Tethys Petroleum Limited

Interim Financial Information
(Unaudited)
March 31, 2016

NOTICE OF NO AUDITOR REVIEW OF CONDENSED 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 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 financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

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

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

We draw attention to the section entitled "Going Concern" in Note 2 to the Condensed Consolidated Financial Statements which describes the material uncertainties relating to the Company's adoption of the going concern basis in preparing the Financial Statements for the period ended March 31, 2016.

For and on behalf of the Board

J. Bell
Co-Chairman
May 13, 2016

A. Ogunsemi
Director
May 13, 2016

Tethys Petroleum Limited

Condensed Consolidated Statements of Financial Position (unaudited)

(in thousands of US dollars)

	Note	As at March 31, 2016	As at December 31, 2015
Non-current assets			
Intangible assets	7	65,499	64,202
Property, plant and equipment	8	110,672	113,397
Restricted cash	9	2,232	2,233
Investment in joint arrangements		4	4
Trade and other receivables		2,195	2,457
Deferred tax	5	223	226
		180,825	**182,519**
Current assets			
Cash and cash equivalents		1,133	3,272
Trade and other receivables		6,208	3,710
Inventories		872	879
Restricted cash	9	65	215
		8,278	**8,076**
Total assets		**189,103**	**190,595**
Non-current liabilities			
Trade and other payables		115	133
Financial liabilities - borrowings	10	19,814	22,873
Deferred tax	5	10,837	10,792
Provisions		862	846
		31,628	**34,644**
Current liabilities			
Financial liabilities - borrowings	10	10,718	9,159
Derivative financial instruments	11	71	275
Current taxation	5	429	398
Trade and other payables		16,227	14,189
Provisions		311	360
		27,756	**24,381**
Total liabilities		**59,384**	**59,025**
Equity			
Share capital	12	37,440	33,696
Share premium	12	321,803	321,803
Other reserves		43,248	43,166
Accumulated deficit		(278,866)	(273,189)
Non-controlling interest		6,094	6,094
Total equity		**129,719**	**131,570**
Total equity and liabilities		**189,103**	**190,595**
Going concern	2		
Commitments and contingencies	15		

The notes on pages 6 to 21 form part of these condensed consolidated interim financial statements. The condensed consolidated financial statements were approved by the Board on May 13, 2016 and were signed on its behalf.

J. Bell
Co-Chairman
May 13, 2016

A. Ogunsemi
Director
May 13, 2016

Tethys Petroleum Limited

Condensed Consolidated Statements of Comprehensive Income (Loss) (unaudited)

(in thousands of US dollars except per share information)

		Three months ended March 31	
	Note	**2016**	**2015**
Sales and other revenues	3	3,455	5,954
Sales expenses		(734)	(1,102)
Production expenses		(1,196)	(2,608)
Depreciation, depletion and amortisation		(2,856)	(674)
Administrative expenses		(1,787)	(2,821)
Restructuring costs		(755)	(319)
Transaction costs of assets held for sale		-	(120)
Share based payments	4	(82)	(147)
Profit on sale of fixed assets		10	14
Foreign exchange gain/(loss)		73	(6)
Fair value gain on derivative financial instrument	11	204	1,078
Loss from jointly controlled entity		-	(250)
Finance costs		(1,930)	(579)
		(9,063)	(7,534)
Loss before tax from continuing operations		**(5,598)**	**(1,580)**
Taxation	5	(79)	(454)
Loss from continuing operations		**(5,677)**	**(2,034)**
Loss from discontinued operations net of tax		**-**	**(41)**
Loss and total comprehensive income		**(5,677)**	**(2,075)**
Loss and total comprehensive income attributable to:			
Shareholders		(5,677)	(2,073)
Non-controlling interest		-	(2)
Loss and total comprehensive income		**(5,677)**	**(2,075)**
Loss per share attributable to shareholders:			
Basic and diluted - from continuing operations (USD)	6	(0.02)	(0.01)
Basic and diluted - from discontinued operations (USD)	6	-	-

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

The notes on pages 6 to 21 form part of these condensed consolidated financial statements.

Tethys Petroleum Limited

Condensed Consolidated Statements of Changes in Equity (unaudited)

(in thousands of US dollars)

				Attributable to shareholders				
	Note	Share capital	Share premium	Accumulated deficit	Option reserves	Warrant reserves	Non-controlling interest	Total equity
At January 1, 2015		**33,645**	**321,724**	**(198,560)**	**26,244**	**16,601**	**6,096**	**205,750**
Comprehensive loss for the period		-	-	(2,073)	-	-	(2)	(2,075)
Transactions with shareholders								-
Shares issued		14	22	-	-	-	-	36
Share-based payments		-	-	-	111	-	-	111
Total transactions with shareholders		14	22	-	111	-	-	147
At March 31, 2015		**33,659**	**321,746**	**(200,633)**	**26,355**	**16,601**	**6,094**	**203,822**
At January 1, 2016	12	**33,696**	**321,803**	**(273,189)**	**26,565**	**16,601**	**6,094**	**131,570**
Comprehensive loss for the period		-	-	(5,677)	-	-	-	(5,677)
Transactions with shareholders								-
Shares issued		3,744	-	-	-	-	-	3,744
Share-based payments		-	-	-	82	-	-	82
Total transactions with shareholders		3,744	-	-	82	-	-	3,826
At March 31, 2016	12	**37,440**	**321,803**	**(278,866)**	**26,647**	**16,601**	**6,094**	**129,719**

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

The notes on pages 6 to 21 form part of these condensed consolidated financial statements.

Tethys Petroleum Limited

Condensed Consolidated Statements of Cash Flows (unaudited)

(in thousands of US dollars)

	Note	Three months ended March 31 2016	2015
Cash flow from operating activities			
Loss before tax from continuing operations		(5,598)	(1,580)
Loss before tax from discontinued operations[1]		-	(41)
Adjustments for:			
Share based payments		82	146
Net finance cost		1,930	579
Depreciation, depletion and amortisation		2,856	674
Profit on sale of fixed assets		-	(15)
Fair value gain on derivative financial instruments		(203)	(1,078)
Net unrealised foreign exchange gain		(64)	(121)
Loss from jointly controlled entity		-	250
Movement in provisions		(791)	(793)
Net change in working capital	14	(137)	641
Cash used in operating activities		**(1,925)**	**(1,338)**
Corporation tax paid		-	(130)
Net cash used in operating activities		**(1,925)**	**(1,468)**
Cash flow from investing activities:			
Interest received		-	45
Expenditure on exploration and evaluation assets		(278)	(1,205)
Expenditure on property, plant and equipment		(116)	(742)
Proceeds from sale of fixed assets		-	16
Movement in restricted cash		151	(4)
Movement in advances to construction contractors		4	91
Movement in value added tax receivable		222	352
Net change in working capital	14	(22)	(2,128)
Net cash used in investing activities		**(39)**	**(3,575)**
Cash flow from financing activities:			
Proceeds from issuance of borrowings, net of issue costs		2,000	9,135
Repayment of borrowings		(340)	(467)
Interest paid on borrowings		(1,169)	(354)
Movement in other non-current liabilities		(47)	(28)
Net cash generated from financing activities		**444**	**8,286**
Effects of exchange rate changes on cash and cash equivalents		(619)	(124)
Net (decrease)/increase in cash and cash equivalents		**(2,139)**	**3,119**
Cash and cash equivalents at beginning of the period		3,272	3,868
Cash and cash equivalents at end of the period		**1,133**	**6,987**
Cash and cash equivalents at end of the period comprises:			
Cash in assets of a disposal group held for sale		-	1,707
Cash and cash equivalents		1,133	5,280
		1,133	**6,987**

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

The notes on pages 6 to 21 form part of these condensed consolidated interim financial statements.

1 General information

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

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

2 Basis of preparation and accounting policies

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

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

Going concern

The Management and the Board has considered the Company's current activities, funding position and projected funding requirements for the period of at least twelve months from the date of approval of the Condensed Consolidated Financial Statements in determining the ability of the Company to adopt the going concern basis in preparing the Condensed Consolidated Financial Statements for the period ended March 31, 2016. The Company currently does not have sufficient funding to fund its obligations for the next twelve months.

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

The Company reported a loss of USD5.7 million for the period ended March 31, 2016 (year ended December 31, 2015: USD74.6 million) and an accumulated deficit as at that date of USD278.9 million (December 31, 2015: USD273.2 million) and negative working capital of USD19.5 million (December 31, 2015: negative USD16.3 million). In addition, the Company reported negative cash flow from operating activities before tax of USD1.9 million for the period ended March 31, 2015 (year ended December 31, 2015: USD 11.6 million)

On November 2, 2013, Tethys announced the sale of a 50% interest in its Kazakhstan businesses to SinoHan Oil and Gas Investment Number 6 B.V. ("SinoHan"), a Beijing based private equity fund, for USD75 million. Completion was dependent on the Company receiving Kazakh governmental permission and waiver of the State pre-emptive right. The Company also had an obligation to undertake a number of significant conditions precedent prior to completion of the sale which the Company was actively pursuing up until the longstop date. However, on

May 1, 2015, the Company announced that the main approval required from the Ministry of Energy had not been received and SinoHan confirmed that it did not wish to enter into a further extension of the agreement. As the deal did not complete, the USD3.9m consideration advanced became repayable to SinoHan along with transaction costs of USD0.7m.

