Tethys Petroleum Limited

Management's Discussion and Analysis
for the period ended June 30, 2016

Content

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

The following Management's Discussion and Analysis ("MD&A") is dated August 15, 2016 and should be read in conjunction with the Company's unaudited Condensed Consolidated Interim Financial Statements and related notes for the period ended June 30, 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 June 30			Six months ended June 30		
	2016	**2015**	**Change**	**2016**	**2015**	**Change**
Oil and gas sales and other revenues	3,529	6,838	(48%)	6,984	12,792	(45%)
Loss for the period:						
– continuing operations	(4,934)	(25,278)	(80%)	(10,611)	(27,312)	(61%)
– discontinued operations	-	(36)	(100%)	-	(77)	(100%)
	(4,934)	(25,314)	(81%)	(10,611)	(27,389)	(61%)
Basic and diluted loss (USD) per share						
– continuing operations	(0.01)	(0.08)	(88%)	(0.03)	(0.08)	(63%)
– discontinued operations	-	-	0%	-	-	0%
EBITDA - adjusted for share based payments[1]	(388)	(4,425)	(91%)	(1,322)	(5,684)	(77%)
Capital expenditure	342	4,034	(92%)	736	5,981	(88%)
				As at 30 June		
				2016	**2015**	**Change**
Total assets				185,634	225,991	(18%)
Cash & cash equivalents				700	4,942	(86%)
Short & long term borrowings				30,502	26,719	14%
Total non-current liabilities				13,447	23,197	(42%)
Net debt[1]				29,802	21,777	37%
Number of common shares outstanding				400,004,848[2]	336,712,385	19%

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

Note 2 Includes 37,440,042 shares issued on March 21, 2016 and 25,604,419 shares issued to Olisol Petroleum Limited.

Current quarter

- Oil and gas sales and other revenues decreased by 48% to USD3.5m from USD6.8m 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 68% to USD1.3m from USD4.2m as a result of cost reduction initiatives and also the Tenge devaluation;
- Administrative expenses reduced by 60% to USD1.2m from USD3.1m as a result of cost reduction initiatives;
- The loss of USD4.9m was lower than prior quarter loss of USD25.3m due to the higher depreciation charge in the prior quarter and lower administrative expenses and restructuring costs in the current quarter;

Financial highlights - continued

- EBITDA - adjusted for share based payments improved, notwithstanding the reduction in oil and gas revenues, as a result of significantly lower production and administrative expenses and restructuring and transaction cost;
- Capital expenditure was lower due to lack of funding to develop the Company's assets with expenditure in the prior period relating to Kazakhstan exploration and development and Tajikistan exploration.

Period to date

- Oil and gas sales and other revenues decreased by 45% to USD7.0m from USD12.8m due to a natural decline in production volumes and price reductions in USD terms as a result of the Tenge devaluation;
- The loss for the period of USD10.6m from continuing operations is lower than the comparative period (USD27.3m) due to additional depletion in the prior period as a result of the reclassification of assets which were previously Assets Held For Sale;
- EBITDA adjusted for share based payments at negative USD1.3m decreased by 80% compared with negative USD5.7m for the prior period as a result of reduced overall costs;
- 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 June 30 2016	2015	Change	Six months ended June 30 2016	2015	Change
Kazakhstan							
Oil	bopd	965	1,954	(51%)	913	1,576	(42%)
Gas	boe/d	2,312	3,250	(29%)	2,377	3,212	(26%)
Total	boe/d	**3,277**	**5,204**	**(37%)**	**3,290**	**4,788**	**(31%)**
Oil							
Net production	Bbls	87,840	177,785	(51%)	166,206	285,314	(42%)
Net revenue	USD'000	615	2,008	(69%)	1,132	3,253	(65%)
Production costs	USD'000	679	1,388	(51%)	1,335	2,879	(54%)
Gross margin	USD'000	**(64)**	**620**	**(110%)**	**(203)**	**374**	**(154%)**
Gross sales price	USD/bbl	7.94	13.00	(39%)	7.72	13.00	(41%)
Cost	USD/bbl	7.73	7.81	(1%)	8.03	10.09	(20%)
Gross margin	USD/bbl	**0.21**	**5.19**	**(96%)**	**(0.31)**	**2.91**	**(111%)**
Gas							
Gross production	Mcm	35,755	50,255	(29%)	73,514	98,778	(26%)
Revenue net of marketing commission	USD'000	2,203	3,548	(38%)	4,403	7,152	(38%)
Production costs	USD'000	602	1,151	(48%)	1,103	2,193	(50%)
Gross margin	USD'000	**1,601**	**2,397**	**(33%)**	**3,300**	**4,959**	**(33%)**
Sales price net of marketing commission	USD/Mcm	62.61	73.70	(15%)	60.82	73.70	(17%)
Cost	USD/Mcm	16.84	22.90	(26%)	15.00	22.20	(32%)
Gross margin	USD/Mcm	**45.77**	**50.80**	(10%)	**45.82**	**51.50**	(11%)

