Tethys Petroleum Limited

Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

Contents

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

The accompanying consolidated financial statements and all the information in the Annual Report and Accounts are the responsibility of The Board of Directors. The consolidated financial statements have been prepared by management, acting on behalf of the Board of Directors, in accordance with the accounting policies described in the notes to the consolidated financial statements. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Financial Reporting Standards, appropriate in the circumstances, as issued by the International Accounting Standards Board. The consolidated financial information contained elsewhere in the Annual Report and Accounts has been reviewed to ensure consistency with that in the consolidated financial statements.

Management has developed and maintains systems of internal accounting controls, policies and procedures in order to provide reasonable assurance as to the reliability of the financial records and the safeguarding of assets.

External auditors have examined the consolidated financial statements and have expressed an opinion on the consolidated financial statements. Their report is included with the consolidated financial statements.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board of Directors of the Company has established an Audit Committee, consisting of independent non-management directors, to review the consolidated financial statements with management and the auditors. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

We confirm that to the best of our knowledge:

- the consolidated financial statements, prepared in accordance with International Financial Reporting Standard ("IFRSs"), give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

- the Management Discussion & Analysis and the Annual Information Form include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We draw attention to the section entitled "Going concern" in note 1 to the Consolidated Financial Statements which describes the material uncertainties relating to the Company's adoption of the going concern basis in preparing the Financial Statements for the year ended December 31, 2016 that may cast significant doubt about Tethys Petroleum Limited's ability to continue as a going concern.

For and on behalf of the Board

W. Wells	**A. Ogunsemi**
Chairman	Director
March 31, 2017	March 31, 2017

Independent Auditor's Report

To the Shareholders of Tethys Petroleum Limited

We have audited the accompanying consolidated financial statements of Tethys Petroleum Limited and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015 and the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Tethys Petroleum Limited and its subsidiaries as at December 31, 2016 and December 31, 2015 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Tethys Petroleum Limited's ability to continue as a going concern.

PricewaterhouseCoopers LLP

Chartered Professional Accountants
Calgary, Alberta, Canada
March 31, 2017

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Tethys Petroleum Limited

Consolidated Statements of Financial Position

As at December 31
(in thousands of US dollars)

	Note	2016	2015
Non-current assets			
Intangible assets	13	42,732	64,202
Property, plant and equipment	14	103,115	113,397
Restricted cash	15	2,238	2,233
Investment in joint arrangements	18	4	4
Trade and other receivables	16	1,237	2,457
Deferred tax	11	208	226
		149,534	**182,519**
Current assets			
Cash and cash equivalents	20	449	3,272
Trade and other receivables	16	6,532	3,710
Inventories		676	879
Restricted cash	15	2,713	215
		10,370	**8,076**
Total assets		**159,904**	**190,595**
Non-current liabilities			
Trade and other payables	22	44	133
Financial liabilities - borrowings	21	-	22,873
Deferred tax	11	11,913	10,792
Provisions	23	910	846
		12,867	**34,644**
Current liabilities			
Financial liabilities - borrowings	21	33,249	9,159
Derivative financial instruments	21	-	275
Current taxation		522	398
Trade and other payables	22	19,838	14,189
Provisions	9	200	360
		53,809	**24,381**
Total liabilities		**66,676**	**59,025**
Equity			
Share capital	24	5,081	33,696
Share premium	24	358,444	321,803
Other reserves	24	43,648	43,166
Accumulated deficit		(320,041)	(273,189)
Non-controlling interest	25	6,096	6,094
Total equity		**93,228**	**131,570**
Total equity and liabilities		**159,904**	**190,595**
Going concern	1		
Commitments and contingencies	28		

The notes on pages 7 to 55 form part of these consolidated financial statements. The consolidated financial statements were approved by the Board on March 31, 2017 and were signed on its behalf.