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

On July 1, 2015 the Company announced a strategic collaboration with AGR Energy Holdings ("AGR") involving a proposed USD47.7 million private placement at a price of CAD0.192 per share and a convertible loan for up to USD5 million to support short term liquidity. Pursuant to this agreement it also agreed with Pope Asset Management ("PAM"), the Company's largest shareholder, that PAM would subscribe for shares on substantially the same terms as AGR. However, following further correspondence and discussions with AGR, during which AGR indicated that it would require changes to the proposed structure and terms, the Company announced on August 10, 2015 that it would no longer be proceeding with the AGR placing or the PAM subscription.

On the same date, the Company announced that it had received a non-binding indicative proposal from Nostrum Oil & Gas PLC ("Nostrum") regarding a possible offer for the Company at a price of CAD0.2185 per Tethys share, which would be satisfied in cash or shares in Nostrum, or a combination of both cash and shares. In connection with the possible offer, Nostrum and Tethys entered into an unsecured USD5 million loan facility to support the short term liquidity of Tethys during the proposed offer period.

On August 28, 2015 the Company received a revised non-binding and highly conditional proposal from Nostrum setting out revised terms on which Nostrum was prepared to make an offer to acquire the Company and to provide further financing to Tethys. On September 23, 2015 the Company and Nostrum entered into a non-binding letter of intent and period of exclusivity until October 6, 2015 in connection with a proposed offer of C$0.147 per share and an interim financing facility of up to US$20 million to fund the Company's cash requirements until completion of any formal offer.

On October 5, 2015 the Company announced a non-binding proposal submitted to the Company by Olisol Investment Group ("Olisol") and on October 7, 2015 that it had received a non-binding letter of intent from AGR in connection with a potential US$20 million equity fundraising at a price of C$0.165 per share and potential US$5 million loan to support short-term liquidity. In addition to the equity fundraising AGR would also be granted an option by the Company to subscribe for further newly issued shares for up to US$20 million of shares at the same subscription price.

On the same day the Company announced that Nostrum had withdrawn its proposed offer and that whilst the transaction had the unanimous support of the Tethys Board and Tethys and Nostrum had worked together to negotiate legally binding agreements implementing the proposed transaction during the exclusivity period Tethys' largest shareholder, PAM, had informed Nostrum that it did not support the proposed transaction and therefore Nostrum informed the Company that the proposed transaction would not proceed.

On November 19, 2015 the Company announced that it had entered into an interim convertible financing facility of up to USD15 million with Olisol Petroleum Limited ("OPL") convertible into Tethys ordinary shares at C$0.17 per share. OPL agreed to advance to Tethys up to USD15 million to be used to repay the USD5 million term loan from Nostrum Oil & Gas PLC and potentially the USD7.5 million convertible debenture from AGR Energy Limited No. 1 with the balance used for general and working capital requirements of the Company. On December 8, 2015 the Company announced announced that it had entered into a binding investment agreement with Olisol Investments Limited setting out the terms and conditions upon which OPL had agreed to purchase 150 million new ordinary shares in Tethys at a price of C$0.17 per share, for total proceeds of C$25.5 million, by way of a private placement and to commit to backstop a further equity fundraising of 50 million Shares at C$0.17 per Share.

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

- Olisol to convert approximately USD6.25 million of the interim facility into ordinary shares at a price of USDD0.10 per share;

- Olisol will work with a bank in Kazakhstan to secure a loan for TethysAralGas LLP, in the amount of USD10 million within 60 days which together with the conversion would satisfy the outstanding obligations of Olisol under the Interim Facility;

- Olisol to provide additional working capital reasonably required by Tethys, until completion of a placement under an amended investment agreement;

- Olisol committed to purchasing 181,240,793 new shares at a price to be agreed by Tethys and Olisol. This purchase, together with the conversion of the amounts outstanding under the interim facility would result in Olisol owning approximately 42% of the Company's shares.

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

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

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

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

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

New accounting policies

The Company adopted the following new and revised standards, along with any consequential amendments. These changes were made in accordance with applicable transitional provisions.

- Annual improvements 2013 (endorsed for annual periods on or after 1 January 2015). The amendments include changes from the 2011-2-13 cycle of the annual improvements project that affect IFRS 1, 'First time adoption', IFRS 3, 'Business combinations', IFRS 13, 'Fair value measurement' and IFRS 8, 'Operating segments'. The impact of adopting these improvements did not have a material impact on the condensed consolidated financial statements.

- IFRIC 21, 'Levies' (effective annual periods on or after 1 January 2014 although endorsed for annual periods on or after 17 June 2014). This interpretation is on IAS 37, 'Provisions, contingent liabilities and contingent assets'. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 did not have a material impact on the condensed consolidated 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.

3 Segmental Reporting

Geographical segments

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

The Directors consider the business from predominantly a geographic perspective and the Company currently operates in three geographical markets: Kazakhstan, Tajikistan and Georgia.

In Kazakhstan, the Company is producing oil and gas from the Kyzyloi and Akkulka fields and is undertaking exploration and evaluation activity in the Kul-bas field. In Tajikistan and Georgia, the Company is currently undertaking exploration and evaluation activity.

The Company also operates a corporate segment which acquired a number of drilling rigs and related oil and gas equipment which are utilised in Kazakhstan according to operational requirements.

The following is an analysis of the Company's revenue, results and assets by reportable segment for the three months ended March 31, 2016 are as follows:

(in thousands of US dollars)

	Kazakhstan	Tajikistan	Georgia	Other and corporate	Total
Gas sales	2,934	-	-	-	2,934
Oil sales	517	-	-	-	517
Other income	2	-	-	2	4
Other operating income	-	-	-	-	-
Segment revenue and other income	**3,453**	**-**	**-**	**2**	**3,455**
Inter-segment revenue	-	-	-	-	-
Segment revenue and other income from external customers	**3,453**	**-**	**-**	**2**	**3,455**
Loss from jointly controlled entity	-	-	-	-	-
Loss before taxation	(1,299)	-	9	(4,308)	(5,598)
Taxation	(45)	-	-	(34)	(79)
Loss for the period	**(1,344)**	**-**	**9**	**(4,342)**	**(5,677)**
Total assets	138,728	22,808	13,091	14,476	189,103
Total liabilities	18,392	10,143	-	30,849	59,384
Cash expenditure on exploration & evaluation assets, property, plant and equipment	189	49	156	-	394
Depreciation, depletion & amortization	2,230	-	-	626	2,856

Borrowing costs of USD10,000 and USD36,000 incurred in the Corporate segment were capitalised in the Kazakhstan and Tajikistan segments respectively during the period.

The following is an analysis of the Company's revenue, results and assets by reportable segment for the three months ended March 31, 2015 are as follows:

	Kazakhstan	Tajikistan	Georgia	Other and corporate	Continuing operations	Uzbekistan[1]	Total
Gas sales	4,706	-	-	-	4,706	-	4,706
Oil sales	1,245	-	-	-	1,245	-	1,245
Other income	3	-	-	-	3	-	3
Other operating income	-	-	-	342	342	-	342
Segment revenue and other income	**5,954**	**-**	**-**	**342**	**6,296**	**-**	**6,296**
Inter-segment revenue	-	-	-	(342)	(342)	-	(342)
Segment revenue and other income from external customers	**5,954**	**-**	**-**	**-**	**5,954**	**-**	**5,954**
Loss from jointly controlled entity	(250)	-	-	-	(250)	-	(250)
Profit/ (loss) before taxation	**823**	**(55)**	**-**	**(2,348)**	**(1,580)**	**(41)**	**(1,621)**
Taxation	(411)	-	-	(43)	(454)	-	(454)
Profit/ (loss) the period	**412**	**(55)**	**-**	**(2,391)**	**(2,034)**	**(41)**	**(2,075)**
Total assets	174,719	36,188	12,405	20,245	243,557	3	243,560
Total liabilities	16,820	1,290	129	21,357	39,596	142	39,738
Cash expenditure on exploration & evaluation assets, property, plant and equipment	828	867	252	-	1,947	-	1,947
Depreciation, depletion & amortization	674	-	-	-	674	-	674

Note 1 - Discontinued operation in 2013.

Borrowing costs of USD9,000 and USD21,000 incurred in the Corporate segment were capitalised in the Kazakhstan and Tajikistan segments respectively during the period.

(in thousands of US dollars)

4 Share based payments

Share options

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

In respect of both share options (and in the prior period shares issued) a charge for the value of services of USD82,000 (2014: USD147,000) was recorded for the period. No amounts were capitalised in the current or prior periods.

The following tables summarise the stock option activity for the periods ended March 31, 2016 and March 31, 2015.

	Three months ended March 31			
	2016		2015	
	Number of options	Weighted average exercise price ($)	Number of options	Weighted average exercise price ($)
Outstanding at January 1	11,025,500	0.31	15,362,400	1.58
Granted	14,307,500	0.04	10,022,500	0.23
Forfeited	(1,080,000)	0.22	-	n/a
Expired	(261,000)	0.90	(2,868,600)	1.55
Outstanding at March 31	23,992,000	0.14	22,516,300	0.98
Exercisable at March 31	5,292,833	0.38	13,313,800	1.50

Warrants classified as derivative financial instruments

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

Warrants issued in connection with loans

The following table summarises the warrant activity for the periods ended March 31, 2016 and March 31, 2015.

