

Tethys Petroleum Limited

Management's Discussion and Analysis
for the period ended September 30, 2018

Contents

Nature of business	1
Financial highlights	2
Operational highlights	4
Operational review	5
Financial review	12
Risks, uncertainties and other information	21
Forward looking statements	23
Glossary	25

The following Management's Discussion and Analysis ("MD&A") is dated December 5, 2018 and should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and related notes for the period ended September 30, 2018 as well as the audited consolidated financial statements and the MD&A for the year ended December 31, 2017. The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by management and approved by the Company's Audit Committee and Board of Directors. The 2017 annual audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting". Additional information relating to the Company can be found on the SEDAR website at www.sedar.com and the Company's website at www.tethys-group.com.

Readers should also read the "Forward-Looking Statements" legal advisory wording contained at the end of this MD&A and also the Company's Annual Information Form ("AIF").

Nature of Business

Tethys Petroleum Limited and its subsidiaries (collectively "Tethys" or "the Company") is an oil and gas company operating within the Republic of Kazakhstan and Georgia. Tethys' principal activity is the exploration and development of crude oil and natural gas fields. The address of the Company's registered office is 190 Elgin Avenue, George Town, Grand Cayman, KY1-9007, Cayman Islands. The domicile of Tethys is the Cayman Islands where it is incorporated.

The Company had its primary listing on the Toronto Stock Exchange ("TSX") until March 23, 2018 when it transferred to the NEX Board of the Toronto Venture Exchange. The Company is also listed on the Kazakhstan Stock Exchange ("KASE").

Financial highlights

(All references to USD are United States dollars unless otherwise noted and tabular amounts are in thousands, unless otherwise stated)

	Quarter ended September 30			Nine months ended June 30		
	2018	2017	Change	2018	2017	Change
Oil and gas sales and other revenues	2,511	2,593	(3%)	6,444	5,928	9%
Loss for the period from continuing operations	(323)	(2,879)	(89%)	(6,553)	(11,174)	(41%)
Basic and diluted loss (USD) per share from continuing operations	(0.00)	(0.01)	(100%)	(0.01)	(0.02)	(50%)
Adjusted EBITDA ¹	1,734	1,727	0%	1,881	116	1522%

	As at September 30		
	2018	2017	Change
Total assets	112,251	149,076	(25%)
Cash & cash equivalents	2,800	186	1405%
Short & long term borrowings	32,851	32,520	1%
Total non-current liabilities	14,247	18,051	(21%)
Net debt ¹	30,051	32,334	(7%)
Number of ordinary shares outstanding	635,170,132	508,136,098	25%

Note 1 Adjusted EBITDA and net debt are non-GAAP Measures, refer to page 19 for details.

Third quarter 2018 versus third quarter 2017

- Oil and gas sales and other revenues decreased by 3% to USD2.5 million from USD2.6 million. Q3 2018 gas revenues were 79% higher due to higher production, which was up by 14% following new wells coming on line in January 2018 and also a significantly higher gas price from September 1, 2018, which increased by 283% from the previous price. Q3 2018 oil revenues decreased by 62% from USD1.5 million to USD0.6 million due mainly to lower production from the AKD-01 well which had a pump installed in May 2017 to prolong its producing life which is now nearing an end;
- The loss of USD0.3 million was lower than the Q3 2017 loss of USD2.9 million due to lower costs across all cost categories, a gain on assets held for sale and a deferred tax credit in the current period;
- Adjusted EBITDA was USD1.7 million in both periods.

Financial highlights (continued)

Period to date

- Oil and gas sales and other revenues for the nine months increased by 9% to USD6.4 million from USD5.9 million. 2018 year to date gas revenues were 26% higher due to the significantly higher gas price from September 1, 2018, which increased by 283% from the previous price. Gas production was 1% lower reflecting a combination of the new wells coming on line in January 2018 offset by the natural decline in production. 2018 oil revenues decreased by 17% from USD2.3 million to USD0.9 million. Whilst production from AKD-01 was down 44%, a significant higher price has been received from September 1, 2018, currently around USD35/bbl;
- The loss for the period of USD6.6 million was lower than the loss in 2017 of USD11.2 million due to a lower depletion charge, lower administrative expenses, gain in the current period on assets held for sale and foreign exchange revaluations and a higher deferred tax credit;
- Adjusted EBITDA was USD1.8 million compared with USD0.1 million in 2017 mainly due to lower administrative expenses;
- Net debt decreased following repayment of the rig loan and the resolution of Kazakhstan loans partly offset by accrued interest on other loans. Cash was also higher from the issuance of new equity.

Operational Review

	Units	Quarter ended September 30			Nine months ended September 30		
		2018	2017	Change	2018	2017	Change
Kazakhstan							
Oil	bopd	368	1,848	(80%)	619	1,099	(44%)
Gas	boe/d	2,024	1,767	14%	1,977	1,987	(1%)
Total	boe/d	2,393	3,615	(34%)	2,596	3,086	(16%)
Oil							
Net production	Bbls	33,832	170,024	(80%)	168,880	299,911	(44%)
Net revenue	USD'000	558	1,474	(62%)	1,893	2,283	(17%)
Production costs	USD'000	548	707	(22%)	1,922	1,722	12%
Gross margin	USD'000	10	767	(99%)	(29)	561	(105%)
Oil price net	USD/bbl	17.61	7.66	130%	11.55	7.71	50%
Cost	USD/bbl	16.91	4.16	289%	11.38	5.74	98%
Gross margin	USD/bbl	0.70	3.50	(80%)	0.17	1.97	(91%)
Gas							
Gross production	Mcm	31,626	27,627	14%	91,712	92,174	(1%)
Gas revenue net	USD'000	1,950	1,092	79%	4,537	3,602	26%
Production costs	USD'000	448	292	53%	1,243	1,357	(8%)
Gross margin	USD'000	1,502	800	88%	3,294	2,245	47%
Sales price net	USD/Mcm	62.70	42.95	46%	50.32	44.19	14%
Cost	USD/Mcm	14.17	10.57	34%	13.55	14.72	(8%)
Gross margin	USD/Mcm	48.53	32.38	50%	36.77	29.47	25%

Oil

- Oil production in Q3 2018 averaged 368 bopd compared with 1,848 bopd in Q3 2017 and 619 bopd YTD 2018 compared with 1,099 bopd in YTD 2017, reflecting a rapid decline in production after an ESP was installed in early May 2017 to maximise production from the AKD-01 well over its remaining life which is now nearing an end;
- Oil production cost per barrel in Q3 2018 was USD16.91 compared with US4.16 in Q3 2017 and was USD11.38 in YTD 2018 compared with USD5.74 in YTD 2017. The increase reflects the lower levels of production and s significant element of fixed costs;
- Oil prices averaged USD17.61 in the quarter compared with USD7.66/bbl in Q3 2017, an increase of 130% and USD11.55 YTD 2018 compared with USD7.71 in YTD 2017, reflecting higher market prices and re-marketing after the end of a fixed price contract.

Gas

- Current quarter gross gas production averaged 2,024 boe/d compared with 1,767 boe/d in Q3 2017 and YTD 2018 gross gas production averaged 1,977 boe/d compared with 1,987 boe/d in YTD 2017, reflecting a natural decline in overall production compensated for by production from the new wells which came on-line in January 2018;
- Gas production cost per Mcm in the current quarter increased to USD14.17 compared with USD10.57 in Q3 2017 and for YTD 2018, decreased to USD13.55 compared with USD14.72 in YTD 2017, reflecting timing of recognition of some costs for the quarter and lower costs YTD whereas production was at a similar level YTD;
- Gas was sold at a net average price equivalent to USD62.70 per Mcm for the quarter compared with USD42.95 in Q3 2017 and USD50.32 per Mcm for YTD 2018 compared with USD44.19 in YTD 2017. The increases reflect a significantly improved price from September 1, 2019 representing an increase of 283% in the local currency price.

Operational Review

Outlook

The information provided under this heading is considered as forward looking information; as such please refer to page 23 – “*Forward Looking Statements*” of this MD&A.

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 has oil and gas interests in the Republic of Kazakhstan and Georgia. On December 30, 2017 the Company announced that an arbitration tribunal had ordered that it should assign its interest in its Tajikistan project to its partners.