W. Wells
Chairman

A. Ogunsemi
Director

Tethys Petroleum Limited

Consolidated Statements of Comprehensive Income (Loss)

For the year ended December 31
(in thousands of US dollars, except per share amounts)

	Note	2016	2015
Sales and other revenues	7	11,734	22,135
Sales expenses	2	(2,443)	(4,210)
Production expenses		(5,285)	(10,232)
Depreciation, depletion and amortisation		(9,971)	(28,731)
Exploration and evaluation expenditure written off	13	(25,627)	(25,918)
Impairment charges	14	(1,176)	-
Administrative expenses	8	(5,461)	(9,492)
Restructuring costs	9	(1,915)	(3,247)
Transaction costs of assets held for sale	19	-	(1,065)
Share based payments	10	(482)	(450)
Profit on sale of fixed assets		-	53
Foreign exchange gain/(loss)		117	(1,715)
Fair value gain on derivative financial instrument		275	824
Loss from jointly controlled entity	17	-	(2,796)
Finance costs	21	(5,313)	(3,329)
		(57,281)	(90,308)
Loss before tax from continuing operations		**(45,547)**	**(68,173)**
Taxation	11	(1,303)	(6,430)
Loss for the year from continuing operations		**(46,850)**	**(74,603)**
Loss for the year from discontinued operations net of tax	5	**-**	**(28)**
Loss and total comprehensive income for the year		**(46,850)**	**(74,631)**
Loss and total comprehensive income attributable to:			
Shareholders		(46,852)	(74,629)
Non-controlling interest		2	(2)
Loss and total comprehensive income for the year		**(46,850)**	**(74,631)**
Loss per share attributable to shareholders:			
Basic and diluted - from continuing operations (USD)	12	(0.12)	(0.22)
Basic and diluted - from discontinued operations (USD)	12	-	-
Basic and diluted - Total loss per share (USD)		(0.12)	(0.22)

No dividends were paid or are declared for the year (2015: Nil).

The notes on pages 7 to 55 form part of these consolidated financial statements.

Tethys Petroleum Limited

Consolidated Statements of Changes in Equity

(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 year		-	-	(74,629)	-	-	(2)	(74,631)
Transactions with shareholders						-	-	-
Shares issued		51	79	-	-	-	-	130
Share-based payments		-	-	-	321	-	-	321
Total transactions with shareholders		51	79	-	321	-	-	451
At December 31, 2015	24	**33,696**	**321,803**	**(273,189)**	**26,565**	**16,601**	**6,094**	**131,570**
Comprehensive loss for the year		-	-	(46,852)	-	-	2	(46,850)
Transactions with shareholders								
Shares issued		7,385	641	-	-	-	-	8,026
Share-based payments		-	-	-	482	-	-	482
Par value reduction		(36,000)	36,000	-	-	-	-	-
Total transactions with shareholders		(28,615)	36,641	-	482	-	-	8,508
At December 31, 2016	24	**5,081**	**358,444**	**(320,041)**	**27,047**	**16,601**	**6,096**	**93,228**

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

The notes on pages 7 to 55 form part of these consolidated financial statements.

Tethys Petroleum Limited

Consolidated Statements of Cash Flows

For the year ended December 31
(in thousands of US dollars)