	Three months ended March 31			
	2016		2015	
	Number of warrants	Weighted average exercise price ($)	Number of warrants	Weighted average exercise price ($)
Outstanding at January 1	2,090,000	2.50	2,090,000	2.50
Expired	-	n/a	-	n/a
Outstanding at March 31	2,090,000	2.50	2,090,000	2.50
Exercisable at March 31	2,090,000	2.50	2,090,000	2.50

5 Taxation

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

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

	Three months ended March 31 2016	2015
Loss before income taxes from continuing operations	(5,598)	(1,580)
Income tax rate	20%	20%
Expected income tax recovery	**(1,120)**	**(316)**
Decrease resulting from:		
Non-deductible expenses net of functional currency foreign exchange impact	65	(333)
Revisions in tax estimates and foreign exchange impact on tax pools	467	398
Impact of effective tax rates in other foreign jurisdictions	808	379
Losses and tax assets not utilised/recognised	(141)	326
	79	**454**
Current tax expense	31	43
Deferred tax expense	48	411
Total	**79**	**454**

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

	As at March 31, 2016	December 31, 2015
Tax losses	223	226
Deferred tax asset	**223**	**226**
Capital assets	12,984	13,008
Other	(2,147)	(2,216)
Deferred tax liability	**10,837**	**10,792**

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

6 Loss per share

Continuing operations	**Units**	**Three months ended March 31 2016**	**2015**
Loss for the purpose of basic and diluted loss attributable to ordinary shareholders	$'000	(5,677)	(2,032)
Weighted average shares	000s	341,075	336,520
Per share amount	$	(0.02)	(0.01)

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

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.

(in thousands of US dollars)

7 Intangible assets

Exploration and evaluation assets	Kazakhstan	Georgia	Tajikistan	Total
January 1, 2015	-	11,996	35,634	47,630
Additions	129	909	12,284	13,322
Exploration and evaluation expenditure written off	-	-	(25,918)	(25,918)
Transfer from assets held for sale	29,168	-	-	29,168
December 31, 2015	**29,297**	**12,905**	**22,000**	**64,202**
Additions	76	156	1,065	1,297
March 31, 2016	**29,373**	**13,061**	**23,065**	**65,499**

8 Property, plant and equipment

	Oil and gas properties			Oil and gas equipment			Other fixed assets[1]			Total net book
	Cost	Amortisation	Total	Cost	Depreciation	Total	Cost	Depreciation	Total	amount
January 1, 2015	**-**	**-**	**-**	**22,184**	**(8,882)**	**13,302**	**1,690**	**(1,188)**	**502**	**13,804**
Additions	2,113	-	2,113	-	-	-	94	-	94	2,207
Transfer from assets held for sale (see note 2)	166,069	(43,367)	122,702	3,159	(696)	2,463	3,785	(2,764)	1,021	126,186
Disposals	-	-	-	-	-	-	(474)	405	(69)	(69)
Amortisation and depletion	-	(24,870)	(24,870)	-	(2,976)	(2,976)	-	(885)	(885)	(28,731)
December 31, 2015	**168,182**	**(68,237)**	**99,945**	**25,343**	**(12,554)**	**12,789**	**5,095**	**(4,432)**	**663**	**113,397**
Additions	133	-	133	-	-	-	10	-	10	143
Amortisation and depletion	-	(2,101)	(2,101)	-	(693)	(693)	-	(74)	(74)	(2,868)
March 31, 2016	**168,315**	**(70,338)**	**97,977**	**25,343**	**(13,247)**	**12,096**	**5,105**	**(4,506)**	**599**	**110,672**

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

9 Restricted cash

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

10 Financial liabilities

	Effective interest rate per annum	Maturity date	March 31, 2016	December 31, 2015
Current				
Rig loans	14.8%	2017	4,572	1,386
Kazakh loan	14.0%-15.9%	2016	2,547	2,571
Olisol loan	8.2%	2016	3,599	5,202
			10,718	**9,159**
Non-current				
Rig loans	14.8%	2017	419	3,995
Corporate loans	22.6%	2017	10,160	9,846
Convertible loans	10.6%	2017	9,235	9,032
			19,814	**22,873**
Total			**30,532**	**32,032**

The fair value of financial liabilities held at amortised cost approximates the carrying value. As at March 31, 2016, the Company is in compliance with all debt covenants relating to all borrowing contracts.

Rig loans

On February 13, 2014, the Company entered into a loan agreement to borrow up to USD12 million. The loan is secured by the shares of the borrower, a wholly owned subsidiary of the Company, which in turn owns two drilling rigs and other equipment. At March 31, 2016, loans with a face value of USD4.7 million and GBP2.1 million have been borrowed under the agreement.

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

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

Kazakh loan

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

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

In January 2013, the Kazakh loan arrangement was terminated and replaced with an arrangement whereby funds are advanced to the Company and repaid as a deduction against oil sales. Terms of the arrangement are principally the same (i.e. the principal repayment to be completed by April 2016 with monthly repayments of both principal and interest) and therefore, under IFRS, the amounts advanced continue to be treated as a loan.

A total of 1.9 billion KZT (USD12.9 million) of funds have been advanced to the Company under the loan agreement, with monthly repayments of both principal and interest (at a weighted average effective interest rate of between 14.0% and 15.9%). The outstanding balance of the loan at March 31, 2016 is shown in the table above.

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

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

Olisol loan

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

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

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

Corporate - New USD6.0 million loan financing

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

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

Corporate - New USD3.5 million loan financing

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

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

Unsecured convertible loan facility from AGR Energy No. 1

On May 13, 2015, the Company issued USD7.5 million aggregate principal amount of convertible debentures (the "AGR Debentures") to AGR Energy Limited No. 1 ("AGR Energy No. 1"). The AGR Debentures are convertible into Ordinary Shares, subject to customary adjustment provisions, at a conversion price of USD0.10 per share for an aggregate of up to 75,000,000 Ordinary Shares. The conversion option has been accounted for as an embedded derivative and valued by the Company at initial recognition at USD180,000.

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

Unsecured convertible loan facility from ALR

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

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

(in thousands of US dollars)

11 Derivative financial instruments

Warrants

	March 31, 2016	December 31, 2015
Balance, beginning of year	275	-
Issued during the year	-	2,949
Fair value gain	(204)	(573)
Surrender of warrants (see note 10)	-	(2,101)
Balance, end of year	**71**	**275**

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

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

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

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

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

	Number of warrants	Weighted average exercise price $
Outstanding at January 1, 2015	-	-
Issued	58,933,333	0.15
Surrender of warrants (see note 10)	(35,600,000)	0.15
Outstanding and exercisable at December 31, 2015	**23,333,333**	**0.15**
Outstanding and exercisable at March 31, 2016	**23,333,333**	**0.15**

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

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

Convertible loans

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

(in thousands of US dollars)

	March 31, 2016	December 31, 2015
Issued during the year	-	250
Fair value gain	-	(250)
Balance, end of year	**-**	**-**

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

	March 31, 2016	December 31, 2015
Credit spread	9.94%	9.94%
Volatility	70.00%	70.00%

12 Share capital

Share capital and share premium

	March 31, 2016	December 31, 2015
Authorised		
Ordinary shares with a par value of $0.10 each	700,000,000	700,000,000
Preference shares with a par value of $0.10 each	50,000,000	50,000,000

Ordinary equity share capital Allotted and fully paid	Number	Share Capital	Share Premium
At January 1, 2015	**336,452,667**	**33,645**	**321,724**
Issued during the year	507,720	51	79
At December 31, 2015	**336,960,387**	**33,696**	**321,803**
Issued during the year (see note 10)	37,440,042	3,744	-
At March 31, 2016	**374,400,429**	**37,440**	**321,803**

On March 21, 2016, Olisol Petroleum Limited converted USD3.7 million of the outstanding amount of its loan to the Company into 37,440,042 shares, refer to note 10 for details.