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:

- Work with the Company's shareholders in Kazakhstan to market the Company's oil and gas for better pricing, including potential export pricing for oil and gas. As previously announced, the Company has been receiving significantly higher price for oil and gas since August and will work to improve prices further;
- Increase gas production by upgrading gas compression facilities and tying-in of already drilled shallow gas wells. Funding is in place from the recent share issuances and this work is now underway;
- Drill new oil wells on the Akkulka licence and the Klymene prospect on the Kul-bas licence, subject to funding or farm-out arrangement;
- Complete the process of restructuring the Company's loans; and
- Implement further business restructuring and cost optimisation. Further progress has been made in this area including headcount reductions in Kazakhstan, salary reductions and tendering for audit services which has resulted in the appointment of Grant Thornton as the Company's auditor.

Significant events and transactions for the nine months ended September 30, 2018

- *TSX Listing Review*

On January 24, 2018 the Company announced that the Continued Listings Committee of the Toronto Stock Exchange ("TSX") had determined that the Company no longer met the continued listing requirements of the TSX would not be able to continue with its listing on the TSX after February 23, 2018 and subsequently extended this to March 23, 2018 whilst the TSX Venture Exchange ("TSXV") considered the Company's application to move its listing to that exchange. On February 26, 2018 the TSXV informed the Company that it would not meet the TSXV listing requirements and would instead need to transfer its listing to NEX, a subsidiary exchange of the TSXV.

- *Republic of Kazakhstan Supreme Court Dismisses EGG Claims*

On February 14, 2018 the Republic of Kazakhstan Supreme Court found in favour of the Company's subsidiary Tethys Aral Gas LLP ("TAG") by reversing the earlier court rulings and dismissing Eurasia Gas Group's ("EGG") claims.

- *Change of Management*

On March 9, 2018 Mr. Clive Oliver, Chief Financial Officer and Corporate Secretary of the Company tendered his resignation but agreed to continue to work with the Company on an advisory basis to help ensure an orderly transition. In August 2018, Mr. Oliver agreed to continue in those roles at the Company.

On March 12, 2018 the Board of Directors of the Company announced that Mr. Kenneth May, Chief Executive Officer ("CEO"), was stepping down with immediate effect.

On April 3, 2018, The Company announced the appointment of Samuel Barrows as Interim Chief Executive Officer.

On July 9, 2018 the Company announced that Samuel Barrows had decided to step down with immediate effect and was being replaced by current Board member Mattias Sjoborg as its new Interim CEO.

- *Update on Kazakhstan Loan*

On April 20, 2018 the Company announced that TAG had received notification from Special Financial Company DSFK LLP ("DSFK") relating to a loan originally provided to EGG by Bank RBK JSC ("RBK") in 2012. Also in 2012, TAG pledged certain of its oil and gas assets as collateral for the RBK loan to EGG including gas pipelines, booster compressor stations and oil gathering facility. EGG was TAG's former oil customer and advanced certain funds to TAG. In December 2017, RBK's loan to EGG was assigned to DSFK. DSFK has written to EGG to demand repayment of the loan because of EGG's failure to make certain scheduled repayments. DSFK has written separately to TAG regarding EGG's default and subsequent failure to repay the loan and informed TAG that it would take all measures to collect the debt, including but not limited to court collateral collection on the pledged assets. TAG has yet to receive full information regarding the EGG debt and is

Operational Review - continued

evaluating the legal position in order to protect its pledged assets from possible court collateral collection actions by DSFK and ultimately to have the pledges released.

- *Restructuring of Interests in Georgia*

In June 2018, Tethys and its partner in Georgia, Georgia Oil & Gas, agreed to a restructuring of their respective interests in the Georgian assets whereby Tethys' indebtedness of approximately USD1.6 million and its funding obligations for the 2018 operating budget were satisfied by reducing its economic interest in Blocks XI^M and XI^N blocks to 19%. The work program for 2018 involves reprocessing and interpretation of 500km of 2D seismic data and 225km of geological survey work.

- *Cease Trade Order*

On July 2, 2018 the Company announced that the Alberta Securities Commission ("ASC") had issued a Cease Trade Order ("CTO") against the Company and revoked the previously issued Management Cease Trade Order ("MCTO"). Accordingly, Tethys securities were halted from trading.

The CTO was issued because the Company had not timely filed its audited financial statements, CEO and CFO certifications, and management discussion & analysis for the year ended December 31, 2017 and its interim financial statements, CEO and CFO certifications, and management discussion and analysis for the three month period ended March 31, 2018.

On September 7, 2018 the ASC issued a Revocation Order in respect of its previously issued CTO after Tethys brought its filings up to date. Trading in Tethys ordinary shares recommenced on September 19, 2018.

- *Agreements to Acquire Shares in the Company*

On July 18, 2018 the Company announced that it had signed binding agreements for new investors to purchase 63,517,017 ordinary shares in the Company for total proceeds of USD1.2 million and warrants to acquire up to a further 63,517,017 ordinary shares for total proceeds of up to USD1.4 million. The transactions were subject to approval by the NEX Board of the TSX Venture Exchange which was received and other regulatory approvals.

The Company also reported that the proposals to acquire shares in the Company announced on January 23, 2018 would no longer be proceeding.

On September 6, 2018 the Company announced the share acquisitions had completed. The total proceeds received by Tethys was USD1.1 million, rather than the previously announced USD1.2m, following a change required by the NEX although the proceeds received on exercise of the warrants increased to USD1.5 million.

Mr. Abay Amir Khanov was appointed to the Board of Directors of the Company following closing of the Placements.

Operational Review - continued

On September 21, 2018 the Company announced that all of the abovementioned warrants were exercised with the proceeds received by Tethys amounting to approximately USD1.5 million.

- *Oil & Gas License Extensions*

Also on July 18, 2018 the Company announced extensions of two of its oil and gas licenses in Kazakhstan.

Contract No. 3496 for gas production in the Akkulka Field was extended for a further eight years until December 23, 2026 and the related work program for the period 2019-2026 was approved.

In addition, Contract No. 265 for appraisal of the Akkulka Oil & Gas Area was received Ministry of Energy approval for a three year extension of the exploration period until March 10, 2022, provided the Company meets certain conditions. The Company currently produces oil in this contract area under a pilot production license.

Significant events and transactions subsequent to the period end

- *Tethys Receives a Further USD1.5 million for Warrants*

On October 31, 2018 the Company announced that Jaka Partners FZC had exercised 48,075,000 share purchase warrants purchased from Global Invest Service Capital at USD0.031 per ordinary share with proceeds received by Tethys amounting to approximately USD1.5 million. Jaka Partners FZC now owns approximately 18.7% of the ordinary shares of the enlarged share capital of the Company.

Results of Operations and Operational Review - Kazakhstan

Oil production – Akkulka Contract

	2018					2017				
	Gross fluid m ³	barrels	Net barrels	Net production days	bopd	Gross fluid m ³	barrels	Net barrels	Net production days	bopd
Q1	52,034	327,285	79,217	90	880	17,701	111,336	61,418	90	682
Q2	47,420	298,261	55,831	91	614	21,334	134,186	68,469	91	752
Q3	44,465	279,673	33,832	92	368	62,435	392,703	170,024	92	1,848
Total	143,919	905,219	168,880	273	619	101,470	638,225	299,911	273	1,099

Oil operations update

The Company produces oil from the AKD01 well under a pilot production license and the well has been performing to expectations. Oil production averaged 368 bopd in Q3 2018 (Q3 2018: 1,848 bopd) and 619 bopd for the nine months YTD 2018 (YTD 2017: 1,099 bopd) from AKD01. The well has been producing with an ESP installed in May 2017 with an approximate 88% water-cut for Q3 2018 and this has been increasing as the well approaches the end of its life.

The AKD06 well has been shut in since late Q4 2014 due to the lower oil price received and the increased operating costs of a high water-cut well. The AKD05 well has been off production since November 2015. The option of using enhanced oil recovery (“EOR”) techniques for this well has

Operational Review - continued

recently been being evaluated by Schlumberger, which conducted a hydrodynamic study of the Jurassic Carbonates and a geomechanics study.

The Company is currently reviewing its development plans for the next five years. Following the recently announced contract extensions through to March 2019 the priority will be to conduct the works required to fulfil the work programs and maintain and further extend the licence. There is no guarantee that an extension will be achieved since the Company has been operating the pilot production licence since 2011 with multiple licence extensions obtained since then and has not yet moved to a commercial production licence. Subject to funding, these works would include the drilling of three new deep wells AKD12, 13 and 14. The Company also plans to re-enter and re-test the nearby AKD03 well.

Depending on the success of those wells it may be possible to apply for a full commercial production licence in future if production reaches commercial levels and the necessary infrastructure is put in place such as a gas utilisation facility for associated gas and transportation. A commercial production licence would enable a percentage (possibly around 75%) of oil to be exported and higher prices to be realised than on the internal market where the Company is currently required to sell its production under its pilot production license.

