4, 2018 there were 228,421,102 shares of common stock, $0.01 par value, issued and outstanding.

Tellurian Inc.

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Cautionary Information About Forward-Looking Statements

The information in this report includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements, other than statements of historical facts, that address activity, events, or developments with respect to our financial condition, results of operations, or economic performance that we expect, believe or anticipate will or may occur in the future, or that address plans and objectives of management for future operations, are forward-looking statements. The words “anticipate,” “assume,” “believe,” “budget,” “estimate,” “expect,” “forecast,” “initial,” “intend,” “may,” “plan,” “potential,” “project,” “proposed,” “should,” “will,” “would” and similar expressions are intended to identify forward-looking statements. These forward-looking statements relate to, among other things:

- our businesses and prospects;
- planned or estimated capital expenditures;
- availability of liquidity and capital resources;
- our ability to obtain additional financing as needed and the terms of financing transactions, including at Driftwood Holdings LLC;
- revenues and expenses;
- progress in developing our projects and the timing of that progress;
- future values of the Company’s projects or other interests, operations or rights; and
- government regulations, including our ability to obtain, and the timing of, necessary governmental permits and approvals.

Our forward-looking statements are based on assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions, expected future developments and other factors that we believe are appropriate under the circumstances. These statements are subject to a number of known and unknown risks and uncertainties, which may cause our actual results and performance to be materially different from any future results or performance expressed or implied by the forward-looking statements. Factors that could cause actual results and performance to differ materially from any future results or performance expressed or implied by the forward-looking statements include, but are not limited to, the following:

- the uncertain nature of demand for and price of natural gas and LNG;
- risks related to shortages of LNG vessels worldwide;
- technological innovation which may render our anticipated competitive advantage obsolete;
- risks related to a terrorist or military incident involving an LNG carrier;
- changes in legislation and regulations relating to the LNG industry, including environmental laws and regulations that impose significant compliance costs and liabilities;
- uncertainties regarding our ability to maintain sufficient liquidity and capital resources to implement our projects;
- our limited operating history;
- our ability to attract and retain key personnel;
- risks related to doing business in, and having counterparties in, foreign countries;
- our reliance on the skill and expertise of third-party service providers;
- the ability of our vendors to meet their contractual obligations;
- risks and uncertainties inherent in management estimates of future operating results and cash flows;
- development risks, operational hazards and regulatory approvals;
- our ability to enter and consummate planned financing and other transactions; and

- risks and uncertainties associated with litigation matters.

The forward-looking statements in this report speak as of the date hereof. Although we may from time to time voluntarily update our prior forward-looking statements, we disclaim any commitment to do so except as required by securities laws.

DEFINITIONS

To the extent applicable, and as used in this quarterly report, the terms listed below have the following meanings:

ASU	Accounting Standards Update
Bcf	Billion cubic feet of natural gas
Bcf/d	Bcf per day
DD&A	Depreciation, depletion and amortization
EPC	Engineering, procurement and construction
FEED	Front-End Engineering and Design
FERC	U.S. Federal Energy Regulatory Commission
GAAP	Generally accepted accounting principles in the U.S.
LNG	Liquefied natural gas
LSTK	Lump sum turnkey
Mcf	Thousand cubic feet of natural gas
MMBtu	Million British thermal unit
MMcf	Million cubic feet of natural gas
MMcf/d	MMcf per day
MMcfe	Million cubic feet of gas equivalent volumes using a ratio of 6 Mcf to 1 barrel of liquid
Mtpa	Million tonnes per annum
Nasdaq	Nasdaq Capital Market
SEC	U.S. Securities and Exchange Commission
Train	An industrial facility comprised of a series of refrigerant compressor loops used to cool natural gas into LNG
U.S.	United States
USACE	U.S. Army Corps of Engineers

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TELLURIAN INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

(unaudited)

	March 31, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 112,487	$ 128,273
Accounts receivable	2,347	583
Accounts receivable due from related parties	1,316	1,377
Prepaid expenses and other current assets	4,670	3,458
Total	120,820	133,691
Property, plant and equipment, net	116,041	115,856
Deferred engineering costs	31,650	18,000
Other non-current assets	11,503	9,276
Total assets	$ 280,014	$ 276,823
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 3,255	$ 11,462
Accrued liabilities	23,888	39,101
Other current liabilities	—	1,735
Total	27,143	52,298
Asset retirement obligation	649	638
Total liabilities	27,792	52,936
Stockholders' equity:		
Preferred stock, $0.01 par value, 100,000,000 authorized: 6,123,782 and zero shares outstanding	28	—
Common stock, $0.01 par value, 400,000,000 authorized: 228,421,102 and 222,749,220 shares outstanding	2,072	2,043
Additional paid-in capital	603,420	549,958
Accumulated deficit	(353,298)	(328,114)
Total stockholders' equity	252,222	223,887
Total liabilities and stockholders' equity	$ 280,014	$ 276,823

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

TELLURIAN INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Revenues		
Natural gas sales	$ 939	$ —
LNG sales	2,689	—
Other LNG revenue	3,173	—
Total revenue	6,801	—
Operating costs and expenses		
Cost of sales	4,443	—
Development expenses	8,972	21,589
DD&A	377	60
General and administrative expenses	18,401	44,480
Goodwill impairment	—	77,592
Total operating costs and expenses	32,193	143,721
Loss from operations	(25,392)	(143,721)
Gain on Series A preferred stock exchange feature	—	2,209
Other income, net	390	163
Loss before income taxes	(25,002)	(141,349)
Income tax benefit (provision)	(182)	—
Net loss	$ (25,184)	$ (141,349)
Net loss per common share:		
Basic and diluted	$ (0.12)	$ (0.92)
Weighted average shares outstanding		
Basic and diluted	204,772	154,213

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

TELLURIAN INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(in thousands)
(unaudited)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Accum. Deficit	Total Stockholders' Equity
BALANCE AT JANUARY 1, 2018	$ —	$ 2,043	$ 549,958	$ (328,114)	$ 223,887
Issuance of common stock	—	15	14,459	—	14,474
Issuance of Series C preferred stock	28	—	22,582	—	22,610
Share-based compensation(1)	—	14	16,421	—	16,435
Net loss	—	—	—	(25,184)	(25,184)
BALANCE AT MARCH 31, 2018	$ 28	$ 2,072	$ 603,420	$ (353,298)	$ 252,222

(1) Includes settlement of 2017 bonus that was accrued for in December 2017.