Note 1 Using a 2016 annual average exchange rate of USD1 = Tenge 345.3 (H1 2015: USD1 = Tenge 185.2)

Oil

- Oil production in Q2 2016 averaged 965 bopd compared with 1,954 bopd in Q2 2015 and 913 bopd in H1 2016 compared with 1,576 bopd in H1 2015, reflecting a natural decline in overall production as well as prolonged spring oil trucking disruption;
- Oil production cost per barrel in Q2 2016 reduced to USD7.73 compared with USD7.81 in Q2 2015 and was USD8.03 in H1 2016 compared with USD10.09 in H1 2015, despite lower production volume as a result of cost reduction initiatives as well as the Tenge devaluation;
- Oil prices averaged USD7.94 in the quarter compared with USD13.00 bbl in Q2 2015, a reduction of 39% and USD7.72 in H1 2016 compared with USD13.00 in H1 2015, reflecting the fall in World oil price and the devaluation of the Tenge.

Gas

- Current quarter gross gas production averaged 2,312 boe/d compared with 3,250 boe/d in Q2 2015 and 2,377 boe/d in H1 2016 compared with 3,212 boe/d in H1 2015, reflecting a natural decline in overall production;
- Gas production cost per Mcm in the current quarter reduced to USD16.84 compared with USD22.90 in Q2 2015 and to USD15.00 in H1 2016 compared with USD22.20 in H1 2015 despite lower production volume as a result of 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 USD62.61 per Mcm from USD73.70 per Mcm in Q2 2015 and to USD60.82 per Mcm in H1 2016 compared with USD73.70 per Mcm in H1 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 23 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 six months ended June 30, 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 all informed the Company that they would 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 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).

- *Investment agreement with Olisol*

  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 CAD0.054 per Share, for total proceeds of CAD9.8 million, by way of a private placement and to commit to backstop a further equity fundraising of 50 million Shares at CAD0.054 per share. The further equity fundraising will generate proceeds of CAD2.7 million for a total of CAD12.5 million. The Investment Agreement amends and restates the investment agreement that was signed by the Parties on December 7, 2015.

- *Results of Annual General and Special Meeting*

  On May 31, 2016 the Company announced that all resolutions put to shareholders at the AGM were passed on a poll at the meeting including the transactions with Olisol. The closing of the Olisol transaction is conditional on a few items, including the reduction in the par value of the Company's ordinary shares. Following approval by special resolution of the Shareholders, pursuant to Section 14(1) of the Companies Law (2013 Revision), the reduction in the par value of the shares of the Company, and thereby the authorised share capital, requires confirmation by the Grand Court of the Cayman Islands. The Company will petition the court for approval of the special resolution and if approved, the order of the court and the minutes will be delivered to the Registrar of Companies for registration, the resolution for reducing the par value and authorised share capital will take effect on registration. It is noted that the confirmation of the Grand Court of the Cayman Islands may be subject to certain consents being obtained and the satisfaction of certain publication requirements. A Court hearing date is scheduled for August 19, 2016.