Joint Venture – Aral Oil Terminal (“AOT”)

The Company has a 50% interest in the AOT which was previously used to tranship oil produced by the Company after it was trucked to the AOT by the buyer. Oil sold since 2016 has not been transhipped via the AOT and the Company is considering its options with regard to disposing of its interest in the terminal.

Gas production – Kyzylloi and Akkulka Contracts

	2018				2017			
	Mcm	Mcf	Mcm/d	Boe/d	Mcm	Mcf	Mcm/d	Boe/d
Kyzylloi								
Q1	13,512	477,103	150	884	17,370	613,325	193	1,136
Q2	17,057	602,295	187	1,103	19,327	682,427	212	1,250
Q3	16,219	572,676	176	1,038	16,400	579,068	178	1,049
Total	46,788	1,652,074	171	1,009	53,097	1,874,820	194	1,145
Akkulka								
Q1	15,317	540,827	170	1,001	14,651	517,319	163	958
Q2	14,200	501,397	156	918	13,199	466,067	145	854
Q3	15,407	544,022	167	986	11,227	396,428	122	718
Total	44,924	1,586,246	165	968	39,077	1,379,814	144	842
Grand total	91,712	3,238,320	336	1,977	92,174	3,254,634	338	1,987

Gas operations update

Production commenced from the Kyzylloi field in 2007, following the construction of a 56 km, 325mm outside diameter export pipeline from the Kyzylloi field gathering station to the main Bukhara–Urals gas trunkline, where a compressor station was constructed at 910 km on that trunkline. The gas flows into the main trunkline which is owned by Intergas Central Asia JSC (“ICA”), a division of the Kazakh State natural gas company KazTransGas JSC (“KTG”);

Production commenced from the Akkulka field on October 6, 2010.

Operational Review - continued

Gas production increased by 14% in the nine months YTD compared with the same period on 2017 and decreased by 1% to 343 Mcm per day in Q3 2018 compared with Q3 2017 reflecting the natural decline in production from existing wells offset by the increase in production from the new wells which came on line in January 2018.

During the period, the Company produced dry gas from a total of 16 wells at a depth of approximately 480-600m below surface, comprising ten producing wells in the Kyzylai field and six in the Akkulka field with combined average production for Q3 2018 being 343 Mcm/d (Q3 2017 : 300 Mcm/d) and for the nine months YTD 2018 being 336 Mcm/d (YTD Q3 2017 : 338 Mcm/d).

The completed Bozoi-Shymkent-China gas pipeline means that Tethys now has two potential gas export routes that provide alternatives to sell its gas; the route taking gas to the more populous south eastern part of Kazakhstan and, ultimately to China, and the Bukhara-Urals trunk line that transports gas from Central Asia into Russia. Export to China, if this can be achieved, would allow the Company to realise a higher net sales price. The Company believes that the long-term price for gas will rise in the region, in particular dry gas exported via pipeline from Central Asia and that Chinese demand will increase over the medium to long term, especially with the substitution in China of a greater percentage of energy use from gas instead of coal .

On January 11, 2018 the Company announced that it had completed drilling seven new shallow gas wells out of the previously announced eight well program. All seven wells were tested successfully for gas at a depth of between 470 and 550 meters. In addition to the new wells drilled, one existing well was successfully worked over.

By January 1, 2018 five wells, comprising one existing well and four new wells, had been tied in to the Company's existing pipelines and added to production. The other new wells, which are further from the Company's existing pipelines, are in the process of being tied in and this work is expected to be complete by the end of the year.

Three of the new wells will be on production for three months after which production is required to cease whilst the mandatory reserves evaluation and reporting process is carried out.

There is also a need for repairs and parts replacement at the compressor station to increase capacity. Funding is now in place for the tie-in of wells and compressor upgrade from the proceeds of the recent share issuances as well as the significantly higher gas price being received since September 1, 2018 which increased by 268% from the previous price level.

Exploration - update

The KBD02 ("Klymene") prospect is planned to be drilled to a total depth of 2,750 metres targeting a large structure in the south west of the Kul-Bas block, and will target three horizons in the Lower Cretaceous and Upper Jurassic. State approval for the Klymene exploration well drill project and associated emissions are in place and the Company is seeking a partner to fund the cost of the well on a production sharing or joint venture basis. The Klymene prospect has the potential to be an order of magnitude bigger than the Doris oil discovery and surrounding prospects (the geographical area of the prospect is up to ten times the areal extent of the Doris oil field). It appears to have good four-way structural closure and positive amplitude effects which may be indicative of enhanced porosity on the recently acquired and interpreted seismic.

In May 2017 the Company received a positive decision from the Ministry of Energy to extend the license (appraisal period) for the next two years up to November 11, 2019. This extension of appraisal period for two years includes an obligation to drill and test KBD-02 (Klymene) and test KBD-01 (Kalypso). On November 6, 2017 Addition #9 to the contract was signed which includes the work

Operational Review - continued

program for 2018 and 2019 and is the final stage in the extension of the contract. The Company plans to drill this well in the first half of 2019, subject to funding being available.

Results of Operations and Operational Review - Tajikistan

On December 30, 2017 the Company announced that its subsidiary, Kulob Petroleum Limited ("Kulob"), had been notified of the final arbitration award in respect of Kulob's interest in the Bokhtar Production Sharing Contract ("Participating Interest") and Joint Operating Agreement and Shareholders' Agreement ("JOA") with Total E&P Tajikistan B.V. ("Total") and CNPC Central Asia B.V. ("CNPC") pertaining to oil and gas exploration and production rights in Tajikistan.

The Arbitral Tribunal of the International Court of Arbitration of the International Chamber of Commerce (the "ICC") has declared and/or ordered that:

- Kulob breached its obligations under the JOA by not paying its share of cash calls since August 2015;
- Total and CNPC are entitled under the JOA to require Kulob to withdraw from the JOA and assign its Participating Interest to them at no cost and Kulob should do so; and
- Kulob should pay Total and CNPC an amount of damages equivalent to the unpaid cash calls plus costs and interest which in the aggregate amounts to approximately USD13.7 million.

The Company does not expect the decisions of the ICC to have a significant effect on the results, cash flows or financial position of the Company since Tethys Petroleum Limited was not a party to the arbitration, does not believe it is responsible for the obligations of Kulob and has not provided any guarantees on behalf of Kulob.

The value of Kulob's Participating Interest was fully written down in the Company's Consolidated Financial Statements for the 2016 financial year and the amount awarded by the ICC was fully provided for in the Company's Consolidated Financial Statements for 2017. Since Kulob is unable to pay the damages claim awarded by the ICC and, in the event that the Company elects not to do so, the Company expects to deconsolidate Kulob and/or recognise an accounting gain for the amount provided for that is no longer payable by the Tethys group.

Results of Operations and Operational Review - Georgia

In June 2018, Tethys and its partner in Georgia, Georgia Oil & Gas, agreed to a restructuring of their respective interests in the Georgian assets whereby Tethys' indebtedness of approximately USD1.6 million and its funding obligations for the 2018 operating budget were satisfied by reducing its economic interest in Blocks XI^M and XI^N blocks to 19%. The work program for 2018 involves reprocessing and interpretation of 500km of 2D seismic data and 225km of geological survey work. The plans and budget for 2019 are currently being developed.

Financial Review

Summary of Quarterly Results

	Q3, 2018	Q2, 2018	Q1, 2018	Q4, 2017	Q3, 2017	Q2, 2017	Q1, 2017	Q4, 2016
Oil & gas sales and other revenues	2,511	2,017	1,916	2,070	2,593	2,855	480	1,631
Loss for the period	(323)	(1,894)	(4,333)	(34,320)	(2,879)	(3,905)	(4,390)	(32,203)
Basic & diluted loss (\$) per share	(0.00)	-	(0.01)	(0.06)	(0.01)	(0.01)	(0.01)	(0.08)
Adjusted EBITDA ¹	1,734	529	(382)	(3,157)	1,727	(186)	(1,425)	(1,093)
Capital expenditure	93	365	797	3,705	465	109	999	354
Total assets	112,251	113,622	115,679	117,929	149,076	153,901	156,298	159,904
Cash & cash equivalents	2,800	467	29	77	186	817	69	449
Short & long term borrowings	(32,851)	(32,103)	(33,829)	(32,255)	(32,520)	(33,739)	(33,460)	(33,249)
Total non-current liabilities	(14,247)	(14,359)	(14,784)	(15,072)	(18,051)	(18,929)	(19,053)	(12,867)
Net debt ¹	(30,051)	(31,636)	(33,800)	(32,178)	(32,334)	(32,922)	(33,391)	(32,800)
Number of common shares outstanding	635,170,132	508,136,098	508,136,098	508,136,098	508,136,098	508,136,098	508,136,098	508,136,098

Note 1 Adjusted EBITDA and net debt are non-GAAP Measures, refer to page 19 for details.