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

TELLURIAN INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net loss	$ (25,184)	$ (141,349)
Adjustments to reconcile net loss to net cash used in operating activities:		
DD&A	377	60
Goodwill impairment	—	77,592
Gain on Series A preferred stock exchange feature	—	(2,209)
Share-based compensation	1,294	17,596
Share-based payments	—	17,770
Net changes in working capital (Note 9)	(435)	(11,149)
Net cash used in operating activities	(23,948)	(41,689)
Cash flows from investing activities:		
Cash received in acquisition	—	56
Purchase of natural gas properties	(257)	—
Purchase of property, plant and equipment	(472)	(573)
Proceeds from sale of available-for-sale securities	—	266
Net cash used in investing activities	(729)	(251)
Cash flows from financing activities:		
Proceeds from issuance of common stock	15,000	207,500
Tax payments for net share settlement of equity awards (Note 9)	(5,583)	—
Equity offering costs	(526)	(135)
Net cash provided by financing activities	8,891	207,365
Net increase (decrease) in cash and cash equivalents	(15,786)	165,425
Cash and cash equivalents, beginning of period	128,273	21,398
Cash and cash equivalents, end of period	$ 112,487	$ 186,823

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

NOTE 1 — General

The terms "we," "our," "us" and "Tellurian" as used in this report refer collectively to Tellurian Inc. and its subsidiaries unless the context suggests otherwise. These terms are used for convenience only and are not intended as a precise description of any separate legal entity within Tellurian Inc.

Nature of Operations

We plan to develop, own and operate a global natural gas business and to deliver natural gas to customers worldwide. We have begun to establish a portfolio of natural gas production, LNG marketing, and infrastructure including an LNG terminal facility (the "Driftwood terminal") and an associated pipeline (the "Driftwood pipeline") in southwest Louisiana (the Driftwood terminal and the Driftwood pipeline collectively, the "Driftwood Project").

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with GAAP for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain notes and other information have been condensed or omitted. The accompanying interim financial statements reflect all normal recurring adjustments that are, in the opinion of management, necessary for the fair presentation of our Condensed Consolidated Financial Statements. These interim financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in our Form 10-K for the year ended December 31, 2017.

The results for the three months ended March 31, 2018 are not necessarily indicative of future financial results. Further, while we recently commenced operations, we are still subject to significant risks and uncertainties, including failing to secure additional funding to construct the Driftwood Project.

Use of Estimates

To conform with GAAP, we make estimates and assumptions that affect the amounts reported in our Condensed Consolidated Financial Statements and the accompanying notes. Although these estimates and assumptions are based on our best available knowledge at the time, actual results may differ.

New Accounting Standards Issued and Adopted

ASU 2014-09, Revenue from Contracts with Customers (Topic 606), amended the previous revenue recognition guidance and required us to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We adopted the new standard on January 1, 2018, utilizing the modified retrospective approach. We developed an accounting policy, implemented changes to the relevant business processes and the control activities within them, and evaluated the disclosure requirements as a result of the provisions of this ASU. Adoption of the ASU did not require an adjustment to the opening equity and did not change our amount and timing of revenues. We have elected to exclude all taxes from the measurement of transaction price.

For the sale of commodities, we consider the delivery of each unit (MMBtu) to be a separate performance obligation that is satisfied upon delivery. These contracts are either fixed price contracts or contracts with a fixed differential to an index price both of which are considered fixed consideration. The fixed consideration is allocated to each performance obligation and represents the relative standalone selling price basis.

Purchases and sales of inventory with the same counterparty that are entered into in contemplation of one another (including buy/sell arrangements) are combined and recorded on a net basis and reported in "LNG sales" on the Condensed Consolidated Statements of Operations, for which we require payment within 10 days from delivery. Other LNG revenue represents revenue earned from sub-charter agreements and is accounted for outside of this ASU and in line with Accounting Standards Codification 840, *Leases*.

Based on our judgment, the performance obligations for the sale of natural gas and LNG are satisfied at a point in time because the customer obtains control and legal title of the asset when the natural gas or LNG is delivered to the designated sales point.

Because our performance obligations have been satisfied and an unconditional right to consideration exists as of the balance sheet date, we have recognized amounts due from contracts with customers of $2.0 million as accounts receivable within the Condensed Consolidated Balance Sheet.

New Accounting Standards Issued But Not Yet Adopted

ASU 2016-02, *Leases (Topic 842)*, requires a lessee to recognize leases on its balance sheet by recording a liability representing the obligation to make future lease payments and a right-of-use asset representing the right to use the underlying asset for the lease term. A lessee is permitted to make an election not to recognize lease assets and liabilities for leases with a term of 12 months or less. The standard also modifies the definition of a lease and requires expanded disclosures. This standard may be early adopted and must be adopted using a modified retrospective approach with certain available practical expedients. While we are still evaluating the provisions of the ASU to determine how we will be affected, based on our preliminary assessment we will record assets and liabilities for current operating leases related to our office spaces.

NOTE 2 — PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is comprised of fixed assets and natural gas properties, as shown below (in thousands):

	March 31, 2018	December 31, 2017
Land	$ 9,963	$ 9,491
Proved natural gas properties	90,952	90,869
Unproved natural gas properties	13,000	13,000
Corporate and other	3,035	3,038
Total property, plant and equipment at cost	116,950	116,398
Accumulated DD&A	(909)	(542)
Total property, plant and equipment, net	$ 116,041	$ 115,856

Proved Properties

We own producing and non-producing acreage in Northern Louisiana.

Unproved Properties

We own interests in unproved properties in the Weald Basin, United Kingdom and the Bonaparte Basin, Australia. In the United Kingdom, we hold non-operating interests in two licenses which expire in June and September 2021, respectively. In Australia, we hold an operating interest in an exploration permit which expires in May 2019. In March 2018, we received approval from Australian regulators to have a seismic survey conducted on our interest in the Bonaparte Basin. See Note 10, *Subsequent Events*, for further information regarding our interest in the Australian exploration permit.

NOTE 3 — DEFERRED ENGINEERING COSTS

Deferred engineering costs of approximately $31.7 million as of March 31, 2018 represent detailed engineering services related to the Driftwood terminal. Such costs will be deferred until construction commences on the Driftwood terminal, at which time they will be transferred to construction in progress.

NOTE 4 — OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following (in thousands):

	March 31, 2018	December 31, 2017
Land lease and purchase options	$ 3,166	$ 2,948
Permitting costs	6,719	4,708
Goodwill	1,190	1,190
Other	428	430
Total other non-current assets	$ 11,503	$ 9,276

Land Lease and Purchase Options

We hold lease and purchase option agreements (the “Options”) for certain tracts of land and associated river frontage that provide for four or five-year terms. In addition to the Options, the Company holds a ground lease for a port facility adjacent to a tract of land that was acquired in March 2016. The lease provides for a four-year term, subject to a 20-year extension and six five-year renewals. The ground lease is accounted for as an operating lease, with rental payments accounted for using the straight-line method.

Upon exercise of the Options, the leases are subject to maximum terms of 60 years (inclusive of various renewals) at the option of the Company. Lease and purchase option payments have been capitalized in other non-current assets. Costs of the lease and purchase options will be amortized over the life of the lease once obtained, or capitalized into the land if purchased.