13 Related party transactions

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

(in thousands of US dollars)

14 Change in working capital

	Three months ended March 31	
	2016	**2015**
Condensed Statement of Financial Position:		
Trade and other receivables	(2,498)	(1,224)
Inventories	7	(12)
Trade and other payables	2,019	(386)
Change in working capital	(472)	**(1,622)**
Non-cash transactions	313	135
Net changes in working capital	**(159)**	**(1,487)**
Condensed Statement of Cash Flows:		
Operating activities	(137)	641
Investing activities	(22)	(2,128)
Net changes in working capital	**(159)**	**(1,487)**

15 Commitment and contingencies

Litigation, claims and assessments

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

Kazakhstan

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

(in thousands of US dollars)

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

		Kazakhstan Work Programme Commitments		
	Expiry date	Program 2016	Spend to date 2016	Program 2017 & later
Akkulka Production Contract (Gas)	2018			
Financial obligations, total		5,500	415	8,590
Investments		2,383	161	3,698
Kyzyloi Production Contract (Gas)	2029			
Financial obligations, total		8,209	290	45,852
Investments		3,432	124	8,417
Akkulka Exploration Contract (Oil)	2019			
Financial obligations, total		6,828	953	9,130
Investments		5,368	460	6,878
Kul-Bas Exploration Contract	2015			
Financial obligations, total		-	-	-
Investments		-	-	-
Financial obligations, total		**20,537**	**1,658**	**63,572**
Investments, total		**11,183**	**745**	**18,993**

General background

Work programmes for exploration and production contracts agreed with the Kazakh State include a required level of "Investments" as defined in the contracts. "Investments" includes capital expenditure, operating expenses, social sphere, sub-soil monitoring and specialist training costs. It is this required level of Investments that forms the principal financial obligation of the Company in respect of its work programme commitments and against which the Company is mainly measured by the relevant Kazakh State authorities along with production volumes in the Production Contracts. Failure by the Company to meet the required level of Investments could put the Company's licences at risk of forfeiture or give rise to penalties for non-fulfillment. Based on the under-fulfilment of commitments in 2015 the State could potentially seek to impose penalties of up to USD1.9m, however, the Company would seek to argue mitigating circumstances to have any such penalties levied waived or reduced.

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

Apart from the Company's work programme commitments, other amounts may become payable to the Kazakh State in certain circumstances. These are described below.

Akkulka Production Contract

On December 23, 2009, the Company and the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan signed the Akkulka Production Contract giving the Company exclusive rights to produce gas from the Akkulka Block for a period of nine years. Contingent upon commencement of commercial production on the Akkulka contractual territory, an amount of USD3,500,000 was due to the Kazakh State as a reimbursement of historical costs previously incurred in relation to the contractual territory. For that part of the contractual territory from which production commenced in 2010, staged payments over a period of nine years totalling approximately USD933,997 are to be paid in equal quarterly instalments from the commencement of production until full reimbursement. To March 31, 2016, the Company had reimbursed the Kazakh State USD650,256 in respect of the Akkulka Field.

Kul-Bas Exploration and Production Contract

The Kazakhstan Government is to be compensated for the historical costs related to the contractual territory in the amount of USD3,275,780. To date, the Company has paid two amounts of USD49,137 each in relation to this balance. If and when commercial production commences, USD80,666 is due in quarterly instalments until the remaining historical costs of USD3,177,506 have been paid in full.

This contract expired on November 11, 2015 and on December 29, 2015 the Company announced it had been granted an extension subject to approval of an appraisal extension project and work programme and subsequent registration of a suitable addition to the contract.

Tajikistan

The Company has an effective 28.33% interest (33.33% interest via its 85% owned subsidiary) in Bokhtar Operating Company BV with partners Total and CNPC each having a 33.33% interest.

Under the terms of the farm-out agreement entered into on June 18, 2013 with Total and CNPC the Company was only required to contribute 11.11% or USD9 million of the first USD98.8 million of the initial work programme. As at March 31, 2016, the joint venture partners had contributed USD90.0 million to the Bokhtar Operating Company of which the Company's share was USD15.2 million. At March 31, 2016, Bokhtar had contractual commitments not yet incurred or accrued relating to seismic acquisition of which Tethys share is 33.33%. The Company has not been provided with this information by the joint operating company as a result of being in default of cash calls in the amount of USD8.7 million.

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

Georgia

The Company has a 49% interest in three blocks in Eastern Georgia and is responsible for funding its percentage interest share in the work programmes.

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

Uzbekistan

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

(in thousands of US dollars)

16 Operating leases

Leases as a lessee:

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

	March 31, 2016	December 31, 2015
Less than 1 year	551	611
1 – 3 years	691	722
Greater than 3 years	-	75

17 Subsequent events

Binding C$9.8 Million Private Placement with Olisol Investments Limited

On April 29, 2016 the Company announced that it had entered into a binding investment agreement (the "Investment Agreement") with Olisol Investments Limited ("Olisol") setting out the terms and conditions upon which Olisol Petroleum Limited, a wholly-owned subsidiary of Olisol ("OPL"), has agreed to purchase 181,240,793 new ordinary shares in Tethys ("Shares") at a price of C$0.054 per Share, for total proceeds of C$9.8 million, by way of a private placement (the "Placing") and to commit to backstop a further equity fundraising of 50 million Shares at C$0.054 per Share (the "Further Financing", together the "Transaction"). The Further Financing will generate proceeds of C$2.7 million for a total of C$12.5 million under the Transaction. The Investment Agreement amends and restates the investment agreement that was signed by the Parties on December 7, 2015.

Tethys Petroleum Limited

Management's Discussion and Analysis
for the period ended March 31, 2016

Content

The following Management's Discussion and Analysis ("MD&A") is dated May 13, 2016 and should be read in conjunction with the Company's unaudited Condensed Consolidated Interim Financial Statements and related notes for the period ended March 31, 2016 as well as the audited Consolidated Financial Statements and the MD&A for the year ended December 31, 2015. 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 2015 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" and the requirements of the Disclosure and Transparency Rules ("DTR") of the Financial Conduct Authority ("FCA") in the United Kingdom as applicable to interim financial reporting. Additional information relating to the Company can be found on the SEDAR website at *www.sedar.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, Republic of Tajikistan 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 89 Nexus Way, Camana Bay, Grand Cayman, Cayman Islands. The domicile of Tethys is the Cayman Islands where it is incorporated.

Financial highlights

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

	Quarter ended March 31		
	2016	**2015**	**Change**
Oil and gas sales and other revenues	3,455	5,954	(42%)
Loss for the period:			
– continuing operations	(5,677)	(2,034)	179%
– discontinued operations	-	(41)	(100%)
	(5,677)	(2,075)	174%
Basic and diluted loss (USD) per share			
– continuing operations	(0.02)	(0.01)	100%
– discontinued operations	-	-	0%
EBITDA - adjusted for share based payments[1]	(934)	(1,258)	(26%)
Capital expenditure	394	1,947	(80%)
	As at March 31		
	2016	**2015**	**Change**
Total assets	189,103	243,560	(22%)
Cash & cash equivalents	1,133	5,280	(79%)
Cash & cash equivalents – held in a disposal group	-	1,707	(100%)
Short & long term borrowings	(30,532)	(16,637)	84%
Short & long term borrowings – held in a disposal group	-	(4,641)	(100%)
Total non-current liabilities	(31,628)	(11,468)	174%
Total non-current liabilities – held in a disposal group	-	(814)	(100%)
Net debt[1]	29,399	14,291	106%
Number of common shares outstanding	374,400,429[2]	336,543,145	(89%)

Note 1 EBITDA and net debt are non-GAAP Measures, refer to page 18 for details

Note 2 Includes 37,440,042 shares issued during the period to Olisol Petroleum Limited.

First quarter 2016 versus first quarter 2015

- Oil and gas sales and other revenues decreased by 42% to USD3.5m from USD6.0m due to a natural decline in production volumes and price reductions in USD terms as a result of the devaluation of the Kazakh currency, the Tenge;
- Production expenses reduced by 54% to USD1.2m from USD2.6m as a result of cost reduction initiatives and also the Tenge devaluation;
- Administrative expenses reduced by 37% to USD1.8m from USD2.8m as a result of cost reduction initiatives;
- The loss of USD5.7m was higher than prior quarter loss of USD2.1m due to higher depreciation, depletion and amortization of USD2.2m and higher financing costs of USD1.3m;
- EBITDA - adjusted for share based payments improved marginally, notwithstanding the reduction in oil and gas revenues, as a result of significantly lower production and administrative expenses;
- Capital expenditure was lower due to lack of funding to develop the Company's assets with expenditure in the prior period relating to new gas well tie-ins and Tajikistan exploration;
- Net debt increased as a result of interim finance obtained as part of larger strategic transactions which did not complete.

Operational highlights

	Units	Quarter ended March 31 2016	2015	Change
Kazakhstan				
Oil	bopd[1]	861	1,195	(28%)
Gas	boe/d[2]	2,442	3,173	(23%)
Total	boe/d	**3,303**	**4,368**	**(24%)**
Oil				
Net production	Bbls	78,366	107,529	(27%)
Net revenue	USD'000	517	1,245	(58%)
Production costs	USD'000	656	1,491	(56%)
Gross margin	USD'000	**(139)**	**(246)**	**(43%)**
Gross sales price	USD/bbl	7.47	13.00	(43%)
Cost	USD/bbl	8.37	13.87	(40%)
Gross margin	USD/bbl	**(0.90)**	**(0.87)**	**(1%)**
Gas				
Gross production	Mcm[3]	37,759	48,522	(22%)
Revenue net of marketing commission	USD'000	2,200	3,604	(39%)
Production costs	USD'000	501	1,042	(52%)
Gross margin	USD'000	**1,699**	**2,562**	**(34%)**
Sales price net of marketing commission[4]	USD/Mcm	59.12	75.51	(22%)
Cost	USD/Mcm	13.27	21.47	(38%)
Gross margin	USD/Mcm	**45.85**	**52.19**	**(12%)**

Note 1 Barrels of oil per day

Note 2 Barrel of oil equivalent per day. A boe conversion ratio of 6,000 cubic feet (169.9 cubic metres) of natural gas = 1 barrel of oil has been used and is based on the standard energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead

Note 3 Thousand cubic metres

Note 4 Using a 2016 annual average exchange rate of USD1 = Tenge 358.1 (Q1 2015: USD1 = Tenge 185.3)

Oil

- Current quarter oil production averaged 861 bopd compared with 1,195 bopd in Q1 2015, reflecting a natural decline in overall production as well as prolonged winter and spring oil trucking disruption;
- Oil production cost per barrel in the current quarter reduced to USD8.37 compared with USD13.91 in Q1 2015 despite lower production volume as a result of reductions in staff levels and other operating cost reduction initiatives as well as the Tenge devaluation;
- Oil prices averaged USD7.47 in the quarter compared with USD13.00 bbl in Q1 2015, a reduction of 43%, reflecting the fall in World oil price and the devaluation of the Kazakhstan currency, the Tenge.