Loss for the period

	Quarter ended September 30			Nine months ended September 30		
	2018	2017	Change	2018	2017	Change
Sales and other revenue	2,511	2,593	(3%)	6,444	5,928	9%
Sales expenses	-	919	(100%)	-	919	(100%)
Production expenses	(996)	(1,004)	(0%)	(3,176)	(3,112)	2%
Depreciation, depletion & amortization	(1,690)	(3,155)	(46%)	(5,859)	(8,225)	(29%)
Administrative expenses	(325)	(1,043)	(69%)	(2,224)	(3,606)	(38%)
Restructuring costs	-	-	-	-	(104)	(100%)
Gain on assets held for sale	419	-	-	419	-	-
Share based payments	(11)	(51)	(78%)	(44)	(158)	(72%)
Foreign exchange gain/(loss)	196	262	(25%)	489	91	437%
Finance costs	(830)	(1,322)	(37%)	(3,821)	(3,402)	12%
	(3,237)	(5,394)	(40%)	(14,216)	(17,597)	(19%)
Loss before taxation from continuing operations	(726)	(2,801)	(74%)	(7,772)	(11,669)	(33%)
Taxation	403	(78)	(617%)	1,219	495	146%
Loss for the period	(323)	(2,879)	(89%)	(6,553)	(11,174)	(41%)

The Company recorded a net loss after taxation of USD0.3 million for the current quarter compared with USD2.9 million in Q3 2017 and USD6.6 million for the nine months ended September 30, 2018 (2017: USD11.2 million), the principal variances being:

- Higher gas revenue in the quarter and YTD significantly improved pricing offset by lower oil revenue due to lower production from the AKD-01 well at it nears the end of its producing life.

Financial Review - continued

- Lower administrative expenses 2018 from further cost cutting;
- Lower depreciation, depletion and amortization charges following the reclassification of the Company's drilling rigs to assets held for sale;
- Higher finance costs from interest on overdue borrowings being accrued for at default interest rates.

Further variances between the two periods are summarized below together with a discussion of significant variances between the two periods.

Sales & other revenue

	Quarter ended September 30			Nine months ended September 30		
	2018	2017	Change	2018	2017	Change
<i>Summary by product & region</i>						
Kazakhstan - Oil	558	1,474	(62%)	1,893	2,283	(17%)
Kazakhstan - Gas	1,950	1,092	79%	4,537	3,602	26%
Kazakhstan - Other	4	27	(85%)	15	43	(65%)
Total	2,512	2,593	(3%)	6,445	5,928	9%

Kazakhstan – Oil revenue and price

	Gross sales bbls	Gross sales \$000	Realised price at wellhead \$/bbl	VAT \$000	Net sales revenue \$000	Net price \$/bbl
2018						
Q1	74,850	734	9.80	79	655	8.75
Q2	57,389	762	13.28	82	680	11.85
Q3	31,688	625	19.69	67	558	17.61
Total	163,927	2,121	12.93	228	1,893	11.55
2017						
Q1	61,575	534	8.67	57	477	7.75
Q2	41,970	372	8.89	40	332	7.91
Q3	192,422	1,651	8.58	177	1,474	7.66
Total	295,967	2,557	8.64	274	2,283	7.71

- Under the pilot production licence oil can only be sold in the domestic Kazakhstan market and is priced in local currency, the Tenge;
- Sale price is determined at the wellhead where the oil is sold and therefore the Company incurs no transportation or marketing costs;
- Current quarter revenue benefited from a higher realised price of USD17.61/bbl (Q3 2017: USD7.66/bbl) but this was more than offset by lower production sold after the ESP was installed in the AKD01 well in May 2017, although production has declined significantly since that time as the well nears the end of its producing life.

Kazakhstan - Gas revenue and price

- Q3 2018 gas revenues were 79% higher due to higher production, which was up by 14% following new wells coming on line in January 2018 and a significantly higher gas price from September 1,

Financial Review - continued

2018, representing an increase of 283% from the previous local currency price. 2018 YTD gas revenues were 26% higher mainly to the higher price as gas production was only 1% lower.

- Gas production was sold throughout 2017 at a fixed Tenge price of KZT 16,000 per 1,000 cubic metres, including 12% VAT and up to the end of August 2018. From September 1, 2018 a significantly improved price of KZT 45,333 per 1,000 cubic metres has been received, representing an increase of 283%;
- Gas contracts are subject to exchange rate risk – refer to page 21 – “Sensitivities”.

Production expenses

	Units	Quarter ended September 30			Nine months ended September 30		
		2018	2017	Change	2018	2017	Change
Kazakhstan							
Oil production	USD000's	548	707	(22%)	1,922	1,722	12%
Gas production	USD000's	448	292	53%	1,243	1,357	(8%)
Other	USD000's	-	5	(100%)	11	33	(67%)
Total	USD000's	996	1,004	(1%)	3,176	3,112	%
Oil							
Net production	bbls	33,832	170,024	(80%)	168,880	299,911	(44%)
Cost	USD/bbl	16.19	4.16	289%	11.38	5.74	98%
Gas							
Production	boe	186,128	162,593	14%	539,754	542,473	(1%)
Cost	USD/boe	2.41	1.80	34%	2.30	2.50	(8%)
Weighted average cost per boe	USD/boe	4.53	3.00	51%	4.47	3.66	22%

Kazakhstan – oil production

A significant proportion of costs associated with oil production are fixed, so costs are not generally expected to reduce in the same proportion as a decline in production. Oil production costs were lower for the quarter reflecting significantly lower production as the producing well AKD01 nears the end of its producing life but were higher for the nine month period due to the cost of running the ESP which was installed on May 2017.

Kazakhstan – gas production

Gas production costs increased in the current quarter by 53% partly due to a weakening of the Kazakhstan Tenge and also the timing of recognition of some costs. Gas production, generally more so than the oil, has a significant fixed cost element which includes compressor supplies denominated in US dollars and consequently, as production declines, the production cost per Mcm (or boe) generally increases.

Depreciation, depletion and amortization (“DD&A”)

DD&A for the quarter was USD1.7 million (2017: USD3.2 million) and for YTD 2018 was USD5.9 million (2017: USD8.2 million) mainly relating to the Kazakh production assets but also on oil and gas equipment in 2017. The decrease in DD&A expense mainly reflects lower depreciation of drilling rigs which were classified as held for sale from November 2017 until July 2018 and the lower oil production.

Financial Review - continued

Administrative expenses

	Quarter ended September 30			Nine months ended September 30		
	2018	2017	Change	2018	2017	Change
Staff	331	442	(25%)	1,567	1,660	(6%)
Travel	16	30	(47%)	40	188	(79%)
Office	28	19	47%	153	139	10%
Professional fees and regulatory costs	(34)	426	(108%)	293	1,181	(75%)
Marketing costs	17	63	(73%)	108	179	(40%)
Non-executive director fees	81	55	47%	195	139	40%
Other costs	(114)	8	(1525%)	(132)	120	210%
Total	325	1,043	%	2,224	3,606	(38%)
G&A expenses per boe (USD)	1.48	3.13	(53%)	3.14	4.28	(27%)

- Staff costs decreased marginally in the quarter and the nine months as a result of staff reductions and salary reductions;
- Reductions in travel expenses reflect management's focus to reduce costs in this area, less international travel and a lower travel requirement following relocation of the Company's main administrative office from Almaty to Aktope in June 2017;
- Office costs were at a similar level for the nine months but were higher for the quarter due to a rent discount in Kazakhstan in 2017. The Company closed its London office in March 2018 and pays a small amount for shared office space;
- Professional and regulatory fees reduced mainly due to lower legal fees with a number of legal cases having been concluded or in abeyance;
- Marketing costs which include mandatory corporate social responsibility obligations in Kazakhstan and also investor relations costs were lower in the quarter and first nine months due to lower activity levels;
- Non-executive director fees were higher for the six months due to the adjustment of accrual levels and foreign exchange variations since fees were agreed for historical reasons in GBP. The number of directors was five throughout 2018 whereas one of the directors was appointed part way through Q1 2017;
- Other costs, which include bank charges, vehicles costs and insurance are lower in the current quarter due to lower activity levels and cost reduction initiatives and release of accruals no longer required.