- *USD10 million loan facility in Kazakhstan*

  On June 20, 2016 the Company announced that on June 7, 2016, the Company received the first USD1 million drawdown of a newly agreed USD10 million loan facility from a leading Kazakhstan bank. The loan interest on the initial USD1 million is 11%, maturing in July 2017 and also includes a 6-month principal grace period.

  Olisol have been instrumental in obtaining this new loan facility and the receipt of the funds from the first drawdown is a major achievement in the Company's strategy of stabilizing the Company and commencing the new shallow gas drilling program.

  It is currently planned to conduct 3D seismic acquisition starting later in Q3 2016 after the conclusion of the recently announced tender. The goal of the survey is to identify shallow gas targets for drilling later in 2016 and into 2017 in an area of prospective interest in the south-eastern part of the Akkulka Exploration Contract, previously only covered by exploration 2D seismic. The survey covers an area that includes the AKK16 well which is currently the best producing well in the combined Kyzyloi and Akkulka Fields. The tender incorporates the acquisition of 150 sq.km of full-fold coverage 3D seismic with a planned initial phase of 80 sq.km; in addition 25 line kilometres of 2D seismic is planned in the west-central part of the block to target a shallow gas prospect there.

  Shallow gas drilling is planned to restart in the latter part of Q3 2016 with the drilling of KYZ110 targeting the Kyzyloi sandstone horizon in a partially developed sector of the Kyzyloi Field up dip of the producing AKK05 well. A further planned well (AKK23) is to be located in the Akkulka Production Contract targeting the Tasaran sandstone horizon. More wells are planned based on existing modern seismic however the exact order is in part dependent on the results of the new seismic acquisition. Wells are typically 650m and take up to 14 days to drill with testing usually taking up to 10 days post completion.

- *Tajikistan update*

  On June 20, 2016 the Company announced that its indirectly held subsidiary, Kulob Petroleum Limited, ("KPL") the contracting partner in the Bokhtar Production Sharing Contract, has been informed by legal counsel representing Total and CNPC (the "Partners"), that on May 19, 2016, the Partners had filed for arbitration proceedings at the International Court of Arbitration. The filed arbitration request is in relation to the Notice of Dispute received by KPL on January 8, 2016, which is in connection to the previously announced Notice to Withdraw issued by Partners on October 11, 2015, following the cash call default of September 2015. The Notice to Withdraw was rejected by KPL, which lead to the Partners issuing a Notice of Dispute. Tethys has been actively engaged with the Partners to reach an amicable resolution. Tethys Board of Directors and management team are evaluating its options and maintain an open channel of communication with Partners for further discussion.

Operational Review - continued

Significant events and transactions subsequent to the period end

- *Chief Commercial Officer Appointment*

  On July 13, 2016, the Company announced the appointment of Alexander Skripka as Chief Commercial Officer responsible for the commercial activities of the company including gas sales, existing and new contract or license negotiations, and negotiations on financing, divestments and acquisitions.

- *Management Changes*

  On August 2, 2016, the Company announced the appointment of Kenneth J. May as interim Chief Executive Officer replacing Julian Hammond in the transitional period until the appointment of two new members to the existing three person Board of Directors. The five person Board will take a further decision on the appointment of a Chief Executive Officer.

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	16,850	105,988	78,366	91	861	19,666	123,683	107,529	90	1,195
Q2	20,987	132,002	87,840	91	965	31,745	199,682	177,785	91	1,954
Total	**37,837**	**237,990**	**166,206**	**182**	**913**	**51,411**	**323,365**	**285,314**	**181**	**1,576**

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 Q4 2016, the AKD01 well will also require a large volume pump; a large volume Electrical Submersible Pump ("ESP") has been sourced and purchase is planned to commence in August with a most likely delivery in October although the pump previously installed on AKD06 could be used in the interim and produce an estimated 500 bopd.