Permitting Costs

Permitting costs primarily represent the purchase of wetland credits in connection with our permit application to the USACE in 2017. These wetland credits will be applied to our permit in accordance with the Clean Water Act and the Rivers and Harbors Act, which require us to mitigate the impact to the Louisiana wetlands caused by the construction of the Driftwood Project. If the USACE permit is secured, the permitting costs will be capitalized and depreciated with the total cost to construct the Driftwood Project.

NOTE 5 — STOCKHOLDERS' EQUITY

At-the-Market Program

We maintain an at-the-market equity offering program pursuant to which we may sell shares of our common stock from time to time on Nasdaq through Credit Suisse Securities (USA) LLC acting as sales agent. We have the availability under the at-the-market program to raise aggregate sales proceeds of up to $189.7 million.

Preferred Stock

In March 2018, we entered into a preferred stock purchase agreement with BDC Oil and Gas Holdings, LLC (“Bechtel Holdings”), a Delaware limited liability company and an affiliate of Bechtel Oil, Gas and Chemicals, Inc., a Delaware corporation (“Bechtel”), pursuant to which we sold to Bechtel Holdings approximately 6.1 million shares of Series C convertible preferred stock (the “Preferred Stock”).

In exchange for the Preferred Stock, Bechtel agreed to discharge approximately $22.7 million of amounts outstanding, and to apply approximately $27.3 million to future services, in connection with detailed engineering services for the Driftwood terminal. The approximately $22.7 million is recognized on our Condensed Consolidated Balance Sheets within deferred engineering costs. The remaining approximately $27.3 million from the Preferred Stock issuance is subject to forfeiture and return if future services are not provided. We will account for the issuance of the remaining share of Preferred Stock as those services are received. In addition, the services to be received will be recognized within deferred engineering costs on our Condensed Consolidated Balance Sheets. See Note 3, *Deferred Engineering Costs*, for further information regarding the costs associated with the detailed engineering services.

The holders of the Preferred Stock do not have dividend rights but do have a liquidation preference over holders of our common stock. The holders of the Preferred Stock may convert all or any portion of their shares into shares of our common stock on a one-for-one basis. At any time after “Substantial Completion” of “Project 1,” each as defined in and pursuant to the LSTK EPC agreement for the Driftwood LNG Phase 1 Liquefaction Facility, dated as of November 10, 2017, or at any time after March 21, 2028, we have the right to cause all of the Preferred Stock to be converted into shares of our common stock on a one-for-one basis. The Preferred Stock has been excluded from the computation of diluted earnings per share because including it would have been antidilutive for the periods presented.

Exercise of Overallotment

In January 2018, in connection with the Company's December 2017 equity offering, the underwriters exercised their option to purchase an additional 1.5 million shares of our common stock for proceeds of approximately $14.5 million, net of approximately $0.5 million in fees and commissions.

NOTE 6 — SHARE-BASED COMPENSATION

We have granted restricted stock, restricted stock units and phantom units (collectively, “Restricted Stock”), as well as unrestricted stock and stock options, to employees, directors and outside consultants under the Tellurian Inc. 2016 Omnibus Incentive Compensation Plan, as amended (the “2016 Plan”), and the Amended and Restated Tellurian Investments Inc. 2016 Omnibus Incentive Plan (the “Legacy Plan”). The maximum number of shares of Tellurian common stock authorized for issuance under the 2016 Plan is 40 million shares of common stock and no further awards can be granted under the Legacy Plan.

Upon the vesting of restricted stock, shares of common stock will be released to the employee. Upon the vesting of restricted stock units, the units will be converted into shares of common stock and released to the employee. Beginning in March 2018, we began issuing phantom units that may be settled in either cash, stock, or a combination thereof.

As of March 31, 2018, we have granted approximately 23.9 million shares of performance-based Restricted Stock, of which approximately 19.8 million shares will vest entirely based upon an affirmative final investment decision ("FID") by the Company's board of directors, as defined in the award agreements, and approximately 3.4 million shares will vest in one-third increments at FID and the first and second anniversary of FID. The remaining shares of performance-based Restricted Stock, totaling approximately 0.7 million shares, will vest based on other criteria. As of March 31, 2018, no expense has been recognized in connection with performance-based Restricted Stock.

For the three months ended March 31, 2018, the recognized share-based compensation expense related to all share-based awards totaled approximately $1.3 million. As of March 31, 2018, unrecognized compensation expense, based on the grant date fair value, for all share-based awards totaled approximately $197.3 million. Further, the approximately 23.9 million shares of performance-based Restricted Stock and approximately 2.0 million stock options outstanding have been excluded from the computation of diluted earnings per share because including them would have been antidilutive for the periods presented.

NOTE 7 — ACCRUED LIABILITIES

The components of accrued liabilities consist of the following (in thousands):

	March 31, 2018	December 31, 2017
Project development activities	$ 4,385	$ 5,142
Payroll and compensation	10,768	25,833
Accrued taxes	2,969	2,764
Professional services (e.g., legal, audit)	2,671	2,806
Other	3,095	2,556
Total accrued liabilities	$ 23,888	$ 39,101

NOTE 8 — INCOME TAXES

Due to our cumulative loss position and historical net operating losses ("NOLs"), we have recorded a full valuation allowance against our U.S. deferred tax assets as of March 31, 2018 and December 31, 2017. Accordingly, we have not recorded a provision for federal or state income taxes during the three months ended March 31, 2018. The provision recorded in the accompanying Condensed Consolidated Financial Statements is for foreign income taxes.

We experienced ownership changes as defined by Internal Revenue Code ("IRC") Section 382 in 2017 and an analysis of the annual limitation on the utilization of our NOLs was performed at that time. It was determined that IRC Section 382 will not limit the use of our NOLs over the carryover period. We will continue to monitor trading activity in our shares that may cause an additional ownership change, which may ultimately affect our ability to fully utilize our existing NOL carryforwards.

NOTE 9 — ADDITIONAL CASH FLOW INFORMATION

The following table provides information regarding the net changes in working capital (in thousands):

	Three Months Ended March 31,	
	2018	2017
Accounts receivable	$ (1,718)	$ 18
Accounts receivable due from related parties	62	(1,593)
Prepaid expenses and other current assets	(1,213)	(553)
Accounts payable and accrued liabilities	3,807	(8,517)
Other, net	(1,373)	(504)
Net changes in working capital	$ (435)	$ (11,149)

The following table provides supplemental disclosure of cash flow information (in thousands):

	Three Months Ended March 31,	
	2018	2017
Other non-current assets non-cash accruals	$ 2,584	$ —
Non-cash settlement of withholding taxes associated with the 2017 bonus accrual	5,583	—
Non-cash settlement of the 2017 bonus accrual	15,140	—

NOTE 10 — SUBSEQUENT EVENTS

In April 2018, we received an offer and agreed to transfer our Australian exploration permit to a third party for consideration of approximately \$0.2 million in cash and the release of approximately \$1.3 million in liabilities incurred in connection with a canceled 2017 seismic survey. We will recognize a loss on the transfer of the permit of approximately \$1.0 million during the second quarter of 2018. The transfer of our Australian exploration permit will allow us to further focus our upstream activities domestically.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

The following discussion and analysis presents management’s view of our business, financial condition and overall performance and should be read in conjunction with our Condensed Consolidated Financial Statements and the accompanying notes. This information is intended to provide investors with an understanding of our past development activities, current financial condition and outlook for the future organized as follows:

- Our Business
- Overview of Significant Events
- Liquidity and Capital Resources
- Capital Development Activities
- Results of Operations
- Off-Balance Sheet Arrangements
- Recent Accounting Standards

Our Business

We intend to create value for shareholders by building a low-cost, global natural gas business, profitably delivering natural gas to customers worldwide (the “Business”). We are developing a portfolio of natural gas production, LNG marketing, and infrastructure assets that includes an LNG terminal facility (the “Driftwood terminal”) and an associated pipeline (the “Driftwood pipeline”) in southwest Louisiana (the Driftwood terminal and the Driftwood pipeline collectively, the “Driftwood Project”). Our Business may be developed in phases.