	Note	2016	2015
Cash flow from operating activities			
Loss before tax from continuing operations		(45,547)	(68,173)
Loss before tax from discontinued operations[1]	5	-	(28)
		(45,547)	**(68,201)**
Adjustments for:			
Share based payments	10	482	450
Net finance cost		5,313	3,329
Depreciation, depletion and amortisation		9,971	28,731
Unsuccessful exploration and evaluation expenditures	13	25,627	25,918
Impairment charges	14	1,176	-
Profit on sale of fixed assets		-	(53)
Fair value gain on derivative financial instruments		(275)	(824)
Net unrealised foreign exchange gain		(318)	(114)
Loss from jointly controlled entity		-	2,796
Movement in provisions		(1,901)	(4,646)
Net change in working capital	27	1,249	752
Cash used in operating activities		**(4,223)**	**(11,862)**
Corporation tax paid		(33)	(136)
Net cash used in operating activities		**(4,256)**	**(11,998)**
Cash flow from investing activities			
Interest received		-	183
Expenditure on exploration and evaluation assets		(619)	(5,798)
Expenditure on property, plant and equipment		(789)	(2,495)
Proceeds from sale of fixed assets		23	121
Movement in restricted cash		(2,503)	214
Movement in advances to construction contractors		(47)	416
Movement in value added tax receivable		650	1,284
Net change in working capital	27	225	(1,275)
Net cash used in investing activities		**(3,060)**	**(7,350)**
Cash flow from financing activities			
Proceeds from issuance of borrowings, net of issue costs	21	7,930	28,107
Repayment of borrowings	21	(1,395)	(10,269)
Interest paid on borrowings		(3,369)	(1,448)
Proceeds from issuance of equity		1,400	-
Movement in other non-current liabilities		(114)	(313)
Net cash from financing activities		**4,452**	**16,077**
Effects of exchange rate changes on cash and cash equivalents		41	2,675
Net decrease in cash and cash equivalents		**(2,823)**	**(596)**
Cash and cash equivalents at beginning of the year		3,272	3,868
Cash and cash equivalents at end of the year		**449**	**3,272**

Note 1 Amounts related to discontinued operations are disclosed in note 5.

The notes on pages 7 to 55 form part of these consolidated financial statements.

1 General information and going concern

Tethys Petroleum Limited is incorporated in the Cayman Islands and the address of the Company's registered office is 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").

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 consolidated financial statements in determining the ability of the Company to adopt the going concern basis in preparing the consolidated financial statements for the year ended December 31, 2016. The Company currently does not have sufficient funding to fund its obligations for the next twelve months.

Although these 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 significant doubt about the Company's ability to continue as a going concern, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

The Company reported a loss of USD 46.8 million for the year ended December 31, 2016 (2015: USD74.6 million) and an accumulated deficit as at that date of USD320.0 million (2015: USD273.2 million) and negative working capital of USD43.4 million (2015: negative USD16.3 million). In addition, the Company reported negative cash flow from operating activities before tax of USD4.3 million for the year ended December 31, 2016 (2015: USD12.0 million).

The Company also has various commitments and contingencies as described in note 28. These include a Kazakhstan court imposed freezing order on the bank accounts, production assets, shares and subsoil use contracts of Tethys subsidiary Tethys Aral Gas LLP ("TAG") pending the outcome of a commercial claim which the Company considers to be without merit or substance.

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 operating costs, administrative and capital expenditures.

On April 28, 2016 Tethys signed an amended and restated investment agreement (“Amended and Restated Investment Agreement”) with Olisol Petroleum Limited and Olisol Investments Limited (together "Olisol") under which Olisol undertook by October 27, 2016 to provide equity investments to Tethys in the amount of USD7.5 million (USD equivalent of CDN9.8 million) and also extended a working capital loan in the amount of USD5.7 million which Olisol could convert into additional shares. It was expected that Olisol would acquire at least 42% of the ordinary shares of Tethys and become a good in-country partner for Tethys in Kazakhstan. Olisol did not provide any of the funds due on the closing date of the Amended and Restated Investment Agreement and has sought to terminate the Amended and Restated Investment Agreement and demand repayment of its loan. The Company does not believe that Olisol has the right to terminate the Amended and Restated Investment Agreement or that the loan is repayable.

On January 26, 2017 Tethys and each of its Kazakhstan subsidiaries commenced legal action against Olisol and certain of its principals and/or affiliates in the Court of Queen's Bench of Alberta seeking, among other things, damages arising from failure to meet contractual obligations under the Amended and Restated Investment Agreement.