Oil operations update

General

Oil production in August to date is currently averaging 607 barrels per day from AKD01 only, the well is currently on a 12mm choke with a Flowing Tubing Head Pressure ("FTHP") of 235 psi and an approximate 38% water-cut; the water-cut has been on an increasing trend over the past 13 months and it is expected at some point in 2016 to go above 40% and require the use of artificial lift (pumping). Trucked average production for August to date is 712 bopd. The well had been on a reduced 10mm choke for the period July 14th until August 10th at rates around 580 bopd due to limited trucking availability but this has been recently remedied.

Operational Review - continued

AKD05 is currently offline since November 2015 but is expected on later in the year and possibly AKD06, both 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.

Gas production – Kyzyloi and Akkulka Contracts

	2016				2015			
	Mcm	Mcf	Mcm/d	Boe/d	Mcm	Mcf	Mcm/d	Boe/d
Kyzyloi								
Q1	16,112	568,922	177	1,042	9,283	327,835	103	607
Q2	17,039	601,656	187	1,102	10,700	377,817	118	692
Total	**33,151**	**1,170,578**	**182**	**1,072**	**19,983**	**705,652**	**110**	**650**
Akkulka								
Q1	21,647	764,340	238	1,400	39,239	1,385,735	436	2,566
Q2	18,716	660,855	206	1,210	39,556	1,396,930	435	2,558
Total	**40,363**	**1,425,195**	**222**	**1,305**	**78,795**	**2,782,665**	**435**	**2,562**
Grand total	**73,514**	**2,595,773**	**404**	**2,377**	**98,778**	**3,488,317**	**546**	**3,212**

- 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 29% or 159 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 Q2 2016 affected the rate coupled with a short period of down-time for compressor #5 also affecting it (although since rectified).

Gas operations update

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 net sales production for August to date being 364 Mcm/d (12.86 Mcf/d); production of late has been negatively affected by higher Buhkara-Urals gas trunkline pressure and this is likely to persist through until the autumn due to lower offtake and regulation line maintenance which is not carried out in winter.

Operational Review - continued

In late December 2015 the engine for compressor #2 went offline and needs capital repairs amounting to an estimated 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.

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 Q4 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 later in Q3 with the subsequent Contract amendments most likely being received in Q4 2016 or even Q1 2017.

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 2015 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 2015 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.

The Company's indirectly held subsidiary, Kulob Petroleum Limited, ("KPL") the contracting partner in the Bokhtar Production Sharing Contract, has been informed by legal counsel representing Total and CNPC (the "Partners"), that on May 19, 2016, the Partners had filed for arbitration proceedings at the International Court of Arbitration seeking to enforce KPL's withdrawal from the project and assignment of its interest to the Partners, as well as payment of outstanding cash calls of USD9 million plus an award of costs. . Tethys has submitted its answer to the request for arbitration to the court setting out its arguments against the Partners claim which is the first stage of the arbitration proceedings. The costs of the arbitration could be significant although Tethys has actively sought to reach an amicable resolution with the Partners and will continue to do so.

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 sq.km of XIA phase III obligation gravity, 197.5 sq.km of XIM phase II obligation and 721.1 sq.km 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 2016-2017 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