The proposed Driftwood terminal will have a liquefaction capacity of approximately 27.6 Mtpa and will be situated on approximately 1,000 acres in Calcasieu Parish, Louisiana. The proposed Driftwood terminal will include up to 20 liquefaction Trains, three full containment LNG storage tanks and three marine berths. We have entered into four LSTK EPC agreements totaling $15.2 billion with Bechtel Oil, Gas and Chemicals, Inc. (“Bechtel”) for construction of the Driftwood terminal.

The proposed Driftwood pipeline is a new 96-mile large diameter pipeline that will interconnect with 14 existing interstate pipelines throughout southwest Louisiana to secure adequate natural gas feedstock for the Driftwood terminal. The Driftwood pipeline will be comprised of 48-inch, 42-inch, 36-inch and 30-inch diameter pipeline segments and three compressor stations totaling approximately 274,000 horsepower, all as necessary to provide approximately 4 Bcf/d of average daily natural gas transportation service. We estimate construction costs for the Driftwood pipeline of approximately $2.3 billion before owners’ costs, financing costs and contingencies.

We intend to develop the Driftwood pipeline as part of what we refer to as the “Pipeline Network.” In addition to the Driftwood pipeline, the Pipeline Network is expected to include two pipelines which are currently in the early stages of development. One, the Haynesville Global Access Pipeline, is expected to run 200 miles from northern to southwest Louisiana. The other, the Permian Global Access Pipeline, is expected to run 625 miles from west Texas to southwest Louisiana. Each is expected to have a diameter of 42 inches and be capable of delivering approximately 2 Bcf/d of natural gas. We currently estimate that construction costs will be approximately $1.4 billion for the Haynesville Global Access Pipeline and approximately $3.7 billion for the Permian Global Access Pipeline, in each case before owners’ costs, financing costs and contingencies.

Our upstream properties, acquired in a series of transactions during 2017 and 2018, consist of 11,620 net acres and 20 operated producing wells located in the Haynesville Shale trend of north Louisiana. These wells have net current production of approximately 3.6 MMcf/d. As of December 31, 2017, our estimate of net reserves in these properties was 327,180 MMcfe. We are seeking opportunities to acquire additional upstream assets in the Haynesville. We also continue to develop our LNG marketing activities as described below in “—Overview of Significant Events.”

In connection with the implementation of our Business, we are offering partnership interests in a subsidiary, Driftwood Holdings LLC (“Driftwood Holdings”), which will own the Driftwood terminal, one or more of our pipelines, and our natural gas production assets. Partners will contribute cash in exchange for equity in Driftwood Holdings and will receive LNG volumes at the cost of production for the life of the Driftwood terminal. We plan to retain a portion of the ownership in Driftwood Holdings and have engaged Goldman Sachs & Co. and Société Générale to serve as financial advisors for Driftwood Holdings.

Overview of Significant Events

Significant Transactions

Public Equity Offering. In connection with our equity offering in December 2017, the underwriters were granted an option to purchase up to an additional 1.5 million shares of common stock within 30 days. The option was exercised in full in January 2018, resulting in total proceeds of approximately $14.5 million, net of approximately $0.5 million in fees and commissions.

Preferred Stock Issuance. In March 2018, we entered into a preferred stock purchase agreement with BDC Oil and Gas Holdings, LLC ("Bechtel Holdings"), a Delaware limited liability company and an affiliate of Bechtel, pursuant to which we sold to Bechtel Holdings approximately 6.1 million shares of Series C convertible preferred stock (the "Preferred Stock"). In exchange for the Preferred Stock, Bechtel agreed to discharge approximately $22.7 million of amounts outstanding, and to apply approximately $27.3 million to future services, in connection with detailed engineering services for the Driftwood terminal.

LNG Marketing. We continued to execute our LNG marketing strategy by utilizing the vessel charter entered into during 2017. The vessel charter enabled us to execute a number of LNG purchase and sale opportunities, as well as sub-charter opportunities, resulting in revenue for the three months ended March 31, 2018 of approximately $5.9 million.

Liquidity and Capital Resources

Capital Resources

We are currently funding our operations and development activities and general working capital needs through our cash on hand. Our current capital resources consist of approximately $112.5 million of cash and cash equivalents as of March 31, 2018 on a consolidated basis, which are primarily the result of issuances of common stock throughout 2017. We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

We also have the ability to raise funds through common or preferred stock issuances, debt financings and an at-the-market equity offering program through Credit Suisse Securities (USA) LLC under which we may raise aggregate sales proceeds of up to $189.7 million.

Sources and Uses of Cash

The following table summarizes the sources and uses of our cash and cash equivalents and costs and expenses for the periods presented (in thousands):

	Three Months Ended March 31,	
	2018	**2017**
Cash used in operating activities	$ (23,948)	$ (41,689)
Cash used in investing activities	(729)	(251)
Cash provided by financing activities	8,891	207,365
Net (decrease) increase in cash and cash equivalents	(15,786)	165,425
Cash and cash equivalents, beginning of the period	128,273	21,398
Cash and cash equivalents, end of the period	$ 112,487	$ 186,823
Net working capital	$ 93,677	$ 174,581

Cash used in operating activities for the three months ended March 31, 2018 decreased approximately $17.7 million compared to the same period in 2017. During the three months ended March 31, 2018, our largest vendor, Bechtel, was paid non-cash consideration pursuant to the Preferred Stock transaction whereas $12.5 million in cash payments were made during the same period in 2017. For more information regarding the Preferred Stock transaction, see Note 5, *Stockholders' Equity.* In addition, as part of the closing of our reverse merger in 2017, we incurred approximately $4.9 million of cash payments during three months ended March 31, 2017.

Cash provided by financing activities for the three months ended March 31, 2018 decreased approximately $198.5 million compared to the same period in 2017. The decrease in cash provided by financing activities primarily relates to the issuance of common stock during the three months ended March 31, 2017, which resulted in net proceeds of approximately $207.4 million, compared to the common stock issuance during the three months ended March 31, 2018, which resulted in net proceeds of approximately $14.5 million.