Gas

- Current quarter gross gas production averaged 2,442 boe/d compared with 3,173 bopd in Q1 2015, reflecting a natural decline in overall production;
- Gas production cost per Mcm in the current quarter reduced to USD13.27 compared with USD21.47 in Q1 2015 despite lower production volume as a result of reductions in staff levels and other operating cost reduction initiatives as well as the Tenge devaluation;
- An increase in gas price in local currency of over 50 percent was obtained from January 1, 2016, however, this was negatively affected in USD terms due to the Tenge devaluation and translates to a decrease for the quarter to USD59.12 per Mcm from USD75.51 per Mcm in Q1 2015, net of marketing commission.

Operational Review

Outlook

The information provided under this heading is considered as forward looking information; as such please refer to Forward Looking Statements on page 22 of this MD&A.

The Company's objective is to become the leading Independent E&P Company in Central Asia, by exercising capital discipline, by generating cash flow from existing discoveries and by maturing large exploration prospects within our highly-attractive frontier acreage. The Company produces both oil and natural gas in order to balance its product portfolio and currently operates in three separate jurisdictions in Central Asia and the Caspian Region, though the Board is looking to farm down or sell the Tajikistan and Georgian assets to focus on the assets in Kazakhstan. The Company was served with a withdrawal notice from its partners in Tajikistan during 2015 although is disputing this.

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:

- complete the transactions announced with Olisol to bring much needed funding into the Company and provide it with a strong in-country partner in Kazakhstan;
- continue to evaluate farm-out opportunities with respect to Tajikistan and Georgia;
- continue to review and implement further cost reductions across the business;
- maintain and increase shallow gas production with the objective to supply gas to China through the newly built pipeline once operational, once additional funding is secured;
- drill the Klymene exploration well in Kazakhstan, subject to securing additional funding for this purpose, now that an extension of the Kul-Bas contract has been granted.

Significant events and transactions for the three months ended March 31, 2016

- *Olisol Updates*

On January 22, 2016, the Company announced that no further funds had been received by the Company from Olisol Petroleum Limited or Olisol Investments Limited (together "Olisol") since receipt of the USD5,138,918 in late November which was used to repay the USD5 million term loan from Nostrum and due to transaction completion delays, the Board was obligated to consider alternative funding and investment options for the Company, alongside continued discussions with Olisol.

On February 8, 2016, the Company announced that it had received a further USD1 million from Olisol on January 28, 2016. In a new development, Olisol had also informed the Company that due to the difficult business and banking environment in Kazakhstan they would like to renegotiate some of the key terms of the transactions envisaged in the letter of intent which would include changes to the facility agreement and the investment agreement which the Company announced entering into on December 8, 2015.

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

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

- Olisol to convert approximately USD6.25 million of the interim facility into ordinary shares at a price of USD0.10 per share;
- Olisol will work with a bank in Kazakhstan to secure a loan for the Company's subsidiary, TethysAralGas LLP, in the amount of USD10 million within 60 days which, together with the conversion, would satisfy the outstanding obligations of Olisol under the Interim Facility;
- Olisol to provide additional working capital reasonably required by Tethys, until completion of a placement under an amended investment agreement;
- Olisol committed to purchasing 181,240,793 new shares at a price to be agreed by Tethys and Olisol. This purchase, together with the conversion of the amounts outstanding under the interim facility would result in Olisol owning approximately 42% of the Company's shares;
- Upon successful first draw down of the Kazakh loan and conversion of the circa USD6.25 million under the interim facility into equity, the Board will be reconstituted and comprise the following five directors:
    - Adeola Ogunsemi, non-executive director and Chairman of the Audit Committee;
    - William Paul Wells, non-executive director;
    - Alexander Abramov, non-executive director;

- One additional non-executive independent director designated by Olisol; and
- The one remaining Board seat to be filled by a candidate who satisfies the legal and regulatory requirements of the Company and whose appointment is agreed by Tethys and Olisol.

- *Director changes*

On March 14, 2016 the Company announced that in connection with the transactions with Olisol, John Bell had moved from Executive Chairman to co-Non-Executive Chairman along with Mr. Alexander Abramov, who also became co-Non-Executive Chairman.

In addition, the Company announced that it had set the Annual General Meeting ("AGM") date for May 31, 2016. John Bell, David Henderson, David Roberts and Jim Rawls have all informed the Company that they will not stand for re-election at the AGM.

- *Gas Contract*

On March 24, 2016 the Company entered into a 2016 Gas Supply Contract, effective from January 1, 2016 through to December 31, 2016 between with Inter Gas Central Asia for the supply of 150 million cubic meters of gas, at a gross price of KZT28,000/Mcm (USD81.16/Mcm (USD2.30/Mcf) at the exchange rate of KZT345 = USD1), effective from January 1, 2016 through to December 31, 2016. The associated gas marketing contract has been renewed covering the same period with a fee of KZT7,000/Mcm (USD20.29/Mcm (USD0.58/Mcf) at the exchange rate of KZT345 = USD1).

Significant events and transactions subsequent to the period end

- *Olisol Updates*

On April 29, 2016 the Company announced that it had entered into a binding investment agreement (the "Investment Agreement") with Olisol setting out the terms and conditions upon which it has agreed to purchase 181,240,793 new ordinary shares in Tethys at a price of C$0.054 per Share, for total proceeds of C$9.8 million, by way of a private placement and to commit to backstop a further equity fundraising of 50 million Shares at C$0.054 per share. The further equity fundraising will generate proceeds of C$2.7 million for a total of C$12.5 million. The Investment Agreement amends and restates the investment agreement that was signed by the Parties on December 7, 2015.

Operational Review - continued

Results of Operations and Operational Review - Kazakhstan

Oil production – Akkulka Contract

	2016					2015				
	Gross fluid		Net	Net production		Gross fluid		Net	Net production	
	m3	barrels	barrels	days	bopd	m3	barrels	barrels	days	bopd
Q1	16,851	105,988	78,366	91	861	19,666	123,683	107,529	90	1,195
Total	**16,851**	**105,988**	**78,366**	**91**	**861**	**19,666**	**123,683**	**107,529**	**90**	**1,195**

The Company produces oil from up to three wells under a pilot production license: AKD01, AKD05 and AKD06. AKD01 has been performing basically to expectation although AKD06 has been shut in since late Q4 2014 due to the lower oil price received and the increased OPEX of a high water-cut well. AKD05 was off from the winter of 2015 until the summer of 2015 because of the spring breakup restricting transshipment and trucking and higher water cuts of AKD05 but was put back on production in August 2015 until November 2015, which involved bringing staff back from unpaid leave. Moderate capacity progressive cavity pumps have been installed as planned on AKD05 and on AKD06 and it is expected that at some time in the future, probably in 2016, the AKD01 well will also require a large volume pump; a large volume Electrical Submersible Pump ("ESP") has been scoped but not yet purchased and has a six month lead time, although the larger volume pump previously installed on AKD06 could be used in the interim and produce an estimated 500 bopd.

Oil operations update

General

Oil production in May to date is currently averaging 968 barrels per day from AKD01 only, this is on a 12mm choke with a Flowing Tubing Head Pressure (FTHP) of 252 psi and a c. 33% water-cut; the water-cut is on an increasing trend and probably at some point in 2016 it is expected to go above 40% and require the use of artificial lift (pumping). AKD05 is currently offline since November 2015 but is expected on later in the year and possibly AKD06, depending on the oil price. The current oil price is the equivalent of USD7.55 per barrel following the significant devaluation of the Kazakhstan currency, the Tenge, in August 2015, however it should be noted that operating costs in USD terms have also reduced.

Joint Venture – Aral Oil Terminal ("AOT")

In 2013, the construction of Phase 2 of the AOT facility was completed, which provides for an increase in throughput capacity from 4,200 bopd to 6,300 bopd with the installation of two 1,000 m^3 storage tanks (12,500 bbls) and associated pumping equipment. Phase 3, which includes the incorporation of an electrical dehydrator for the commercial treatment of crude oil has not been completed due to insufficient volumes and lower oil pricing. Whilst current levels of oil production have meant AOT throughput has been lower than is optimal for the terminal to generate an acceptable rate of return the AOT joint venture has continued to operate since 2013 without recourse to additional loan funding from the JV partners. Repayments on an external loan have been rescheduled with the agreement of the lender.