	Q2, 2016	Q1, 2016	Q4, 2015	Q3, 2015	Q2, 2015	Q1, 2015	Q4, 2014	Q3, 2014
Oil & gas sales and other revenues	3,529	3,455	3,606	5,736	6,838	5,954	6,224	7,261
Loss for the period								
– continuing operations	(4,934)	(5,677)	(43,593)	(3,698)	(25,278)	(2,034)	(5,034)	(2,362)
– discontinued operations	-	-	60	(11)	(36)	(41)	(210)	(57)
Basic & diluted loss ($) per share:								
– continuing operations	(0.01)	(0.02)	(0.13)	(0.01)	(0.08)	(0.01)	(0.02)	(0.01)
– discontinued operations	-	-	-	-	-	-	-	-
EBITDA – adjusted for share based payments[1]	(338)	(934)	(4,249)	(637)	(4,425)	(1,259)	(3,806)	(1,134)
Capital expenditure	342	394	374	1,938 -	4,034	1,947	7,752	6,216
Total assets	185,634	189,103	190,595	225,170	226,024	243,560	238,695	241,059
Cash & cash equivalents	700	1,133	3,272	4,286	4,942	5,280	3,112	7,914
Cash & cash equivalents – held in a disposal group	-	-	-	-	-	1,707	757	2,153
Short & long term borrowings	(30,502)	(30,532)	(32,032)	(32,479)	(26,719)	(16,637)	(10,628)	(11,032)
Short & long term borrowings – held in a disposal group	-	-	-	-	-	(4,641)	(4,871)	(5,166)
Total non-current liabilities	(13,447)	(31,628)	(34,644)	(24,264)	(23,197)	(11,468)	(5,489)	(5,923)
Total non-current liabilities – held in a disposal group	-	-	-	-	-	(814)	(7,937)	(7,412)
Net debt[1]	(29,802)	(29,399)	(28,760)	(28,193)	(21,777)	(14,291)	(11,630)	(6,131)
Number of common shares outstanding	400,004,848[2]	374,400,429[2]	336,960,387	336,839,315	336,712,385	336,543,145	336,452,667	336,452,667

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

Note 2 Includes 37,440,042 shares issued on March 21, 2016 and 25,604,419 shares issued to Olisol Petroleum Limited

Loss for the period

	Quarter ended June 30			Six months ended June 30		
	2016	**2015**	**Change**	**2016**	**2015**	**Change**
Sales and other revenue	3,529	6,838	(48%)	6,984	12,792	(45%)
Sales expenses	(733)	(1,279)	(43%)	(1,467)	(2,381)	(38%)
Production expenses	(1,328)	(4,159)	(68%)	(2,524)	(6,767)	(63%)
Depreciation, depletion & amortisation	(2,927)	(20,614)	(86%)	(5,783)	(21,288)	(73%)
Administrative expenses	(1,230)	(3,103)	(60%)	(3,025)	(5,924)	(49%)
Restructuring costs	(676)	(1,613)	(58%)	(1,423)	(1,932)	(26%)
Transaction costs of assets held for sale	-	(945)	(100%)	-	(1,065)	(100%)
Share based payments	(81)	(118)	(31%)	(163)	(265)	(38%)
Profit on sale of fixed assets	-	29	(100%)	10	43	(77%)
Foreign exchange loss	50	(208)	(124%)	123	(215)	(157%)
Fair value gain on derivative financial instruments	65	(1,547)	(104%)	269	(469)	(157%)
Loss from jointly controlled entity	-	15	(100%)	-	(235)	(100%)
Finance costs	(2,012)	(1,949)	3%	(3,942)	(2,527)	56%
Loss before taxation	**(5,343)**	**(28,653)**	**(81%)**	**(10,941)**	**(30,233)**	**(64%)**
Taxation	409	3,375	(88%)	330	2,921	(89%)
Loss for the period from continuing operations	**(4,934)**	**(25,278)**	**(80%)**	**(10,611)**	**(27,312)**	**(61%)**
Loss for the period from discontinued operations	-	(36)	(100%)	-	(77)	(100%)
Loss for the period	**(4,934)**	**(25,314)**	**(81%)**	**(10,611)**	**(27,389)**	**(61%)**

The Company recorded a net loss after taxation of USD4.9m for the current quarter compared with USD25.3m in Q2 2015 and USD10.6m for the six months ended June 30, 2016 (2015: USD27.4m), the principal variances being:

- Lower sales revenue in 2016 due to natural decline in production volumes of oil and gas and price reduction in USD terms as a result of the devaluation of the Kazakh currency, the Tenge;
- Non-recurring costs in 2015, cost reduction initiatives and also the Tenge devaluation;
- Higher the DD&A charge in 2015 calculated on the Kazakh assets following their reclassification from Assets Held for Sale.