Restructuring costs

There were no restructuring costs in the current period. Costs associated with the restructuring programme undertaken in 2015-2017 were shown separately from administrative expenses. These include legal and financial advisory fees and office closures costs as well as staff terminations costs.

Restructuring costs

Gain on assets held for sale represents higher proceeds for sale of drilling rigs than the valuation arrived at in the December 31, 2018 financial statements.

Share based payments

Share based payments were lower in the current quarter as no option awards have been made since March 2016.

Financial Review - continued

Foreign exchange loss - net

Foreign exchange gains and losses arise from the revaluation of monetary assets and liabilities denominated in currencies other than the reporting currency and the receipt or settlement of foreign currency denominated amounts at a different amount than the originally recorded transaction amount. These have mainly arisen in Kazakhstan and from the revaluation of the GBP denominated rig loans.

Finance costs - net

Finance costs comprise interest expense net of interest income and are higher in the current nine month period due to default interest rates being accrued on several overdue loans. For the current quarter costs were lower due to adjustments to interest accruals.

Taxation

The deferred tax credit was higher in the current quarter and first nine months mainly due to property, plant & equipment timing differences for accounting and tax purposes.

Liquidity and Capital Resources

The Company reported a loss of USD6.6 million for the nine months ended September 30, 2018 (year ended December 31, 2017: USD45.5 million) and an accumulated deficit as at that date of USD363.9 million (December 31, 2017: USD357.4 million) and negative working capital of USD46.8million (December 31, 2017: negative USD47.2 million). In addition, the Company reported cash flow from operating activities before tax of USD0.5 million for the nine months ended September 30, 2018 (year ended December 31, 2017: positive USD1.3 million).

The Company also has various commitments and contingencies as described in note 25 of the 2017 consolidated financial statements. These include work program commitments for its oil & gas licenses which have not met been fully met potentially putting those licenses at risk of being revoked.

In order to support the Company's short term liquidity position and improve the Company's financial situation, management's focus in the short term is to:

- Work with the Company's shareholders in Kazakhstan to market the Company's oil and gas for better pricing, including potential export pricing for oil and gas. As previously announced, the Company has been receiving significantly higher price for oil and gas since August and will work to improve prices further;
- Increase gas production by upgrading gas compression facilities and tying-in of already drilled shallow gas wells. Funding is in place from the recent share issuances and this work is now underway;
- Drill new oil wells on the Akkulka licence and the Klymene prospect on the Kul-bas licence, subject to funding or farm-out arrangement;
- Complete the process of restructuring the Company's loans; and
- Implement further business restructuring and cost optimisation. Further progress has been made in this area including headcount reductions in Kazakhstan, salary reductions and tendering for audit services which has resulted in the appointment of Grant Thornton as the Company's auditor.

Three of the Company's loans falling due in 2017 were restructured during 2017, the Company plans to negotiate restructurings with certain other lenders and other loans are subject to legal proceedings. Some of these loans as well as other creditors are now past due and there is a risk that lenders or

Financial Review - continued

other creditors could take recovery action potentially affecting the Company's ability to continue to operate. Further details of loans are provided in note 18 of the 2017 consolidated financial statements.

In September and October 2018, the Company announced it had raised funds of approximately USD4.1m from the issuance of shares. Some of these proceeds are being used to upgrade gas production facilities and to tie in previously drilled gas wells to increase production and cash flow.

Tethys' future operations and earnings will depend upon the success of these efforts and the results of its operations in the Republic of Kazakhstan and Georgia.

Net debt

Net debt (refer to Non-GAAP measures) is calculated as total borrowings (which includes 'current and non-current borrowings') less cash and cash equivalents. Total capital is calculated as 'equity' plus net debt. All figures are as stated in the Consolidated Financial Statements.

	As at September 30		
	2018	2017	Change
Total financial liabilities - borrowings	32,851	32,520	1%
Less: cash and cash equivalents	(2,800)	(186)	1405%
Net debt	30,051	32,334	(7%)
Total equity	44,019	82,212	(46%)
Total capital	74,070	114,546	(35%)

Refer to the section above "*Liquidity and capital resources*" for a description of the Company's plans to reduce net debt.

Financing and Going Concern

Details of the Company's financing and going concern assessment are provided in note 1 of the condensed consolidated interim financial statements.

Financial Review - continued

Cash Flow

	Quarter ended September 30			Nine months ended September 30		
	2018	2017	Change	2018	2017	Change
Net cash from operating activities	(101)	(363)	(72%)	487	331	47%
Proceeds from assets held for sale	393	-	-	3,891	-	-
Capital expenditure	(93)	(465)	(80%)	(1,255)	(1,573)	(20%)
Net changes in working capital	(105)	161	(165%)	297	(67)	(543%)
Other investing cash flows	380	2,520	(85%)	555	5,266	(89%)
Net cash from/(used in) investing activities	575	2,216	(74%)	3,488	3,626	%
Loan principal and interest payments	-	(2,140)	(100%)	(3,148)	(3,638)	(13%)
Other financing cash flows	2,586	(22)	11855%	2,586	(43)	6114%
Net cash used in financing activities	2,586	(2,162)	(220%)	(562)	(3,681)	(85%)
Effect of exchange rates	(727)	(322)	126%	(690)	(539)	28%
Net increase in cash	2,333	(631)	(470%)	2,723	(263)	(1145%)
Cash & cash equivalents at beginning of period	467	817	(43%)	77	449	(83%)
Cash & cash equivalents at end of period	2,800	186	1405%	2,800	186	1405%

Operating activities

Net cash from operating activities in the current quarter and the nine month period are at a similar level to the prior period reflecting similar revenue levels and net operating cash flow timings.

Investing activities

The company begun marketing its two drilling rigs in 2017 and reclassified these to assets held for sale. Sale contracts were signed in February 2018 with USD3.5 million received in the first half of the year and the remaining amount due of USD0.4 million in the current quarter. Capital expenditure mainly comprises advances to construction contractors for pipes to tie-in gas wells. Exploration costs on the Georgian asset were also incurred but not paid during the nine month period resulting in the positive working capital movement from investing activities.

Financing activities

Loan principal and interest payments represent the repayment in full of all amounts owed under the rig loan in April and May 2018 following receipt of proceeds from the sale of the two drilling rigs. Other financing cash flows in the current quarter and YTD are the proceeds received from issuance of new equity.

Financial Review - continued

Accounting policies, changes to accounting standards and critical estimates

The Company's significant accounting policies and discussion of changes to accounting standards are disclosed in note 2 of the September 30, 2018 condensed consolidated interim financial statements. Refer to note 4 of the 2017 consolidated financial statements for information on the Company's significant judgments and assumptions and critical estimates.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Non-GAAP Measures

Adjusted EBITDA

Adjusted EBITDA is defined as "Loss or profit before Interest, Tax, Depreciation, Amortization, Impairment, Fair value gains or losses and Share Based Payments" and is calculated on the results of continuing operations. It provides an indication of the results generated by the Company's principal business activities prior to how these activities are financed, assets are depreciated and amortized, or how results are taxed in various jurisdictions. The reconciliation of Adjusted EBITDA to Loss for the Period is as follows:

	Quarter ended September 30			Nine months ended September 30		
	2018	2017	Change	2018	2017	Change
Adjusted EBITDA	1,734	1,727	0%	1,881	116	1522%
Depreciation, depletion and amortization	(2,038)	(3,155)	(35%)	(6,207)	(8,225)	(25%)
Share based payments	(11)	(51)	(78%)	(44)	(158)	(72%)
Gain on assets held for sale	419	-	-	419	-	-
Finance costs - net	(830)	(1,322)	(37%)	(3,821)	(3,402)	12%
Loss before taxation	(726)	(2,801)	(74%)	(7,772)	(11,669)	(33%)

Net debt / (funds)

Net debt is calculated as total borrowings (which includes current and non-current borrowings) less cash and cash equivalents. Total capital is calculated as equity plus net debt. All figures are as stated in the statements of financial position for the respective reporting periods.

Adjusted EBITDA and Net debt shown in this MD&A do not have any standardised meaning as prescribed under IFRS and, therefore, are considered non-GAAP measures. These measures have been described and presented to provide shareholders and potential investors with additional information regarding the Company's financial results. These measures may not be comparable to similar measures presented by other entities.

Stockholder Equity

As at September 30, 2018 the Company had authorised share capital of 1,450,000,000 ordinary shares of which 635,170,132 (2017: 508,136,098) had been issued and 50,000,000 preference shares of which none had yet been issued. The preference shares have the rights as set out in the Memorandum and Articles of Association of the Company.