Operational Review - continued

Gas production – Kyzyloi and Akkulka Contracts

	2016				2015			
	Mcm[1]	Mcf[2]	Mcm/d[3]	Boe/d[4]	Mcm[1]	Mcf[2]	Mcm/d[3]	Boe/d[4]
Kyzyloi								
Q1	16,112	568,923	177	1,042	9,283	327,835	103	607
Total	**16,112**	**568,923**	**177**	**1,042**	**9,283**	**327,835**	**103**	**607**
Akkulka								
Q1	21,647	764,339	238	1,400	39,239	1,385,735	436	2,566
Total	**21,647**	**764,339**	**238**	**1,400**	**39,239**	**1,385,735**	**436**	**2,566**
Grand total	**37,759**	**1,333,262**	**415**	**2,442**	**48,522**	**1,713,570**	**539**	**3,173**

Note 1 Thousands of cubic metres

Note 2 Thousands of cubic feet

Note 3 Thousands of cubic metres per day

Note 4 Barrel of oil equivalent per day. A boe conversion ratio of 6,000 cubic feet (169.9 cubic metres) of natural gas = 1 barrel of oil has been used and is based on the standard energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead

- Production commenced from the Kyzyloi field in 2007, following the construction of a 56 km, 325mm outside diameter ("OD") export pipeline from the Kyzyloi 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 IntergasCentralAsia ("ICA"), a division of the Kazakh State natural gas company KazTransGas ("KTG");
- Production commenced from the Akkulka field on October 6, 2010;

Gas production decreased by 23% or 124 Mcm per day in the current quarter compared with the same quarter in the prior year primarily as a result of natural decline in the fields, although compressor #2 being offline for the entirety of Q1 2016 affected the rate.

Gas operations update

Shallow Gas Drilling Programme

During the second half of 2014 a new pipeline system was installed in order to tie in the AKK15, 16, 17, 18 and 19 wells for which final State approvals were received in February 2015. In parallel, a dehydration system was installed at the Booster Compressor Station and is performing well and outputting gas sufficient to make not only Kazakh but also export standard. Final State approval and commissioning of this unit was achieved in March 2015.

Currently, the Company produces dry gas from a total of 17 wells at a depth of approximately 480-600m below surface, comprising nine producing wells in the Kyzyloi field and eight in the Akkulka field with combined current average production for May to date being 400 Mcm per day; production of late has been slightly negatively affected by higher Buhkara-Urals gas trunkline pressure and this is likely to persist through the summer due to lower offtake and typical maintenance which is not carried out in winter.

During Q2 2015 Compressor #5 engine was overhauled and Compressor #1 engine overhauled in Q3; in late December 2015 the engine for compressor #2 went offline and needs capital repairs amounting to USD191,000, with a lead time of approximately 20 weeks, it is also still required to overhaul the engine for Compressor #3 and replace compression cylinders on units #1, #2 and #3 when funding allows. If any of the current three working compressors went offline in the interim, then it would have a negative impact on production.

Operational Review - continued

The recently completed Bozoi-Shymkent-China gas pipeline means that, for the first time, Tethys 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 existing Bukhara Urals trunk line that transports gas from Central Asia into Russia. Currently, the Chinese pipeline is only taking domestic gas within Kazakhstan to Shymkent and it is not known when exports to China will commence. The Company expects to realise a higher net sales price to China should exports commence but it is unknown at this time what the price will be. Recently, gas prices have been seen to fall in China, especially imported LNG prices from the coast, which have been reduced along with world prices. The Company still believes that the long term price for gas will rise in the region, in particular dry gas imported 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.

During Q1 2015, the Company signed a Memorandum of Understanding ("MOU") with PetroChina with respect to co-operation in potential future gas sales.

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 now in place. 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. Currently this well is planned for 2017 under the draft minimum work programme, subject to State approvals and funding but some preparation could start in 2016.

The necessary State permission to extend the Kul-Bas Exploration and Production Contract for a further two years to November 11, 2017 was received in December 2015 subject to submittal of relevant projects, amended work programmes and signing amendments to the Contract. Currently the Company is progressing through a review by the state of the appraisal extension project and minimum work programme which are expected to be completed during Q3 with the subsequent Contract amendments most likely being received in Q4.

Results of Operations and Operational Review - Tajikistan

Since completion of the farm-out to Total and CNPC in 2013, the joint operating company has been focused on the completion of a full regional 2D seismic acquisition programme across the PSC area, particularly targeted at deeper exploration potential. In Q4 2013, the joint operating company went out to tender for the acquisition of seismic data which was awarded to BGP of China in April 2014 and commenced field acquisition in late October 2014. This new wide line 2D survey is specially designed to image the deep targets described in an independent resource report and consists of a first phase of 826 kms with an option for an additional 200 kms, all to be acquired by the end of 2015. As well as 2D acquisition and processing, a concurrent low cost passive seismic survey was planned and commenced in March whilst a Magnetotellurics survey was also being acquired along the dip lines. Processing of all these data will be concurrent and interpretation and mapping has been underway from Q2 2015. This whole data set was designed to enable the identification of the best possible drilling location to be agreed on at the end of 2015 / early Q1 2016. As at the end of August more than 80% of the 2D seismic had been acquired. However, due to the default situation under the JOA the Company has been unable to receive any of the new data and is unable to comment on the status of the operations and prospectivity potential.

Results of Operations and Operational Review - Georgia

Following completion, in early January 2014, of the acquisition of a 56% interest in the Georgian license areas (49% since Q1 2015): Blocks XIA, XIM and XIN, activities performed since the 2013 2D seismic acquisition have focused on the collation, preparation, processing and interpretation of seismic and well data across blocks XIA and XIM with some geochemical and structural geology work having been completed across all three blocks with ground gravity data acquisition in 2015.

During Q2 and early Q3 2015 the operator NOC oversaw ground gravity acquisition on all three blocks and field acquisition was completed in late July 2015 where a total of 187.4 kms2 of XIA phase III obligation gravity, 197.5 kms2 of XIM phase II obligation and 721.1 kms2 of XIN phase II obligation gravity were completed. In parallel, approvals to the changes in the work programme were passed successfully through several State entities and the final Government ratification was achieved in October 2015 and stipulates the main capital expenditure item to be a minimum of 50km of 2D seismic to be finished and evaluated by July 1, 2017 in XIN, at an estimated net to Tethys cost of $1.1m whilst the potential block non-compliance fine is set as $2m net to Tethys. Currently NOC is evaluating the feasibility of seismic lines for 2016 in conjunction with Tethys staff, however this programme is subject to funding.

Final drill or drop decision points are June 1, 2017 for XIA and July 1, 2017 for XIM and XIN respectively, with any chosen well drilling needing to be complete 12 months later, in 2018.

Financial Review

Summary of Quarterly Results

	Q1, 2016	Q4, 2015	Q3, 2015	Q2, 2015	Q1, 2015	Q4, 2014	Q4, 2014	Q4, 2014
Oil & gas sales and other revenues	3,455	3,606	5,736	6,838	5,954	6,224	7,261	7,123
Loss for the period								
– continuing operations	(5,677)	(43,593)	(3,698)	(25,278)	(2,034)	(5,034)	(2,362)	(3,668)
– discontinued operations	-	60	(11)	(36)	(41)	(210)	(57)	(153)
Basic & diluted loss ($) per share:								
– continuing operations	(0.02)	(0.13)	(0.01)	(0.08)	(0.01)	(0.02)	(0.01)	(0.01)
– discontinued operations	-	-	-	-	-	-	-	-
EBITDA – adjusted for share based payments[1]	(934)	(4,249)	(637)	(4,425)	(1,259)	(3,806)	(1,134)	(2,509)
Capital expenditure	394	374	1,938	4,034	1,947	7,752	6,216	4,835
			-					
Total assets	189,103	190,595	225,170	226,024	243,560	238,695	241,059	242,878
Cash & cash equivalents	1,133	3,272	4,286	4,942	5,280	3,112	7,914	11,642
Cash & cash equivalents – held in a disposal group	-	-	-	-	1,707	757	2,153	6,036
Short & long term borrowings	(30,532)	(32,032)	(32,479)	(26,719)	(16,637)	(10,628)	(11,032)	(7,581)
Short & long term borrowings – held in a disposal group	-	-	-	-	(4,641)	(4,871)	(5,166)	(5,911)
Total non-current liabilities	(31,628)	(34,644)	(24,264)	(23,197)	(11,468)	(5,489)	(5,923)	(6,370)
Total non-current liabilities – held in a disposal group	-	-	-	-	(814)	(7,937)	(7,412)	(7,691)
Net (debt) / funds[1]	29,399	(28,760)	(28,193)	(21,777)	(14,291)	(11,630)	(6,131)	4,186
Number of common shares outstanding	374,400,429[2]	336,960,387	336,839,315	336,712,385	336,543,145	336,452,667	336,452,667	336,452,667

Note 1 EBITDA and net debt are non-GAAP Measures, refer to page 18 for details

Note 2 Includes 37,440,042 shares issued during the period to Olisol Petroleum Limited.

Loss for the period

The Company recorded a net loss after taxation of USD5.7 for the period ended March 31, 2016 (2015: USD2.1m), the principal variances between the two periods being the DD&A charge calculated on the Kazakh assets following their reclassification from Assets Held for Sale and higher finance costs as a result of higher net debt. Further variances between the two periods are summarized below together with a discussion of significant variances between the two periods.