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

Sales & other revenue

	Quarter ended June 30			Six months ended June 30		
	2016	**2015**	**Change**	**2016**	**2015**	**Change**
Summary						
Oil	615	2,008	(69%)	1,132	3,253	(65%)
Gas	2,936	4,827	(39%)	5,870	9,533	(38%)
Other	(22)	3	(833%)	(18)	6	(400%)
Total	**3,529**	**6,838**	**(48%)**	**6,984**	**12,792**	**(45%)**
By region						
Kazakhstan - Oil	615	2,008	(69%)	1,132	3,253	(65%)
Kazakhstan - Gas	2,936	4,827	(39%)	5,870	9,533	(38%)
Kazakhstan - Other	(21)	3	(800%)	(18)	6	(400%)
Other	(1)	-	(100%)	-	-	0%
Total	**3,529**	**6,838**	**(48%)**	**6,984**	**12,792**	**(45%)**

Financial Review – continued

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
Q2	88,417	702	7.94	14	73	615
Total	**167,668**	**1,294**	**7.72**	**26**	**136**	**1,132**
2015						
Q1	100,773	1,424	13.00	30	149	1,245
Q2	177,178	2,275	13.00	26	241	2,008
Total	**277,951**	**3,699**	**13.00**	**56**	**390**	**3,253**

- 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 and half year revenue, have been affected by natural decline in production volumes and 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 and half year compared with the same periods in the prior year as a result of lower production volumes and a lower gas price in USD terms following the Tenge devaluation from August 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 H1 2015 exchange rate of 185.2 Tenge);
- A new contract was signed with respect to 2016 production for a minimum metres at a fixed Tenge price of KZT 21,000 per 1,000 cubic metres, net of VAT and sales expenses, (USD60.82 at an average H1 2015 exchange rate of 345.3 Tenge);
- Gas contracts are subject to exchange rate risk – refer to page 21 – 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, (USD20.27 at a 2016 period to date average exchange rate of 345.3 Tenge), (2015: KZT 4,550 per Mcm, net of 12% VAT, (USD24.56 at a H1 2015 average exchange rate of 185.2 Tenge).

Production expenses

		Quarter ended June 30			Six months ended June 30		
	Units	2016	2015	Change	2016	2015	Change
Kazakhstan							
Oil production	USD000's	679	1,388	(51%)	1,335	2,879	(54%)
Gas production	USD000's	602	1,151	(48%)	1,103	2,193	(50%)
Prior year production taxes	USD000's	-	1,517		-	1,517	
Other	USD000's	47	103	(54%)	86	178	(52%)
Total	**USD000's**	**1,328**	**4,159**	**(68%)**	**2,524**	**6,767**	**(63%)**
Oil							
Net production	bbls	87,840	177,785	(51%)	166,206	285,314	(42%)
Cost	USD/bbl	7.73	7.81	(1%)	8.03	10.09	(20%)
Gas							
Production	boe	210,432	295,410	(29%)	432,656	580,980	(26%)
Cost	USD/boe	2.86	3.90	(27%)	2.55	3.77	(32%)
Weighted average cost per boe	USD/boe	4.29	5.86	(27%)	4.07	6.93	(41%)

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 and six months is a result of management's cost reduction initiatives from middle of 2015 onwards 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 and six months 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 USD2.9m (2015: USD20.6m) and for the six months was USD5.8m (2015: USD21.3m). The significantly higher charge in 2015 is mainly due to the reclassification of assets from Assets Held for Sale in May 2015 giving rise to a "catch up" depletion charge needing to be booked.