Capital Development Activities

The activities we have proposed will require significant amounts of capital and are subject to risks and delays in completion. Even if successfully completed, we will not begin to operate and generate significant cash flows until at least several years from now, which management currently anticipates being 2023. We expect to receive all regulatory approvals and commence construction of the Driftwood terminal and Driftwood pipeline in 2019, produce the first LNG in 2023 and achieve full operations in 2026. As a result, our business success will depend to a significant extent upon our ability to obtain the funding necessary to construct assets on a commercially viable basis and to finance the costs of staffing, operating and expanding our company during that process.

We estimate construction costs of approximately $15.2 billion, or $550 per tonne, for the Driftwood terminal and approximately $2.3 billion for the Driftwood pipeline, in each case before owners' costs, financing costs and contingencies. We are also developing the Haynesville Global Access Pipeline and the Permian Global Access Pipeline, which combined are estimated to cost approximately $5.1 billion before owners' costs, financing costs and contingencies. We may acquire additional net developed and undeveloped acres of natural gas properties at one or more of our subsidiaries and these acquisitions may be funded through the use of cash-on-hand and/or proceeds from equity or debt financings. We anticipate funding our more immediate liquidity requirements utilizing cash-on-hand.

We are offering partnership interests in a subsidiary, Driftwood Holdings, which will own the Driftwood terminal, one or more of our pipelines, and our natural gas production assets. Partners will contribute cash in exchange for equity in Driftwood Holdings and will receive LNG volumes at the cost of production for the life of the Driftwood terminal. We plan to retain a portion of the ownership in Driftwood Holdings and have engaged Goldman Sachs & Co. and Société Générale to serve as financial advisors for Driftwood Holdings.

Results of Operations

The following table summarizes revenue, costs and expenses for the periods presented (in thousands):

	Three Months Ended March 31,	
	2018	2017
Total revenue	$ 6,801	$ —
Cost of sales	4,443	—
Development expenses	8,972	21,589
DD&A	377	60
General and administrative expenses	18,401	44,480
Goodwill impairment	—	77,592
Loss from operations	(25,392)	(143,721)
Gain on Series A preferred stock exchange feature	—	2,209
Other income, net	390	163
Income tax benefit (provision)	(182)	—
Net loss	$ (25,184)	$ (141,349)

Our consolidated net loss was approximately $25.2 million for the three months ended March 31, 2018, compared to a net loss of approximately $141.3 million during the same period in 2017. This $116.2 million decrease in net loss is primarily a result of a lack of goodwill impairment charge during the current quarter compared to a $77.6 million charge in 2017. The decrease in our net loss is also a result of the following:

- The $12.6 million decrease in development expenses is primarily due to the nature of invoices related to our largest development vendor, Bechtel. The services Bechtel provided during the three months ended March 31, 2018, primarily detailed engineering services for the Driftwood terminal, are being capitalized whereas the FEED studies on the Driftwood Project were expensed during the same period in 2017. For more information regarding the detailed engineering services provided by Bechtel, see Note 3, *Deferred Engineering Costs*.
- The $26.1 million decrease in general and administrative expenses is attributable to a decrease in share-based compensation and share-based payments to vendors, partially offset by an overall increase in headcount when compared to the same period in 2017.

The decrease in expenses for the three months ended March 31, 2018 was partially offset by the following:

- Cost of sales during the period increased approximately $4.4 million compared to the same period in 2017 primarily due to LNG marketing transactions of approximately $4.0 million.

- Revenue during the period increased approximately $6.8 million compared to the same period in 2017. This increase is primarily due to LNG sales revenue of approximately $2.7 million and LNG sub-charter revenue of approximately $3.2 million.

Off-Balance Sheet Arrangements

As of March 31, 2018, we had no transactions that met the definition of off-balance sheet arrangements that may have a current or future material effect on our consolidated financial position or operating results.

Recent Accounting Standards

For descriptions of recently issued accounting standards, see Note 1, *General,* of our Notes to the Condensed Consolidated Financial Statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We believe that we do not hold, and are not party to, any instruments that are subject to any market risks that are material to our business.

ITEM 4. CONTROLS AND PROCEDURES

As indicated in the certifications in Exhibits 31.1 and 31.2 to this report, our Chief Executive Officer and Chief Financial Officer have evaluated our disclosure controls and procedures as of March 31, 2018. Based on that evaluation, these officers have concluded that our disclosure controls and procedures are effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to them in a manner that allows for timely decisions regarding required disclosures and are effective in ensuring that such information is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There were no changes during our last fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no material changes to the legal proceedings disclosed in Part I, Item 3, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in Part I, Item 1A, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table summarizes the surrender to the Company of shares of common stock to pay withholding taxes in connection with the vesting of employee restricted stock:

	Total Number of Shares Purchased (1)	Average Price Paid per Share
January 2018	—	$ —
February 2018	6,088	10.12
March 2018	—	—
Total	6,088	

(1) Reflects the surrender to the Company of shares of common stock to pay withholding taxes in connection with the vesting of restricted stock issued to employees pursuant to the 2016 Plan.

ITEM 5. OTHER INFORMATION

2018 Annual Meeting of Stockholders

We expect to hold our 2018 Annual Meeting of Stockholders on June 6, 2018.

Compliance Disclosure

Pursuant to Section 13(r) of the Exchange Act, if during the quarter ended March 31, 2018, we or any of our affiliates had engaged in certain transactions with Iran or with persons or entities designated under certain executive orders, we would be required to disclose information regarding such transactions in our quarterly report on Form 10-Q as required under Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 (the "ITRSHRA"). Disclosure is generally required even if the activities were conducted outside the United States by non-U.S. entities in compliance with applicable law. During the quarter ended March 31, 2018, we did not engage in any transactions with Iran or with persons or entities related to Iran.

TOTAL and TOTAL S.A. have beneficial ownership of approximately 20% of the outstanding Tellurian common stock. TOTAL has the right to designate for election one member of Tellurian's board of directors, and Jean Jaylet is the current TOTAL designee. TOTAL will retain this right for so long as its percentage ownership of Tellurian voting stock is at least 10%. On March 16, 2018, TOTAL S.A. included information in its Annual Report on Form 20-F for the year ended December 31, 2017 (the "TOTAL 2017 Annual Report") regarding activities during 2017 that require disclosure under the ITRSHRA. The relevant disclosures are reproduced in Exhibit 99.1 to this report and are incorporated by reference herein. We have no involvement in or control over such activities, and we have not independently verified or participated in the preparation of the disclosures made in the TOTAL 2017 Annual Report.