On November 29, 2016 the Company announced that it had completed private placements with two investors who each acquired approximately 9.9% of the ordinary shares of the Company for proceeds of USD1.4 million. The investors have offered to work with Tethys to:

- Obtain a bank loan from a reputable bank in Kazakhstan for TAG to enable it to repay and restructure current loans and to fund operations;
- Market the Company’s gas sales for export and improve the pricing of the Company’s oil and gas products; and
- Engage with the Company’s current corporate lenders with a view to restructuring existing loan terms in order to improve cash flow.

These efforts are ongoing. The Company is actively working to restructure existing loans and working with drilling companies who may be prepared to provide the funding to develop specific licence assets owned by the Company on a deferred payment or contingent production sharing basis. Three of the Company’s loans falling due in 2017 have been restructured subsequent to December 31, 2016, refer to note 30 for further details and discussions with other lenders regarding restructuring is ongoing.

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

2 Summary of significant accounting policies

Basis of preparation

The consolidated financial statements are presented in United States Dollars ("USD"). Foreign operations are included in accordance with the policies set out in this note.

Statement of compliance

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

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Areas where estimates are significant to the consolidated financial statements are disclosed in note 4.

Discontinued operation

The results of the Uzbekistan segment have been disclosed as a discontinued operation and shown separately from the results of the Company's continuing operations in Kazakhstan, Tajikistan and Georgia. Further details are given in note 5.

New and amended accounting standards adopted by the Company

There were no new and revised standards adopted by the Company during the year that had an impact on the consolidated financial statements.

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

- IFRS 9 — Financial Instruments, addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In July 2014, the IASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard. The standard is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

- IFRS 15 — Revenue from contracts with customers ("IFRS 15"), has been issued as a new standard on revenue recognition and will supersede IAS 18, Revenue, IAS 11, Construction Contracts and related interpretations. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

- IFRS 16 — Issued as a new standard on leases and will supersede IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

- IAS 7 — Disclosure Initiative, amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments apply prospectively for annual periods beginning on or after January 1, 2017 with earlier application permitted. The Company does not anticipate that the application of these amendments will have a material impact on the Group's consolidated financial statements.

- IAS 12 — Recognition of Deferred Tax Assets for Unrealised Losses, the amendments clarify a number of technical issues. The amendments are effective for annual periods beginning on or after January 1, 2017. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. All subsidiaries, as listed in note 26, have been consolidated into the Company's consolidated financial statements.

Inter-company transactions, balances and unrealised gains or losses between subsidiaries are eliminated. The financial statements of the subsidiaries are prepared using consistent accounting policies and reporting date as the Company.

Loss of control

When the Company loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Business combinations

The acquisition method of accounting is used to account for business combinations. The cost of acquisition is measured at the fair value of assets given, equity instruments issued and debt incurred or assumed at the date of acquisition, being the date on which the Company gains control. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. The excess of the cost over the fair value of the Company's share of identifiable net assets acquired is recorded as goodwill. If the cost is less than the fair value of net assets acquired, the difference is recognised directly in the statement of comprehensive income.

Joint arrangements

The Company classifies its interests in joint arrangements as either joint operations (if the company has rights to the assets, and obligations for the liabilities, relating to an arrangement) or joint ventures (if the Company has rights only to the net assets of an arrangement). When making this assessment, the Company considers the structure of the arrangement, the legal form of any separate vehicles, the contractual terms of the arrangement and other facts and circumstances.

Where the Company has an interest in a joint operation, it recognises its own assets, liabilities and transactions, including its share of those incurred jointly.

The Company's interests in joint ventures are accounted for using the equity method of accounting. Under the equity method, the Company's investment is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Company's share of net assets of the joint venture, less distributions received and less any impairment in value of the investment. The Company's consolidated statement of comprehensive income reflects the Company's share of the profit or loss after tax and other comprehensive income of the jointly venture, until the date on which significant influence or joint control ceases.

When the Company's share of losses in the joint venture equals or exceeds its interest in the entity, including any other unsecured receivables, the Company does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture. Financial statements of joint ventures are prepared for the same reporting year as the Company.