Financial Review – continued

Administrative expenses

	Quarter ended June 30			Six months ended June 30		
	2016	2015	Change	2016	2015	Change
Staff	680	1,261	(46%)	1,578	2,506	(37%)
Travel	83	229	(64%)	216	471	(54%)
Office	104	253	(59%)	266	484	(45%)
Professional fees	163	792	(79%)	428	1,391	(69%)
Regulatory	75	155	(52%)	156	282	(45%)
Marketing costs	79	147	(46%)	153	224	(32%)
Non-executive director fees	48	83	(42%)	174	294	(41%)
Other costs	(2)	183	(101%)	54	272	(80%)
Total	**1,230**	**3,103**	**(60%)**	**3,025**	**5,924**	**(49%)**
G&A expenses per boe (USD)	4.12	6.55	(37%)	5.05	6.84	(26%)

- Staff costs have reduced significantly in the current quarter and six months 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 and six months 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 and six months 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 prior period quarter and six months 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 and six months 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 and six months 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 USD65,000 arising in the current quarter (2015: USD1.5m loss) and gain of USD269,000 for the six months (2015: USD469,000 loss) 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 six months. 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 and six months 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 Interim 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.

Financial Review – continued

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 Interim Financial Statements.

	As at June 30		
	2016	**2015**	**Change**
Total financial liabilities - borrowings	30,502	26,719	14%
Less: cash and cash equivalents	(700)	(4,942)	(86%)
Net debt	**29,802**	**21,777**	**37%**
Total equity	127,426	178,625	(29%)
Total capital	**157,228**	**200,402**	**(22%)**

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 Interim Financial Statements.

Cash Flow

	Quarter ended June 30			Six months ended June 30		
	2016	**2015**	**Change**	**2016**	**2015**	**Change**
Net cash used in operating activities	**(1,636)**	**(4,085)**	**(60%)**	**(3,552)**	**(5,552)**	**(36%)**
Capital expenditure	(342)	(4,034)	(92%)	(736)	(5,981)	(88%)
Net changes in working capital	(79)	1,474	(105%)	(216)	2,115	(110%)
Other investing cash flows	173	(390)	(144%)	665	(2,675)	(125%)
Net cash used in investing activities	**(248)**	**(2,950)**	**(92%)**	**(287)**	**(6,541)**	**(96%)**
Proceeds from loan financing	1,500	9,100	(84%)	3,500	18,235	(81%)
Loan principal and interest payments	(778)	(4,752)	(84%)	(2,287)	(5,573)	(59%)
Proceeds from equity, net of costs	-	-	0%	-	-	0%
Other financing cash flows	(21)	(27)	**(22%)**	(68)	(56)	**21%**
Net cash generated from financing activities	**701**	**4,321**	**(84%)**	**1,145**	**12,606**	**(91%)**
Effect of exchange rates	750	669	11%	122	561	(78%)
Net (decrease)/increase in cash	**(433)**	**(2,045)**	**(79%)**	**(2,572)**	**1,074**	**(339%)**
Cash & cash equivalents at beginning of period	1,133	6,987	**(84%)**	3,272	3,868	**(15%)**
Cash & cash equivalents at end of period	**700**	**4,942**	**(86%)**	**700**	**4,942**	**(86%)**

Operating activities

The decrease in cash used in operating activities in the current quarter and six months is primarily due to lower administrative expenses, restructuring and transaction costs.

Investing activities

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

Financial Review – continued

Financing activities

Proceeds from loan financing in the current quarter comprises USD0.5m from Olisol Petroleum Limited under an interim financing facility and USD1.0m from a new Kazakh bank loan. Further details of dates and amounts of new loans taken out in 2015 and 2016 are given in note 10 of the June 30, 2016 Condensed Consolidated Interim Financial Statements. 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 June 30			Six months ended June 30		
	2016	**2015**	**Change**	**2016**	**2015**	**Change**
Kazakhstan – exploration and production	213	1,376	(85%)	403	2,204	(82%)
Tajikistan - exploration	32	2,341	(99%)	81	3,162	(97%)
Georgia - exploration	83	317	(74%)	239	569	(58%)
Corporate and other	14	-	0%	13	46	(72%)
Total	**342**	**4,034**	**(92%)**	**736**	**5,981**	**(88%)**