As at September 30, 2018, a total of 40,374,320 (2017: 40,374,320) ordinary shares were reserved under the Company's Long Term Stock Incentive Plan although the Company does not intend making awards under the plan for the foreseeable future. The number of options outstanding as at September 30, 2018 is 13,711,875 of which 9,454,583 were exercisable. The number of warrants outstanding was

Financial Review - continued

192,300,000, of which all were exercisable. Loan facilities are in place which are convertible into a maximum of 186,316,064 ordinary shares, including accrued interest.

Dividends

There were no dividends paid or declared in the period.

Transactions with Related Parties

Disclosure of the Company's transactions with related parties are provided in note 12 of the condensed consolidated interim financial statements.

Commitments and contingencies

Details of the Company's commitments and contingencies including litigation, claims and assessments, work programme commitments and operating leases are provided in note 25 of the 2017 consolidated financial statements.

A summary of the Company's contractual obligations for each of the next five years and thereafter is shown in the table below:

Contractual obligations	Total	Payments due by period			
		Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Borrowings	32,851	26,906	5,945	-	-
Operating leases	15	15	-	-	-
Kazakhstan work programme commitments	20,032	19,232	800	-	-
Trade and other payables	26,497	26,497	-	-	-
Total contractual obligations	79,395	72,650	6,745	-	-

Risks, uncertainties and other information

Readers are encouraged to read and consider the risk factors and additional information regarding the Company, included in its 2017 AIF filed with the Canadian securities regulators, a copy of which is posted on the SEDAR website at www.sedar.com.

Risk management is carried out by senior management, in particular the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”) as well as the Board of Directors. The Company has identified its principal risks for 2018 to include:

- (1) Liquidity and going concern;
- (2) Retention and extension of existing licences;
- (3) Production volumes and pricing – both oil and gas; and
- (4) Political, fiscal, litigation and related risks.

Financial Risk Management

The Company’s activities expose it to a variety of financial risks including: market risk, credit risk, liquidity risk, interest rate, commodity price and foreign exchange risk. Details of the Company’s exposure to these risks and how this is managed is given in note 3 to the consolidated financial statements for the year ended December 31, 2017. The Company’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company’s financial performance.

The Board of Directors of the Company has overall responsibility for the Company’s management of risk, including the identification and analysis of risks faced by the Company and the consideration of controls that monitor changes in risk and minimise risk wherever possible.

Sensitivities

The price of gas sales from gas produced from both the Kyzylai and Akkulka gas fields under gas sales contracts denominated in Tenge and is sensitive to a fluctuation in exchange rates. A 20% devaluation of the Tenge, from KZT370 to the USD to KZT444 for example, would result in a net price reduction of USD18.21 per Mcm. Based on a sales volume of 120,000 Mcm per annum, this would result in a reduction of USD2.2 million in gas revenues.

The price of oil sales is sensitive to movements in the market price. On a production level of 250 bopd, a movement of USD1 per barrel on the price received by the Company would result in a plus or minus movement in oil sales revenue of USD0.1 million per annum.

Critical Accounting Policies and Estimates

The annual and condensed consolidated interim financial statements of the Company are prepared in accordance with IFRS and IFRIC Interpretations issued by the IFRS Interpretations Committee, refer to 2017 Consolidated Financial Statements - note 2 *Summary of Significant Accounting Policies* and Note 4 – *Critical Judgements and Accounting Estimates* – for further details..

Risks, uncertainties and other information - continued

Derivative Financial Instruments

The Company has not recognised any derivative financial instruments.

Disclosure and Internal Controls

Disclosure and Internal Controls Over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer of the Company are responsible for designing a system of internal controls over financial reporting (“ICFR”), or causing them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with International Financial Reporting Standards.

During the review of the design and effectiveness of the Company’s control system over financial reporting it was noted that due to reductions in the number of staff at the Company’s Corporate Head Office since April 2018, there is a material weakness in the design and operating effectiveness in the system of internal controls due to the Company’s inability to achieve appropriate segregation of duties. The limited number of staff may also result in weaknesses with respect to accounting for complex and non-routine transactions due to a lack of technical resources. Based on this evaluation, management concluded that the Company’s ICFR has not been effective throughout the period December 31, 2017 to the date of this MD&A.

While management of the Company has put in place certain procedures, including management and Audit Committee oversight and review, to mitigate the risk of a material misstatement in the Company’s financial reporting, there is no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement. Management is of the opinion that none of these control deficiencies has resulted in a material misstatement in the Company’s interim and annual financial statements. The Company is investigating ways in which this material weakness might be remediated without the need to hire additional staff in the Corporate Head Office finance function, for example by utilising resources elsewhere in the Tethys group. The effectiveness of this action will then be assessed to determine whether it is adequate to remediate the material weakness.

Furthermore, the Chief Executive Officer and the Chief Financial Officer of the Company are also responsible for ensuring the Company has appropriate disclosure controls and procedures (“DCP”). Given the weakness in ICFR noted above, coupled with the fact the Company has not filed the Annual or Interim Filings within the required timeline leading to the Cease Trade Order (See Cease Trade Order section), management has concluded that there is a material weakness in the Company’s DCP.

The Company’s CEO and CFO have filed certifications with the Canadian securities regulators regarding the quality of the Company’s public disclosures relating to the period ended September 30, 2018.

Significant equity investees

Details of significant equity investees are discussed in note 23 of consolidated financial statements for the year ended December 31, 2017.

Forward-looking statements

In the interest of providing Tethys' shareholders and potential investors with information regarding the Company and its subsidiaries, including management's assessment of the Company's and its subsidiaries' future plans and operations, certain statements contained in this MD&A constitute forward-looking statements or information (collectively referred to herein as "forward-looking statements") within the meaning of the "safe harbour" provisions of applicable securities legislation. Forward-looking statements are typically identified by words such as "anticipate", "believe", "expect", "plan", "intend", "forecast", "target", "project" or similar words suggesting future outcomes or statements regarding an outlook.

Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur.

By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur, which may cause the Company's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements.

These risks, uncertainties and assumptions include, among other things: the significant uncertainty over the Company's ability to generate sufficient cash flow from operations to meet its current and future obligations and continue as a going concern; risks of exploration and production licenses, contracts and permits being cancelled due to non-fulfilment of contractual commitments or not being renewed when they expire; the Company will not be successful in negotiating binding terms for the export of oil and gas at prices significantly higher than prices currently realised; volatility of and assumptions regarding oil and gas prices; fluctuations in currency and interest rates; ability to successfully complete proposed debt or equity financings or restructuring; product supply and demand; market competition; ability to realise current market oil and gas prices; risks inherent in the Company's and its subsidiaries' marketing operations, including credit risks; imprecision of reserve estimates and estimates of recoverable quantities of oil and natural gas and other sources not currently classified as proved; the Company's and its subsidiaries' ability to replace and expand oil and gas reserves; unexpected cost increases or technical difficulties in constructing pipeline or other facilities; unexpected delays in its drilling operations; delays in the delivery of its drilling rigs; unexpected difficulties in transporting oil or natural gas; risks associated with technology; the timing and the costs of well and pipeline construction; the Company's and its subsidiaries' ability to secure adequate product transportation; changes in royalty, tax, environmental and other laws or regulations or the interpretations of such laws or regulations; political and economic conditions in the countries in which the Company and its subsidiaries operate; the risk associated with the uncertainties, inconsistencies and contradictions in local laws and their interpretation and application in local jurisdictions in which the Company operates; the risk of international war, hostilities and terrorist threats, civil insurrection and instability affecting countries in which the Company and its subsidiaries operate; risks associated with existing and potential future lawsuits and regulatory actions made against the Company and its subsidiaries; and other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by Tethys.