Accounting policies of the joint venture are consistent with accounting policies adopted by the Company.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-makers have been identified as the Board of Directors.

Foreign currency translation

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"), translated into USD where relevant. These consolidated financial statements are presented in USD, which is the Company's presentation currency.

All monetary assets and liabilities denominated in foreign currencies are translated into USD at the rate of exchange in effect at the reporting date. Non-monetary assets are translated at historical exchange rates.

Revenue and expense items (excluding depreciation and amortisation which are translated at the same rates as the related assets) are translated at the average rate of exchange.

Exchange gains and losses arising on translation are taken to the consolidated statement of comprehensive income.

Oil and gas exploration and evaluation expenditure

Oil and natural gas exploration and evaluation expenditures are accounted for using the 'successful efforts' method of accounting. Costs are accumulated on a field-by-field basis. Exploration and evaluation expenditures, including license acquisition costs, are capitalised as exploration and evaluation assets when incurred. Expenditures directly associated with an exploration well are capitalised until the determination of reserves is evaluated. All other associated exploration and evaluation expenditures are carried forward as an intangible asset in the consolidated statement of financial position where the rights of tenure of the property are current and it is considered probable that the costs will be recouped through successful development of the property, or alternatively by its sale. Capitalised exploration and evaluation expenditures are written down to recoverable amount where the above conditions are no longer satisfied.

If it is determined that a commercial discovery has not been achieved in relation to the property, all other associated costs are written down to their recoverable amount. If commercial reserves are found, exploration and evaluation intangible assets are tested for impairment and transferred to appraisal and development tangible assets as part of Property, plant and equipment. No depreciation and/or amortisation is charged during the exploration and evaluation phase.

Farm-out arrangements

The Company reflects exploration and evaluation asset farm-out arrangements, when the acquirer ("the farmee") correspondingly undertakes to fund carried interests as part of the consideration, on a historical cost basis by recognising only cash payments received, with no consideration in respect of the value of the work to be performed by the farmee. The Company carries the remaining interest at the previous cost of the full interest reduced by the amount of any cash consideration received from the farmees entering the agreement, through crediting any proceeds pro rata to the accounts, whether capital or expense, in which such costs were initially recorded. As farm-out terms are likely to be unique to any single transaction, this policy will be reviewed on a transaction by transaction basis.

Test production and the appraisal and development phase

Test production is production that is generated in the appraisal and development phase before commercial discovery of oil or gas is officially recognised. Revenue generated from test production is credited against the cost of the well until commercial and technical feasibility is established and the project is deemed to have crossed over into the production phase. Revenue and costs generated from a field classified as operating in the production phase is recorded through the consolidated statement of comprehensive income.

Oil and gas properties in the production phase

Oil and gas properties within Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses.

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalised within oil and gas properties, as long as the facts and circumstances indicate that the field has commercially viable reserves.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the asset retirement obligation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalised value of a finance lease is also included within Property, plant and equipment.

Once commercial production in an area of interest has commenced, oil and gas properties are depleted on a unit-of-production basis over the proved and probable reserves of the field concerned, except in the case of assets whose useful life is shorter than the lifetime of the field, in which case the straight-line method is applied. Rights and concessions are depleted on the unit-of-production basis over the total proved and probable reserves of the relevant area. The unit-of-production rate for the depletion of field development costs takes into account expenditures incurred to date, together with future development expenditure to develop the proved and probable reserves. Changes in factors such as estimates of proved and probable reserves that affect unit-of-production calculations do not give rise to prior year financial period adjustments and are dealt with on a prospective basis.

Other property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is charged so as to write off the cost of these assets less residual value over their estimated useful economic lives, for the following classes of assets:

Drilling rigs and related oil and gas equipment	Straight line	5 – 7 years
Smaller rig related equipment	Straight line	6 – 8 years
Vehicles	Straight line	4 years
Computer equipment	Straight line	3 years
Office equipment	Straight line	5 years

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised within the consolidated statement of comprehensive income.