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 June 30, 2016 Condensed Consolidated Interim 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 June 30			Six months ended June 30		
	2016	**2015**	**Change**	**2016**	**2015**	**Change**
EBITDA - adjusted for share based payments	(388)	(4,425)	(91%)	(1,322)	(5,684)	(77%)
Depreciation, depletion and amortization	(2,927)	(20,614)	(86%)	(5,783)	(21,288)	(73%)
Exploration and evaluation expenditure written off	-	-	0%	-	-	0%
Share based payments	(81)	(118)	(31%)	(163)	(265)	(38%)
Fair value gain on derivative financial instrument - net	65	(1,547)	(104%)	269	(469)	(157%)
Finance costs - net	(2,012)	(1,949)	3%	(3,942)	(2,527)	56%
Loss before taxation	**(5,343)**	**(28,653)**	**(81%)**	**(10,941)**	**(30,233)**	**(64%)**

Financial Review – continued

Net debt

Net debt is calculated as total borrowings (which includes current and non-current borrowings) less cash and cash equivalents. Total capital is calculated as equity plus net debt. All figures are as stated in the June 30, 2016 Condensed Consolidated Interim Financial Statements.

EBITDA adjusted for share based payments and Net debt 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 June 30, 2016 the Company had authorized share capital of 700,000,000 ordinary shares of which 400,004,848 (2015: 336,712,385) 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 June 30, 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 June 30, 2016 is 23,896,000 and the number of warrants outstanding is 25,423,333. Loan facilities are in place which are convertible into a total of 122,757,140 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 Interim Financial Statements.

Commitments and contingencies

Details of the Company's commitments and contingencies including litigation, claims and assessments, work programme commitments and operating leases are provided in notes 15 and 16 of the Condensed Consolidated Interim Financial Statements.

A summary of the Company's contractual obligations for 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	33,872	31,467	2,405	-	-
Operating leases	552	293	169	90	-
Kazakhstan work programme commitments	76,472	10,394	36,012	8,789	21,277
Georgia work programme commitments	816	789	27	-	-
Trade and other payables	15,853	15,760	93	-	-
Total contractual obligations	**127,565**	**58,703**	**38,706**	**8,879**	**21,277**

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 1,000 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 USD0.4m per annum.

Critical Accounting Policies and Estimates

The annual and Condensed Consolidated Interim Financial Statements of the Company are prepared in accordance with IFRS and IFRIC Interpretations issued by the IFRS Interpretations Committee, refer to 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 Interim Financial Statements.

Disclosure and Internal Controls

Disclosure and Internal Controls Over Financial Reporting

As at June 30, 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 June 30, 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 June 30, 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 June 30, 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.

Glossary

Bbls	Barrels of oil
boe/d	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
bopd	Barrels of oil per day
CAPEX	Expenditure on exploration and evaluation assets, property, plant and equipment
CAD	Canadian Dollar
E&P	Exploration and production
EBITDA	Earnings before interest, taxes, depreciation and amortisation
ESP	Electrical submersible pump
FTHP	Flowing tubing head pressure
GAAP	Generally accepted accounting principles
JOA	Joint operating agreement
JV	Joint venture
KZT	Kazakhstani Tenge
m^3	Cubic metre
Mcf	Thousand cubic feet
Mcf/d	Thousand cubic feet per day
Mcm	Thousand cubic metres
Mcm/d	Thousand cubic metres per day
NOC	Norio Operating Company Ltd
OD	Outside diameter
OPEX	Operating expenditure
PSC/PSA	Production sharing contract/agreement
psi	Pounds per square inch
sq.km	Square kilometre
US	United State
USD	United State Dollar
USD/bbl	USD per barrel
USD/Mcm	USD per thousand cubic metre
VAT	Value added tax