With regard to forward looking information contained in this MD&A, the Company has made assumptions regarding, amongst other things, the continued existence and operation of existing pipelines; the proposed increase in the selling price for the delivery of gas to China; future prices for oil and natural gas; future currency and exchange rates; the Company's ability to generate sufficient cash flow from operations and access to capital markets to meet its future obligations and ability to continue as a going concern; the regulatory framework representing mineral extraction taxes,

Forward-looking statements - continued

royalties, taxes and environmental matters in the countries in which the Company conducts its business, gas production levels; and the Company's ability to obtain qualified staff and equipment in a timely and cost effective manner to meet the Company's demands. Statements relating to "reserves" or "resources" or "resource potential" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described exist in the quantities predicted or estimated, and can be profitably produced in the future. Although Tethys believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A and, except as required by law, Tethys does not undertake any obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Glossary

AIF	Annual Information Form
AKD	Akkulka Deep
AOT	Aral Oil Terminal LLP
Bbls	Barrels of oil
boe/d	Barrel of oil equivalent per day
bopd	Barrels of oil per day
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CNPC	CNPC Central Asia B.V.
EBITDA	Earnings before interest, taxes, depreciation and amortisation
EGG	Eurasia Gas Group LLP
EOR	Enhanced oil recovery
ESP	Electrical submersible pump
GAAP	Generally accepted accounting principles
IFRS	International Financial Reporting Standards
ICA	Intergas Central Asia JSC
ICC	International Court of Arbitration of the International Chamber of Commerce
JOA	Joint Operating Agreement and Shareholders' Agreement
KASE	Kazakhstan Stock Exchange
KTG	KazTransGas
Kulob	Kulob Petroleum Limited
KZT	Kazakhstani Tenge
m3	Cubic metre
Mcf	Thousand cubic feet
Mcf/d	Thousand cubic feet per day
Mcm	Thousand cubic metres
Mcm/d	Thousand cubic metres per day
MD&A	Management's Discussion & Analysis
Olisol	Olisol Investments Limited and Olisol Petroleum Limited
Q1	Three month period commencing January 1 and ending 31 March
Q2	Three month period commencing April 1 and ending 30 June
Q3	Three month period commencing July 1 and ending 30 September
Q4	Three month period commencing October 1 and ending 31 December
sq.km	Square kilometre
TAG	Tethys Aral Gas LLP
USD	United States Dollar
TOTAL	Total E&P Tajikistan B.V.
TSX	Toronto Stock Exchange
TSXV	TSX Venture Exchange
USD/bbl	USD per barrel
USD/Mcm	USD per thousand cubic metre
VAT	Value added tax
YTD	Year to date cumulative

Tethys Petroleum Limited

Condensed Consolidated Interim Financial Statements
(Unaudited)
September 30, 2018

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4.3 (3) (a), if an auditor has not performed a review of the financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The accompanying condensed consolidated interim financial statements of Tethys Petroleum Limited have been prepared by and are the responsibility of the Company's management and approved by the Board of Directors of the Company. The Company's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of financial statements by an entity's auditor.

Contents

Responsibility Statement of the Directors in Respect of the Condensed Consolidated Interim Financial Statements	1
Condensed Consolidated Interim Financial Statements	2 – 5
Notes to Condensed Consolidated Interim Financial Statements	6 – 11

Responsibility Statement of the Directors in Respect of the Condensed Consolidated Interim Financial Statements

We confirm on behalf of the Board that to the best of our knowledge, these condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting.

We draw attention to the section entitled “Going Concern” in Note 1 to the condensed consolidated interim financial statements which describes the material uncertainties relating to the Company’s adoption of the going concern basis in preparing the condensed consolidated interim financial Statements for the period ended September 30, 2018.

For and on behalf of the Board

W. Wells

Chairman

5 December, 2018

A. Ogunsemi

Director

5 December, 2018

Tethys Petroleum Limited

Condensed Consolidated Interim Statements of Financial Position (unaudited)

(in thousands of US dollars)

	Note	As at September 30, 2018	December 31, 2017
Non-current assets			
Intangible assets		33,627	33,318
Property, plant and equipment		69,184	74,090
Restricted cash		3	5
Trade and other receivables		2,178	2,734
Deferred tax		75	75
		105,067	110,222
Current assets			
Cash and cash equivalents		2,800	77
Trade and other receivables		3,865	3,530
Assets held for sale		-	3,473
Inventories		518	626
Restricted cash		1	1
		7,184	7,707
Total assets		112,251	117,929
Non-current liabilities			
Financial liabilities - borrowings		5,945	5,587
Deferred tax		7,268	8,505
Provisions		1,034	980
		14,247	15,072
Current liabilities			
Financial liabilities - borrowings		26,906	26,668
Current taxation		582	582
Trade and other payables		26,497	27,665
		53,985	54,915
Total liabilities		68,232	69,987
Equity			
Share capital		5,107	5,081
Share premium		361,004	358,444
Other reserves		43,900	43,856
Accumulated deficit		(363,910)	(357,357)
Non-controlling interest		(2,082)	(2,082)
Total equity		44,019	47,942
Total equity and liabilities		112,251	117,929
Going concern	1		

The notes on pages 6 to 11 form part of these condensed consolidated interim financial statements. The condensed consolidated interim financial statements were approved by the Board on 5 December, 2018 and were signed on its behalf.

W. Wells
Chairman
5 December, 2018

A. Ogunsemi
Director
5 December, 2018

Tethys Petroleum Limited

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

	Note	Three months ended September 30		Nine months ended September 30	
		2018	2017	2018	2017
Sales and other revenues	3	2,511	2,593	6,444	5,928
Sales expenses		-	919	-	919
Production expenses		(996)	(1,004)	(3,176)	(3,112)
Depreciation, depletion and amortisation		(1,690)	(3,155)	(5,859)	(8,225)
Administrative expenses		(325)	(1,043)	(2,224)	(3,606)
Restructuring costs		-	-	-	(104)
Share based payments		(11)	(51)	(44)	(158)
Gain on assets held for sale		419	-	419	-
Foreign exchange gain		196	262	489	91
Finance costs		(830)	(1,322)	(3,821)	(3,402)
		(3,237)	(5,394)	(14,216)	(17,597)
Loss before tax from continuing operations		(726)	(2,801)	(7,772)	(11,669)
Taxation		403	(78)	1,219	495
Loss from continuing operations and total comprehensive income		(323)	(2,879)	(6,553)	(11,174)
Loss and total comprehensive income attributable to:					
Shareholders		(323)	(2,879)	(6,553)	(11,174)
Non-controlling interest		-	-	-	-
Loss and total comprehensive income		(323)	(2,879)	(6,553)	(11,174)
Loss per share attributable to shareholders:					
Basic and diluted - from continuing operations (USD)	4	(0.00)	(0.01)	(0.01)	(0.02)

No dividends were paid or are declared for the period (2017: none).

The notes on pages 6 to 11 form part of these condensed consolidated interim financial statements.

Tethys Petroleum Limited

Condensed Consolidated Interim Statements of Changes in Equity (unaudited)

(in thousands of US dollars)

	Attributable to shareholders					Non-controlling interest	Total equity
	Share capital	Share premium	Accumulated deficit	Option reserves	Warrant reserves		
At January 1, 2017	5,081	358,444	(320,041)	27,047	16,601	6,096	93,228
Comprehensive loss for the period	-	-	(11,174)	-	-	-	(11,174)
Transactions with shareholders							
Share-based payments	-	-	-	158	-	-	158
Total transactions with shareholders	-	-	-	158	-	-	158
At September 30, 2017	5,081	358,444	(331,215)	27,205	16,601	6,096	82,212
At January 1, 2018	5,081	358,444	(357,357)	27,255	16,601	(2,082)	47,942
Comprehensive loss for the period	-	-	(6,553)	-	-	-	(6,553)
Transactions with shareholders							
Ordinary shares issued	26	2,560	-	-	-	-	2,586
Share-based payments	-	-	-	44	-	-	44
Total transactions with shareholders	26	2,560	-	44	-	-	2,630
At September 30, 2018	5,107	361,004	(363,910)	27,299	16,601	(2,082)	44,019

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

The notes on pages 6 to 11 form part of these condensed consolidated interim financial statements.

Tethys Petroleum Limited

Condensed Consolidated Interim Statements of Cash Flows (unaudited)

(in thousands of US dollars)

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Cash flow from operating activities				
Loss before tax from continuing operations	(726)	(2,801)	(7,772)	(11,669)
Adjustments for:				
Share based payments	11	51	44	158
Gain on assets held for sale	(419)	-	(419)	-
Net finance cost	830	1,322	3,821	3,402
Depreciation, depletion and amortisation	2,038	3,155	6,207	8,225
Net unrealised foreign exchange gain	-	32	-	99
Movement in provisions	-	(3)	-	(278)
Net change in working capital	(1,835)	(2,115)	(1,394)	416
Cash generated from operating activities	(101)	(359)	487	353
Corporation tax paid	-	(4)	-	(22)
Net cash generated from operating activities	(101)	(363)	487	331
Cash flow from investing activities:				
Proceeds from assets held for sale	393	-	3,891	-
Expenditure on exploration and evaluation assets	(8)	(57)	(309)	(161)
Expenditure on property, plant and equipment	(85)	(408)	(946)	(1,412)
Movement in restricted cash	-	1,991	2	4,779
Movement in advances to construction contractors	47	96	49	96
Movement in value added tax receivable	333	433	504	391
Net change in working capital	(105)	161	297	(67)
Net cash from/(used in) investing activities	575	2,216	3,488	3,626
Cash flow from financing activities:				
Proceeds from shares issued	2,586	-	2,586	-
Repayment of borrowings	73	(2,079)	(2,791)	(2,823)
Interest paid on borrowings	(73)	(61)	(357)	(815)
Movement in other non-current liabilities	-	(22)	-	(43)
Net cash used in financing activities	2,586	(2,162)	(562)	(3,681)
Effects of exchange rate changes	(727)	(322)	(690)	(539)
Net increase in cash and cash equivalents	2,333	(631)	2,723	(263)
Cash and cash equivalents at beginning of the period	467	817	77	449
Cash and cash equivalents at end of the period	2,800	186	2,800	186

The notes on pages 6 to 11 form part of these condensed consolidated interim financial statements.