ITEM 6. EXHIBITS

Exhibit No.	Description
3.1	Certificate of Designations of Series C Convertible Preferred Stock of Tellurian Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on March 21, 2018)
10.1†	Form of Restricted Stock Agreement pursuant to the Amended and Restated Tellurian Inc. 2016 Omnibus Incentive Compensation Plan (U.S. Selected Senior Management) (Milestone-Based Vesting) (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 31, 2018)
10.2†	Form of Construction Incentive Award Agreement (U.S. Selected Senior Management) (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 23, 2018)
31.1*	Certification by Chief Executive Officer required by Rule 13a-14(a) and 15d-14(a) under the Exchange Act

Exhibit No.	Description
31.2*	Certification by Chief Financial Officer required by Rule 13a-14(a) and 15d-14(a) under the Exchange Act
32.1**	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1*	Section 13(r) Disclosure
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

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* Filed herewith.

** Furnished herewith.

† Management contract or compensatory plan, contract or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TELLURIAN INC.

Date:	May 9, 2018	By:	/s/ Antoine J. Lafargue
			Antoine J. Lafargue Senior Vice President and Chief Financial Officer (as Principal Financial Officer) Tellurian Inc.
Date:	May 9, 2018	By:	/s/ Khaled Sharafeldin
			Khaled Sharafeldin Chief Accounting Officer (as Principal Accounting Officer) Tellurian Inc.

Exhibit 31.1

CERTIFICATION BY CHIEF EXECUTIVE OFFICER
PURSUANT TO RULE 13a-14(a) AND 15d-14(a) UNDER THE EXCHANGE ACT

I, Meg A. Gentle, certify that:

1. I have reviewed this annual report on Form 10-K of Tellurian Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2018

/s/ Meg A. Gentle

Meg A. Gentle
Chief Executive Officer
(as Principal Executive Officer)
Tellurian Inc.

Exhibit 31.2

CERTIFICATION BY CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13a-14(a) AND 15d-14(a) UNDER THE EXCHANGE ACT

I, Antoine J. Lafargue, certify that:

1. I have reviewed this annual report on Form 10-K of Tellurian Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2018

/s/ Antoine J. Lafargue

Antoine J. Lafargue
Senior Vice President and Chief Financial Officer
(as Principal Financial Officer)
Tellurian Inc.

Exhibit 32.1

CERTIFICATION BY CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Tellurian Inc. (the "Company") on Form 10-K for the year ended March 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Meg A. Gentle, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 9, 2018

/s/ Meg A. Gentle

Meg A. Gentle
Chief Executive Officer
(as Principal Executive Officer)
Tellurian Inc.

Exhibit 32.2

CERTIFICATION BY CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Tellurian Inc. (the “Company”) on Form 10-K for the year ended March 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Antoine J. Lafargue, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 9, 2018

/s/ Antoine J. Lafargue
Antoine J. Lafargue
Senior Vice President and Chief Financial Officer
(as Principal Financial Officer)
Tellurian Inc.

Exhibit 99.1

SECTION 13(r) DISCLOSURE

TOTAL S.A., a company that may be considered an affiliate of Tellurian Inc., included in its Annual Report on Form 20-F for the year ended December 31, 2017 the disclosure reproduced below, in which TOTAL S.A. is referred to as “TOTAL” or the “Company” and collectively with all its direct and indirect subsidiaries as the “Group”:

Iran

The Iran Threat Reduction and Syria Human Rights Act of 2012 added Section 13(r) to the U.S. Exchange Act, which requires TOTAL S.A. to disclose whether the Company or any of its affiliates has knowingly engaged during the calendar year in certain Iran-related activities, including those targeted under the Iran Sanctions Act of 1996, as amended (“ISA”), without regard to whether such activities are sanctionable under ISA, and any transaction or dealing with the government of Iran that is not conducted pursuant to a specific authorization of the U.S. government. While neither TOTAL S.A. nor any of its affiliates have engaged in any activity that would be required to be disclosed pursuant to subparagraphs (B) or (C) of Section 13(r)[1], affiliates of the Company may be deemed to have engaged in certain transactions or dealings with the government of Iran that would require disclosure pursuant to Section 13(r)(1)(A) and (D), as discussed below.

Statements in this section concerning affiliates intending or expecting to continue described activities are subject to such activities continuing to be permissible under applicable international economic sanctions regimes.

Exploration & Production

Following the suspension of certain international economic sanctions against Iran on January 16, 2016, the Group commenced various business development activities in Iran. TOTAL entered into a memorandum of understanding (“MOU”) on January 28, 2016 with NIOC, pursuant to which NIOC provided technical data on certain oil and gas projects so that TOTAL could assess potential developments in Iran in compliance with the remaining applicable international economic sanctions. TOTAL subsequently proposed to develop and operate the South Pars Phase 11 gas field offshore Iran in the Persian Gulf along the international border with Qatar. This resulted in the negotiation of a Heads of Agreement (“HOA”) signed in November 2016 by NIOC, Total E&P South Pars S.A.S. (“TEPSP”) (a wholly-owned affiliate), CNPC International Ltd. (“CNPCI”) (a wholly-owned affiliate of China National Petroleum Company) and Petropars Ltd. (“Petropars”) (a wholly-owned affiliate of NIOC) concerning the development and operation of the field. These parties then negotiated and signed a 20-year risked service contract on July 3, 2017 (the “Risked Service Contract”) for the development and production of phase 11 of the giant South Pars gas field (“SP11”). The project is expected to have a production capacity of 2 Bcf/d or 400,000 boe/d including condensate, and to supply the Iranian domestic market starting in 2021. TEPSP (50.1%) is the operator of the SP11 project alongside CNPCI (30%) and Petropars (19.9%). These companies entered into a joint operating agreement in July 2017 concerning, among other things, the governance of their obligations under the Risked Service Contract and the designation of TEPSP as the project’s operator. A branch office of TEPSP was opened in 2017 in Tehran for this purpose.

The SP11 project is expected to be developed in two phases. The first phase, with an estimated cost of approximately $2 billion equivalent, consists of 30 wells and 2 wellhead platforms connected to existing onshore treatment facilities by 2 subsea pipelines. Since the November 2016 HOA signature, TOTAL has conducted engineering studies on behalf of the consortium and it initiated calls for tender during the third quarter of 2017 in order to award the contracts required to start developing the project in early 2018. At a later stage, once required by reservoir conditions, a second phase is expected to be launched involving the construction of offshore compression facilities.

[1] TOTAL is not present in North Korea. In Sudan, other than the payment of fees related to patents, the Group is not aware of any of its activities in 2017 having resulted in payments to, or additional cash flow for, the government of that country.

The total required investment for the SP11 project is expected to be approximately $4 billion equivalent, of which TEPSP would finance 50.1% via equity contributions and payments in non-U.S. currency. In the event of new or reinstated international economic sanctions, if such sanctions were to prevent TEPSP from performing

under the Risked Service Contract, TEPSP expects to be able to withdraw from the Contract and recover its past costs from NIOC (unless such recovery is prevented by sanctions).