	Quarter ended March 31		
	2016	**2015**	**Change**
Sales and other revenue	3,455	5,954	(42%)
Sales expenses	(734)	(1,102)	(33%)
Production expenses	(1,196)	(2,608)	(54%)
Depreciation, depletion & amortization	(2,856)	(674)	324%
Administrative expenses	(1,787)	(2,821)	(37%)
Restructuring costs	(755)	(319)	137%
Transaction costs of assets held for sale	-	(120)	(93%)
Share based payments	(82)	(147)	(44%)
Profit on sale of fixed assets	10	14	(29%)
Foreign exchange loss	73	(6)	(1317%)
Fair value gain on derivative financial instruments	204	1,078	(81%)
Loss from jointly controlled entity	-	(250)	(100%)
Finance costs	(1,930)	(579)	233%
Loss before taxation	**(5,598)**	**(1,580)**	**254%**
Taxation	(79)	(454)	(83%)
Loss for the period from continuing operations	**(5,677)**	**(2,034)**	**179%**
Loss for the period from discontinued operations	-	(41)	(100%)
Loss for the period	**(5,677)**	**(2,075)**	**179%**

Sales & other revenue

	Quarter ended March 31		
	2016	**2015**	**Change**
Summary			
Oil	517	1,245	(58%)
Gas	2,934	4,706	(38%)
Other	4	3	33%
Total	**3,455**	**5,954**	**(42%)**
By region			
Kazakhstan - Oil	517	1,245	(58%)
Kazakhstan - Gas	2,934	4,706	(38%)
Kazakhstan - Other	2	3	(33%)
Other	2	-	0%
Total	**3,455**	**5,954**	**(42%)**

Kazakhstan – Oil revenue and price

	Gross sales bbls	Revenue $000	Realized price at wellhead $/bbl	Compensation $000	VAT $000	Net sales $000
2016						
Q1	79,251	592	7.47	12	63	517
Total	**79,251**	**592**	**7.47**	**12**	**63**	**517**
2015						
Q1	100,773	1,424	13.00	30	149	1,245
Total	**100,773**	**1,424**	**13.00**	**30**	**149**	**1,245**

- Under the pilot production licence oil can only be sold in the local market;
- Net figures exclude the compensation for water content plus compensation for natural wastage and transportation costs of water from the well head to the AOT terminal at Shalkar. The compensation for water content is due to the small amount of water in the crude that remains after the field separation;
- Sale price is determined at the wellhead where the oil is sold and therefore the Company incurs no transportation or marketing costs. Whilst some other oil companies report higher oil prices they report their transportation and marketing costs separately, however Tethys' oil is trucked 230 kilometres and then railed hundreds of kilometres and if the price was determined at the refinery it would be significantly higher;
- Current quarter revenue, has been affected by the decrease in world oil prices that took place at the end of 2014 as well as the significant devaluation of the Kazakh Tenge against the US Dollar from late August 2015, which has affected realised US Dollar prices, although operating costs have also come down in US Dollar terms.

Kazakhstan - Gas revenue and price

- Gas revenue decreased in the current quarter compared with the same quarter in the prior year as a result of lower production volumes and a lower gas price in USD terms following the Tenge devaluation in late 2015;
- The 2015 gas sales contract was for minimum of 100 million cubic metres at a fixed Tenge price of KZT 13,650 per 1,000 cubic metres, net of VAT and sales expenses, (USD75.51 at an average Q1 2015 exchange rate of 185.3 Tenge);
- A new contract was signed with respect to 2016 production for a minimum 150 million cubic metres at a fixed Tenge price of KZT 21,000 per 1,000 cubic metres, net of VAT and sales expenses, (USD59.12 at an average exchange rate of 358.1 Tenge);
- Gas contracts are subject to exchange rate risk – refer to page 20 – Sensitivities.

Financial Review – continued

Sales expenses

Sales expenses represent Kazakh marketing agent commissions paid in relation to the gas sale contracts. Commission is payable at KZT7,000 per Mcm, net of 12% VAT, (USD19.55 at a 2016 period to date average exchange rate of 358.1 Tenge), (2015: KZT 4,550 per Mcm, net of 12% VAT, (USD24.55 at a Q1 2015 average exchange rate of 185.3 Tenge).

Production expenses

		Quarter ended March 31		
	Units	**2016**	**2015**	**Change**
Kazakhstan				
Oil production	USD000's	656	1,491	(56%)
Gas production	USD000's	501	1,042	(52%)
Other	USD000's	39	75	(48%)
Total	USD000's	1,196	2,608	(54%)
Oil				
Net production	bbls	78,366	107,529	(27%)
Cost	USD/bbl	8.37	13.87	(40%)
Gas				
Production	boe	222,224	285,570	(22%)
Cost	USD/boe	2.25	3.65	(38%)
Weighted average cost per boe	USD/boe	3.85	6.45	(40%)

Kazakhstan – oil production

- A significant proportion of costs associated with oil production are fixed, so costs would not generally be expected to reduce in the same proportion as a decline in production. The reduction in oil production costs and cost per barrel of oil produced in the quarter is a result of management's cost reduction initiatives during 2015 as well as the devaluation of the Kazakh Tenge from August 2015;

Kazakhstan – gas production

- Gas production costs decreased significantly as well as in barrel of oil equivalent terms in the current quarter as a result of cost reduction initiatives such as placing staff on unpaid leave, as well as the effect of devaluation of the Tenge from August 2015. Gas production, more so than the oil generally, has a significant fixed cost element which includes compressor supplies denominated in US dollar 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 USD2.9 (2015: USD0.7m) reflecting DD&A on the Kazakh assets which in the prior period were classified as Held for Sale and not depreciated.

Administrative expenses

	Quarter ended March 31		
	2016	**2015**	**Change**
Staff	898	1,245	(28%)
Travel	133	242	(45%)
Office	162	231	(30%)
Professional fees	265	599	(56%)
Regulatory	81	127	(36%)
Marketing costs	74	77	(4%)
Non-executive director fees	126	211	(40%)
Other costs	48	89	(46%)
Total	**1,787**	**2,821**	**(37%)**
G&A expenses per boe (USD)	5.94	7.17	(17%)

- Staff costs have reduced significantly in the current quarter as a result of reductions in staff levels, staff placed on unpaid leave and salary reductions as well as from the Kazakhstan Tenge devaluation from August 2015;
- Reductions in travel expenses reflect management's focus to reduce costs in this area and are also lower due to closure of a number of international offices and reductions in staff levels across the business;
- Office costs reduced in the current quarter following the closure of nine of the Company's fourteen offices in 2015. Where there are ongoing rental commitments with respect to these offices these have been fully provided for and included within Restructuring costs;
- Professional and regulatory fees are significantly lower for the quarter reflecting lower legal and audit fees. Fees in connection with strategic transactions and legacy issues have been included in Restructuring costs;
- Marketing costs include mandatory corporate social responsibility obligations in Kazakhstan and also investor relations costs;
- Non-executive director fees were higher in the comparative prior period quarter as a result of fees paid to certain directors for additional work undertaken;
- 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.

Restructuring costs

Costs associated with the restructuring programme undertaken in 2015 and continuing into 2016 have been shown separately from administrative expenses. These include legal and financial advisory fees associated with the Olisol strategic transaction as well as staff terminations costs.

Transaction costs of assets held for sale

Transaction costs of assets held for sale in the prior period relate to the SinoHan transaction which failed to complete by the longstop date of May 1, 2015.

Share based payments

Share based payments were higher in the prior period quarter reflecting the issuance of options at the beginning of 2015 and shares issued in connection with the former Executive Chairman's remuneration package whereby 30% of base salary was paid in shares.

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.

Fair value gain on derivative financial instruments

The fair value gain of USD0.2m arising in the current quarter and USD01.1m for the prior period was due to the revaluation of the warrants issued in connection with corporate loans and also loans with conversion features.

Loss from jointly controlled entity

The Company's share of loss from the Aral Oil Terminal joint venture was nil for the current quarter and USD0.3m for the prior period. The terminal has generated losses as a result of low oil volume throughput and the value of the Company's investment in the joint venture has been written down to nil.

Finance costs - net

Finance costs comprise interest expense net of interest income and are higher in the current quarter due to higher effective interest charges on interim finance obtained in 2015 as part of proposed larger strategic transactions which did not complete.

Taxation

A reconciliation of the loss before income tax to the current tax expense is provided in note 5 of the Condensed Consolidated Financial Statements.

Liquidity and Capital Resources

The Company's capital structure is comprised of shareholders' equity and debt.

The Company's objectives when managing capital is to maintain adequate financial flexibility to preserve its ability to meet financial obligations, both current and long term. The capital structure of the Company is managed and adjusted to reflect changes in economic conditions.

The Company funds its capital expenditures from existing cash and cash equivalent balances, primarily received from issuances of shareholders equity and some debt financing. None of the outstanding debt is subject to externally imposed capital requirements.