Tethys Petroleum Limited

Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)
(in thousands of US dollars)

1 General information and going concern

Tethys Petroleum Limited is incorporated in the Cayman Islands and the address of the Company's registered office is 190 Elgin Avenue, George Town, Grand Cayman, KY1-9007, Cayman Islands. Tethys is an oil and gas company operating within the Republic of Kazakhstan and Georgia. Tethys' principal activity is the acquisition of and exploration and development of crude oil and natural gas fields.

The Company had its primary listing on the Toronto Stock Exchange ("TSX") until March 23, 2018 when it transferred to the NEX Board of the Toronto Venture Exchange. The Company is also listed on the Kazakhstan Stock Exchange ("KASE").

Going concern

The Management and the Board has considered the Company's current activities, funding position and projected funding requirements for the period of at least twelve months from the date of approval of the condensed consolidated interim financial statements in determining the ability of the Company to adopt the going concern basis in preparing the condensed consolidated interim financial statements for the three and nine months ended September 30, 2018. The Company currently does not have sufficient funding to fund its obligations for the next twelve months.

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

The Company reported a loss of USD6.6 million for the nine months ended September 30, 2018 (year ended December 31, 2017: USD45.5 million) and an accumulated deficit as at that date of USD363.9 million (December 31, 2017: USD357.4 million) and negative working capital of USD46.8million (December 31, 2017: negative USD47.2 million). In addition, the Company reported cash flow from operating activities before tax of USD0.5 million for the nine months ended September 30, 2018 (year ended December 31, 2017: positive USD1.3 million).

The Company also has various commitments and contingencies as described in note 25 of the 2017 consolidated financial statements. These include unfulfilled work program commitments for its oil & gas licenses which could result in licenses being cancelled.

In order to support the Company's short term liquidity position and improve the Company's financial situation, management's focus in the short term is to:

- Work with the Company's shareholders in Kazakhstan to market the Company's oil and gas for better pricing, including potential export pricing for oil and gas. As previously announced, the Company has been receiving significantly higher price for oil and gas since August and will work to improve prices further;

Tethys Petroleum Limited

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

(in thousands of US dollars)

- Increase gas production by upgrading gas compression facilities and tying-in of already drilled shallow gas wells. Funding is in place from the recent share issuances and this work is now underway;
- Drill new oil wells on the Akkulka licence and the Klymene prospect on the Kul-bas licence, subject to funding or farm-out arrangement;
- Complete the process of restructuring the Company's loans; and
- Implement further business restructuring and cost optimisation. Further progress has been made in this area including headcount reductions in Kazakhstan, salary reductions and tendering for audit services which has resulted in the appointment of Grant Thornton as the Company's auditor.

Three of the Company's loans falling due in 2017 were restructured during 2017 and the Company plans to negotiate restructurings with other lenders. Some loans and amounts due to other creditors are past due and there is a risk that lenders or creditors could take recovery action against the Company. Further details of loans are provided in note 18 of the 2017 consolidated financial statements.

In September and October 2018, the Company announced it had raised funds of approximately USD4.1m from the issuance of shares. Some of these proceeds are being used to upgrade gas production facilities and to tie in previously drilled gas wells to increase production and cash flow.

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

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

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

Tethys Petroleum Limited

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

(in thousands of US dollars)

Company was unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2 Basis of preparation and accounting policies

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

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” as applicable to interim financial reporting and do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual consolidated financial statements reported for the year ended December 31, 2017.

The condensed consolidated interim financial statements are presented in United States Dollars (“USD”).

New accounting policies

There were no new and revised standards adopted by the Company during the nine months ended September 30, 2018 that had an impact on the condensed consolidated interim financial statements.

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

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

Tethys Petroleum Limited

Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)
(in thousands of US dollars)

3 Segmental Reporting

Geographical segments

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

The Board of Directors consider the business from predominantly a geographical perspective and the Company currently operates in two geographical markets: Kazakhstan and Georgia.

In Kazakhstan, the Company is producing oil and gas from the Kyzylai and Akkulka fields and is undertaking exploration and evaluation activity in the Kul-bas field. In Georgia, the Company is currently undertaking exploration and evaluation activity. The Company previously undertook exploration activity in Tajikistan, however, on December 30, 2017 an arbitration tribunal ruled it should assign its interest to its partners.

The Company also operates a corporate segment which provides loan funding for development activities in Kazakhstan.

The following is an analysis of the Company's revenue, results and assets by reportable segment for the nine months ended September 30, 2018:

	Kazakhstan	Tajikistan	Georgia	Corporate	Total
Gas sales	4,537	-	-	-	4,537
Oil sales	1,893	-	-	-	1,893
Other income	14	-	-	-	14
Other operating income	-	-	-	81	81
Segment revenue and other income	6,444	-	-	81	6,525
Inter-segment revenue	-	-	-	(81)	(81)
Segment revenue and other income from external customers	6,444	-	-	-	6,444
Loss before taxation	(4,257)	-	-	(3,515)	(7,772)
Taxation	1,232	-	-	(13)	1,219
Loss for the period	(3,025)	-	-	(3,528)	(6,553)
Total assets ¹	102,576	8	4,088	110,247	112,251
Total liabilities ¹	127,881	13,884	-	31,135	68,232
Cash expenditure on exploration & evaluation assets, property, plant and equipment	946	-	-	-	946
Depreciation, depletion & amortization	6,177	-	-	30	6,207

Note 1 – Total is after elimination of inter-segment items of USD104,668,000.

No borrowing costs were capitalised during the period.

Tethys Petroleum Limited

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

(in thousands of US dollars)

The following is an analysis of the Company's revenue, results and assets by reportable segment for the nine months ended September 30, 2017 are as follows:

	Kazakhstan	Tajikistan	Georgia	Corporate	Total
Gas sales	3,602	-	-	-	3,602
Oil sales	2,283	-	-	-	2,283
Other income	43	-	-	-	43
Other operating income	-	-	-	81	81
Segment revenue and other income	5,928	-	-	81	6,009
Inter-segment revenue	-	-	-	(81)	(81)
Segment revenue and other income from external customers	5,928	-	-	-	5,928
Loss before taxation	(4,259)	(32)	-	(7,378)	(11,669)
Taxation	531	-	-	(36)	495
Loss for the period	(3,728)	(32)	-	(7,414)	(11,174)
Total assets ¹	124,242	8	13,381	115,236	149,076
Total liabilities ¹	125,545	12,686	-	32,424	66,864
Cash expenditure on exploration & evaluation assets, property, plant and equipment	510	-	151	912	1,573
Depreciation, depletion & amortisation	6,268	-	-	1,957	8,225

Note 1 – Total is after elimination of inter-segment items of USD103,791,000.

No borrowing costs were capitalised during the period.

4 Loss per share

Continuing operations	Units	Three months ended September 30		Nine months ended September 30	
		2018	2017	2018	2017
Loss for the purpose of basic and diluted loss attributable to ordinary shareholders	\$'000	(323)	(2,879)	(6,553)	(11,174)
Weighted average shares	000s	532,300	508,136	516,279	508,136
Per share amount	\$	(0.00)	(0.01)	(0.01)	(0.02)

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

5 Related party transactions

Transactions between the Company's subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. There are no other related party transactions requiring disclosure.

Tethys Petroleum Limited

Notes to Condensed Consolidated Interim Financial Statements (unaudited) (continued)
(in thousands of US dollars)

6 Subsequent events

Tethys Receives a Further USD1.5 million for Warrants

On October 31, 2018 the Company announced that Jaka Partners FZC had exercised 48,075,000 share purchase warrants at USD0.031 per ordinary share with proceeds received by Tethys amounting to approximately USD1.5 million. Jaka Partners FZC now owns approximately 18.7% of the ordinary shares of the enlarged share capital of the Company.