Also in 2017, the MOU entered into between TOTAL and NIOC in January 2016 to assess potential developments in Iran (including South Azadegan) was amended to extend the MOU's duration and include North Azadegan. NIOC provided TOTAL in 2017 with technical data on the Azadegan oil field so that it could assess potential development of this field. Representatives of TOTAL held technical meetings in 2017 with representatives of NIOC and its affiliated companies and carried out a technical review of the Azadegan (South & North) oil field as well as the Iran LNG Project (a project contemplating a 10 Mt/y LNG production facility at Tombak Port on Iran's Persian Gulf coast), the results of which were partially disclosed to NIOC and relevant affiliated companies. In addition, TOTAL signed an MOU in 2017 with an international company to evaluate the Azadegan oil field opportunity with NIOC.

During 2017, in connection with anticipated activities under the aforementioned Risked Service Contract and MOUs, and to discuss other new project opportunities, representatives of TOTAL attended meetings with the Iranian oil and gas ministry and several Iranian companies with ties to the government of Iran. After the signing ceremony of the Risked Service Contract, senior management of TOTAL attended a meeting with the President of Iran. In connection with travel to Iran in 2017 by employees of the Group, TOTAL made payments to Iranian authorities for visas, airport services, exit fees and similar travel-related charges. In addition, representatives of TOTAL had a meeting in France with the Iranian ambassador and hosted official visits in France of representatives from the Iran Ministry of Petroleum, NIOC and affiliates of NIOC for demonstrations of TOTAL's technical capabilities and expertise.

Following the signature of a confidentiality agreement in late 2016 among the Oman Ministry of Oil and Gas, NIGEC (a subsidiary of NIOC) and a group of international companies, including TOTAL, representatives of the Group attended meetings in 2017 with the parties to the agreement, including NIGEC, to discuss a potential project for the construction, operation and maintenance of a pipeline to supply natural gas from Iran to Oman as well as to market such gas.

Neither revenues nor profits were recognized from any of the aforementioned activities in 2017, except that TEPSP received payments of approximately $15 million equivalent from its partners under the Risked Service Contract, including NIOC, for the reimbursement of their respective shares of past costs incurred by TEPSP under the HOA and their respective shares of the costs and expenditures incurred in 2017 under the Risked Service Contract.

Concerning payments to Iranian entities in 2017, Total Iran BV (100%) and TEPSP (on behalf of SP11 Project JV Partners) collectively made payments of approximately IRR 7 billion (approximately $210,000[2]) to (i) the Iranian administration for taxes and social security contributions concerning the personnel of the aforementioned branch office and residual buyback contract-related obligations, and (ii) Iranian public entities for payments with respect to the maintenance of the aforementioned branch office (e.g., utilities, telecommunications). TOTAL expects similar types of payments to be made by these affiliates in 2018 albeit in higher amounts due to increased business development activity in Iran.

Furthermore, Total E&P UK Limited ("TEP UK"), a wholly-owned affiliate, holds a 43.25% interest in a joint venture at the Bruce field in the UK with BP Exploration Operating Company Limited (37%, operator), BHP Billiton Petroleum Great Britain Ltd (16%) and Marubeni Oil & Gas (North Sea) Limited (3.75%). This joint venture is party to an agreement (the "Bruce Rhum Agreement") governing certain transportation, processing and operation services provided to a joint venture at the Rhum field in the UK that is co-owned by BP (50%

[2] Unless otherwise indicated, currencies converted to USD in this Exhibit were converted using the average exchange rate for fiscal year 2017, as published by Bloomberg.

operator) and the Iranian Oil Company UK Ltd (“IOC”), a subsidiary of NIOC (50%). In 2017, TEP UK liaised directly with IOC concerning its interest in the Bruce Rhum Agreement and it provided services to IOC under the Bruce Rhum Agreement. TEP UK is also party to an agreement with BP whereby TEP UK shall under certain conditions use reasonable endeavors to evacuate Rhum NGL from the St Fergus Terminal. TEP UK conducts activities pursuant to this agreement only when the Rhum Owners’ primary evacuation route for Rhum NGL is not available, and subject to BP having title to all of the Rhum NGL to be evacuated and BP having a valid OFAC license for the activity. In 2017, the aforementioned activities generated for TEP UK gross revenue of approximately £3.9 million and net profit of approximately £2.3 million. TEP UK expects to continue these activities in 2018.

Other Segments

The Group does not own or operate any refineries or chemical plants in Iran and did not purchase Iranian hydrocarbons prior to 2016 when prohibited by applicable EU and U.S. economic sanctions.

The Group continued its trading activities with Iran in 2017 via its wholly-owned affiliate TOTSA TOTAL OIL TRADING SA, which purchased approximately 58 Mb of Iranian crude oil for nearly €2.6billion pursuant to a mix of spot and term contracts. In connection with these purchases, CSSA Chartering and Shipping Services SA, a wholly-owned affiliate, chartered vessels owned by an entity with ties to the government of Iran to transport this crude oil. It is not possible to estimate the gross revenue and net profit related to these purchases, because most of this crude oil was used to supply the Group’s refineries. However, approximately 6.6 Mb of this crude oil were sold to entities outside of the Group. In addition, in 2017 approximately 14 Mb of petroleum products were bought from/sold to entities with ties to the government of Iran. These activities generated gross revenue of nearly €1.1 billion and a net loss of approximately €5.7 million. The affiliates expect to continue these activities in 2018.

Saft Groupe S.A. (“Saft”), a wholly-owned affiliate, in 2017 sold signaling and backup battery systems for metros and railways as well as products for the utilities and oil and gas sectors to companies in Iran, including some having direct or indirect ties with the Iranian government. In 2017, this activity generated gross revenue of approximately €3.2 million and net profit of approximately €0.4 million. Saft expects to continue this activity in 2018.

Saft also attended the Iran Oil Show in 2017, where it discussed business opportunities with Iranian customers, including those with direct or indirect ties with the Iranian government. Saft expects to conduct similar business development activities in 2018.

Total Eren, a company in which Total Eren Holding holds an interest of 68.76% (TOTAL S.A. owns 33.86% of Total Eren Holding), had preliminary discussions in 2017 for possible investments in renewable energy projects in Iran, including meetings with ministries of the Iranian government. Neither revenues nor profits were recognized from this activity in 2017, and the company expects to continue this activity in 2018.

In relation to a non-binding MOU signed in 2016 with National Petrochemical Company (“NPC”), a company owned by the government of Iran, to consider a project for the construction in Iran of a steam cracker and polyethylene production lines, representatives of Total Raffinage Chimie (“TRC”), a wholly-owned affiliate, made several visits to Iran in 2017 to discuss the project with representatives of NPC. In addition, the Iranian Ministry of Petroleum issued in January 2017 a resolution allocating to the potential project certain amounts of ethane, ethylene and polyethylene. This resolution was renewed by the Ministry of Petroleum in July 2017. No revenue or profit from these activities was recognized in 2017 and similar activities are expected to continue in 2018.