Financing decisions are made by management and the Board of Directors based on forecasts of the expected timing and level of capital and operating expenditure required to meet the Company's commitments and development plans. Factors considered when determining whether to issue new debt or to seek equity financing include the amount of financing required, the availability of financial resources, the terms on which financing is available and consideration of the balance between shareholder value creation and prudent financial risk management.

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 Condensed Consolidated Financial Statements.

Financial Review – continued

	As at March 31		
	2016	**2015**	**Change**
Total financial liabilities - borrowings	30,532	16,637	84%
Total financial liabilities – borrowings of a disposal group	-	4,641	(100%)
Less: cash and cash equivalents	(1,133)	(5,280)	(79%)
Less: cash and cash equivalents – of a disposal group	-	(1,707)	(100%)
Net debt	**29,399**	**14,291**	**106%**
Total equity	129,719	203,822	(36%)
Total capital	**159,118**	**218,113**	**(27%)**

Should the Company be in a net debt position, it will assess whether the projected cash flow is sufficient to service this debt and support ongoing operations. Consideration will be given to reducing the total debt or raising funds through alternative methods such as the issue of equity, farm-down of assets or sale of the Company.

Financing and Going Concern

Details of the Company's financing and going concern assessment are provided in note 2 of the Condensed Consolidated Financial Statements.

Cash Flow

	Quarter ended March 31		
	2016	**2015**	**Change**
Net cash used in operating activities	**(1,925)**	**(1,468)**	**33%**
Capital expenditure	(394)	(1,947)	(80%)
Net changes in working capital	(22)	(2,128)	(99%)
Other investing cash flows	377	500	(25%)
Net cash used in investing activities	**(39)**	**(3,575)**	**(99%)**
Proceeds from loan financing	2,000	9,135	(78%)
Loan principal and interest payments	(1,509)	(821)	84%
Proceeds from equity, net of costs	-	(28)	(100%)
Other financing cash flows	(47)	-	**0%**
Net cash generated from financing activities	**444**	**8,286**	**(95%)**
Effect of exchange rates	(619)	(124)	375%
Net (decrease)/increase in cash	**(2,139)**	**3,119**	**(169%)**
Cash & cash equivalents at beginning of period	3,272	3,868	**(15%)**
Cash & cash equivalents at end of period	**1,133**	**6,987**	**(84%)**

Operating activities

The increase in cash used in operating activities in the current quarter is primarily due to lower oil and gas sales receipts.

Investing activities

Investing activities relate mainly to capital expenditure on oil and gas properties, details of which are given on the following page.

Financing activities

Proceeds from loan financing in the current quarter comprises USD2.0m from Olisol Petroleum Limited under an interim financing facility. Amounts in the prior quarter comprised a USD6.0m unsecured loan taken out January 2015 with a private investor and a USD3.5m unsecured loan facility

Financial Review – continued

taken out March 2015 with Annuity and Life Reassurance Limited ("ALR"), a company controlled by Pope Asset Management, LLC, the Company's largest shareholder;

Loan repayments includes scheduled repayments on the Company's rig loans and interest payments due on other borrowings.

Capital expenditure

Significant spend was as follows:

	Quarter ended March 31		
	2016	**2015**	**Change**
Kazakhstan – exploration and production	189	828	(78%)
Tajikistan - exploration	49	867	(99%)
Georgia - exploration	156	252	(38%)
Corporate and other	-	-	0%
Total	**394**	**1,947**	**(80%)**

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 March 31, 2016 Condensed Consolidated Financial Statements. Refer to note 4 of the 2015 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

EBITDA adjusted for share based payments

EBITDA adjusted for share based payments 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 EBITDA adjusted for share based payment to Loss for the Period is as follows:

	Quarter ended March 31		
	2016	**2015**	**Change**
EBITDA - adjusted for share based payments	(934)	(1,258)	(26%)
Depreciation, depletion and amortization	(2,856)	(674)	324%
Exploration and evaluation expenditure written off	-	-	0%
Share based payments	(82)	(147)	(44%)
Fair value gain on derivative financial instrument - net	204	1,078	(81%)
Finance costs - net	(1,930)	(579)	233%
Loss before taxation	**(5,598)**	**(1,580)**	**254%**

Financial Review – continued

Net debt / (funds)

Net debt / (funds) 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 Condensed Consolidated Financial Statements.

EBITDA adjusted for share based payments and Net debt / (funds) shown in this MD&A do not have any standardized 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 March 31, 2016 the Company had authorized share capital of 700,000,000 ordinary shares of which 374,400,429 (2015: 336,543,145) 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 March 31, 2016, a total of 40,374,320 (2015: 40,374,320) ordinary shares were reserved under the Company's Long Term Stock Incentive Plan. The number of options outstanding as at March 31, 2016 is 23,992,000 and the number of warrants outstanding is 25,423,333. Loan facilities are in place which are convertible into a total of 143,928,860 ordinary shares, excluding 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 13 of the Condensed Consolidated 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 notes 15 and 16 of the Condensed 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:

		Payments due by period			
Contractual obligations	**Total**	**Less than 1 year**	**1 – 3 years**	**4 – 5 years**	**After 5 years**
Borrowings	33,938	23,843	10,095	-	-
Operating leases	1,242	551	691	-	-
Kazakhstan work programme commitments	80,687	19,857	27,533	9,129	24,167
Georgia work programme commitments	897	789	108	-	-
Trade and other payables	16,342	16,227	115	-	-
Total contractual obligations	**133,106**	**61,267**	**38,542**	**9,129**	**24,167**

Risks, uncertainties and other information

Readers are encouraged to read and consider the risk factors and additional information regarding the Company, included in its 2015 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 CEO and the CFO as well as the Board of Directors. The Company has identified its principal risks for 2016 to include:

(1) Liquidity;

(2) Retention and extension of existing licences and development thereof with respect to success rates. Considerable technical work is undertaken to reduce related areas of risk and maximise opportunities;

(3) Production volume – both oil and gas;

(4) Political, fiscal 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, 2015. 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 Kyzyloi and Akkulka gas fields under Gas Supply Contracts is fixed in Tenge until December 31, 2016 and is sensitive to a fluctuation in exchange rates. A 20% devaluation of the Tenge, from 340 to the USD to 408 for example, would result in a net price reduction of USD6.69 per Mcm (i.e. USD33.46 from USD40.15). Based on a sales volume of 150,000 Mcm per annum, this would result in a reduction of USD1.0m in gas revenue.

The price of oil sales from the Doris discovery is sensitive to movements in the market price. On a production level of 1,500 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 USD0.5m per annum.

Critical Accounting Policies and Estimates

The annual and Condensed Consolidated Financial Statements of the Company are prepared in accordance with IFRS and IFRIC Interpretations issued by the IFRS Interpretations Committee, refer to 2015 Consolidated Financial Statements - note 2 *Summary of Significant Accounting Policies* and Note 4 – *Critical Judgements and Accounting Estimates* – for further details.

Derivative Financial Instruments

The Company has a derivative financial liability relating to share warrants where the shares are denominated in a currency that is not the Company's functional currency and also convertible loans where the conversion option is treated as a derivative financial liability. Details are disclosed in note 11 of the Condensed Consolidated Financial Statements.

Disclosure and Internal Controls

Disclosure and Internal Controls Over Financial Reporting

As at March 31, 2016, an evaluation of the effectiveness of the Company's disclosure controls and procedures as defined under the rules adopted by the Canadian securities regulatory authorities was carried out under the supervision and with the participation of management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"). Based on this evaluation, the CEO and the CFO concluded that, as at March 31, 2016, the design and operation of the Company's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Corporation in reports filed with, or submitted to, securities regulatory authorities were reported within the time periods specified under Canadian securities laws.

Internal control over financial reporting is a process designed by or under the supervision of management and effected by the Board, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and preparation of consolidated financial statements for external purposes in accordance with IFRS. Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting, no matter how well designed, has inherent limitations and can provide only reasonable assurance with respect to the preparation and fair presentation of published financial statements.

Management has designed and implemented, under the supervision of the CEO and CFO, a system of internal controls over financial reporting which it believes is effective for a company of its size. Management has not identified any material weaknesses relating to the design of these internal controls and consequently, the CEO and CFO have concluded that internal control over financial reporting was effective as at March 31, 2016, and provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes.

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 ending March 31, 2016.

Significant equity investees

Details of significant equity investees are discussed in note 26 of Consolidated Financial Statements for the year ended December 31, 2015.

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 Tethys' 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. Forward looking statements in this MD&A include, but are not limited to, statements with respect to: the projected 2016 capital investments projections, and the potential source of funding therefore. 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: volatility of and assumptions regarding oil and gas prices; fluctuations in currency and interest rates; ability to successfully complete proposed equity financings; product supply and demand; market competition; ability to realise current market 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; the ability of the Company to farm out or sell its Georgian or Tajikistan assets; 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 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; the timing and the costs of well and pipeline construction; the Company's and its subsidiaries' ability to secure adequate product transportation; the Company will not be successful in negotiating binding terms for the export of gas and oil to China at prices significantly higher than prices currently realized; 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.

Forward-looking statements - continued

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 and crude oil to China; future prices for 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, royalties, taxes and environmental matters in the countries in which the Company conducts its business, gas production levels; that it will be able to farm out or sell its Georgian and Tajikistan assets; 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.