The company Le Joint Français, a wholly-owned affiliate, sold vehicular O-ring seals in 2017 to Iran Khodro, a company in which the government of Iran holds a 20% interest and which is supervised by Iran’s Industrial

Management Organization. This activity generated gross revenue of approximately €700,000 and net profit of approximately €34,000. The company expects to continue this activity in 2018.

Paulstra S.N.C., a wholly-owned affiliate, obtained in 2017 an order from Iran Khodro to sell vehicular anti-vibration systems over a 5-year period. In 2017, this activity generated gross revenue of approximately €270,000 and net profit of approximately €20,000. Paulstra S.N.C. also sold vehicular anti-vibration systems in 2017 to Saipa, an Iranian company in which the Industrial & Development Organization of Iran holds a 35.75% interest. This activity generated gross revenue of approximately €3,000 and net profit of approximately €900. The company expects to continue these activities in 2018.

Hutchinson S.N.C., a wholly-owned affiliate, sold vehicular body sealing and hoses in 2017 to Iran Khodro. This activity generated gross revenue of approximately €2.7 million and net profit of approximately €171,000. The company expects to continue these activities in 2018.

Industrielle Desmarquoy S.N.C., a wholly-owned affiliate, sold vehicular plastic sealing in 2017 to Iran Khodro. This activity generated gross revenue of approximately €7,400 and net profit of approximately €600. The company expects to continue this activity in 2018.

Hanwha Total Petrochemicals ("HTC"), a joint venture in which Total Holdings UK Limited (a wholly-owned affiliate) holds a 50% interest and Hanwha General Chemicals holds a 50% interest, purchased nearly 44 Mb of condensates from NIOC for approximately KRW 2,600 billion (approximately $2.3 billion). These condensates are used as raw material for certain of HTC's steam crackers. HTC also chartered seven tankers of condensates with National Iranian Tanker Company (NITC), a subsidiary of NIOC, for approximately KRW 16 billion (approximately $14.2 million). The company expects to continue these activities in 2018.

Total Research & Technology Feluy, a wholly-owned affiliate, Total Marketing & Services, a company wholly-owned by TOTAL S.A. and six employees ("TMS"), and TRC paid in 2017 fees totaling approximately €4,000 to Iranian authorities related to various patents.[3] Similar payments are expected to be made in 2018.

The Company paid fees in 2017 of approximately €2,000 to Iranian authorities related to the maintenance and protection of trademarks and designs. Similar payments are expected to be made in 2018.

Until December 2012, at which time it sold its entire interest, the Group held a 50% interest in the lubricants retail company Beh Total (now named Beh Tam) along with Behran Oil (50%), a company controlled by entities with ties to the government of Iran. As part of the sale of the Group's interest in Beh Tam, TOTAL S.A. agreed to license the trademark "Total" to Beh Tam for an initial 3-year period for the sale by Beh Tam of lubricants to domestic consumers in Iran. In 2014, Total E&P Iran ("TEPI"), a wholly-owned affiliate, received, on behalf of TOTAL S.A., royalty payments of approximately IRR 24 billion (nearly $1 million[4]) from Beh Tam for such license. These payments were based on Beh Tam's sales of lubricants during the previous calendar year. In 2015, royalty payments were suspended notably due to a procedure brought by the Iranian tax authorities against TEPI. As of the end of 2017, no royalty payments had been received since 2015, but the payment of outstanding royalties in favor of TOTAL S.A. is expected in 2018. In addition, representatives of Total Oil Asia-Pacific Ltd, a wholly-owned affiliate, made several visits to Behran Oil during 2017 regarding the potential purchase of 50% of the share capital of Beh Tam. As of the end of 2017, no agreement had been reached and no money was paid or received by either company. Further discussions are expected to take place in 2018.

Total Marketing Middle East FZE, a wholly-owned affiliate, sold lubricants to Beh Tam in 2017. The sale in 2017 of approximately 392 t of lubricants and special fluids generated gross revenue of approximately AED 8.1 million (approximately $2.2 million) and net profit of approximately AED 3.7 million (approximately $1 million). The company expects to continue this activity in 2018.

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[3] Section 560.509 of the U.S. Iranian Transactions and Sanctions Regulations provides an authorization for certain transactions in connection with patent, trademark, copyright or other intellectual property protection in the United States or Iran, including payments for such services and payments to persons in Iran directly connected to intellectual property rights, and TOTAL believes that the activities related to the patent applications described in this Exhibit are consistent with that authorization.

[4] Based on an average daily exchange rate of $1 = IRR 0.000039 during 2014, as published by Bloomberg.

Total Marketing France ("TMF"), a company wholly-owned by TMS, provided in 2017 fuel payment cards to the Iranian embassy and delegation to UNESCO in France for use in the Group's service stations. In 2017, these activities generated gross revenue of approximately €17,000 and net profit of approximately €1,000. The company expects to continue this activity in 2018.

TMF also sold jet fuel in 2017 to Iran Air as part of its airplane refueling activities in France. The sale of approximately one million liters of jet fuel generated gross revenue of approximately €450,000 and net profit of approximately €9,500. The company expects to continue this activity in 2018.

Total Belgium, a wholly-owned affiliate, provided in 2017 fuel payment cards to the Iranian embassy in Brussels (Belgium) for use in the Group's service stations. In 2017, these activities generated gross revenue of approximately €1,500 and net profit of approximately €300. The company expects to continue this activity in 2018.

Proxifuel, a wholly-owned affiliate, sold in 2017 domestic heating oil to the Iranian embassy in Brussels. In 2017, these activities generated gross revenue of less than €1,000 and net profit of less than €100. The company expects to continue this activity in 2018.

Caldeo, a company wholly-owned by TMS, sold in 2017 domestic heating oil to the Iranian embassy in France, which generated gross revenue of approximately €1,100 and net profit of less than €200. The company expects to continue this activity in 2018.

Total Lubrifiants, a company owned 99.99% by TMS (the remaining shares being held by one employee and five non-Group individual shareholders), received in 2017 three payments totaling €350,000 (from NITC) in payment of unpaid invoices from 2010. The company may receive similar payments in 2018.

As a result of legal proceedings initiated in the United Kingdom by one of its suppliers against a TOTAL S.A. affiliate based in India, Total Oil Private Limited ("TOIPL"), TOTAL S.A. has recently concluded an investigation into the transactions, including into the facts and circumstances that follow. In January 2014, TOIPL received two spot contract shipments of LPG from a supplier based in Dubai. The vessel Scoter, which was owned by the National Iranian Tanker Company, was used to transport one of the shipments received by TOIPL. At the time of these transactions, India was the recipient of a waiver pursuant to Section 1245(d)(4)(d) of the National Defense Authorization Act. TOIPL has not paid the supplier for the shipments due to a contract dispute. The total value of the two contracts was $8.85 million, and the value of the shipment delivered aboard the Scoter was approximately $7.1 million. TOIPL's LPG is stored in limited capacity storage facilities and contain LPG received from multiple suppliers. Therefore, it is not possible to provide a precise amount of gross revenue attributable to these spot contracts.