Impairment of non-financial assets

Exploration and evaluation costs are tested for impairment when reclassified to oil and gas properties or whenever facts and circumstances indicate potential impairment. An impairment loss is recognised for the amount by which the exploration and evaluation expenditure's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the exploration and evaluation expenditure's fair value less costs to sell and their value in use.

Values of oil and gas properties and other property, plant and equipment are reviewed for impairment when indicators of such impairment exist. If any indication of impairment exists an estimate of the asset's recoverable amount is calculated. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the consolidated statement of comprehensive income so as to reduce the carrying amount to its recoverable amount (i.e. the higher of fair value less costs to sell and value in use).

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of the recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Asset retirement obligation ("ARO")

Provision is made for the present value of the future cost of abandonment of oil and gas wells and related facilities. This provision is recognised when a legal or constructive obligation arises.

The estimated costs, based on engineering cost levels prevailing at the reporting date, are computed on the basis of the latest assumptions as to the scope and method of abandonment. Provisions are measured at the fair value of the expenditures expected to be required to settle the obligation using a pre-tax risk free rate, updated at each reporting date that reflects current market assessments of the time value of money and the risks specific to the obligation. The corresponding amount is capitalised as part of exploration and evaluation expenditure or oil and gas properties and is amortised on a unit-of-production basis as part of the depreciation, depletion and amortisation charge. Any adjustment arising from the reassessment of estimated cost of ARO is capitalised, whilst the charge arising from the accretion of the discount applied to the ARO is treated as a component of finance costs.

Financial instruments

Financial assets and financial liabilities are recognised on the Company's consolidated statement of financial position when the Company becomes party to the contractual provisions of the instrument. Financial assets are de-recognised when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are de-recognised when the obligation specified in the contract is discharged, cancelled or expired. There were no own-use derivative contracts in place during the year.

Restricted cash

Non-current restricted cash comprises interest bearing deposits held in Kazakhstan that have been placed to satisfy local Kazakh requirements in respect of asset retirement obligations. They are carried at fair value with gains or losses taken to the consolidated statement of comprehensive income.

Current restricted cash comprises monies placed on temporary deposit as security against corporate credit cards and a deposit with the Ministry of Finance in Dubai as fixed term deposits with banks.

Trade receivables, loans and other receivables

Trade receivables, loans and other receivables, which are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market, are classified as loans and receivables. They are included in current assets, except for maturities greater than 12 months after the reporting date, which are classified as non-current assets. The Company's loans and receivables comprise trade and other receivables in the consolidated statement of financial position.

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, net of any impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income. When a trade receivable is not collectable, it is written off against the allowance account for trade receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. These are carried at fair value with gains or losses recognised through the consolidated statement of comprehensive income.

Financial liabilities - borrowings

Borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are measured at amortised cost using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded as the proceeds received net of direct issue costs.

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date a derivative contract was entered into and are subsequently re-measured at their fair value with changes in the fair value immediately recognised in the consolidated statement of comprehensive income.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract.

Contracts are assessed for embedded derivatives when the Company becomes a party to them, including at the date of a business combination.

Inventories

Inventories consist of refined oil products, spare parts and consumable materials and are shown at the lower of cost and net realisable value. Cost is determined on a weighted average cost method for refined oil products and the first-in-first-out method for spare parts and consumable materials inventories.

Non-current assets held for sale and discontinued operations

Non-current assets and groups of assets and liabilities (known as disposal groups) are classified as held-for-sale when their carrying amounts will be recovered principally through sale and are presented separately on the face of the statement of financial position. The comparative statement of financial position is not re-presented when non-current assets or disposal groups are classified as held-for-sale.

Where a sale plan meets the above criteria and involves the loss of control of a subsidiary, all assets and liabilities of the subsidiary are classified as held-for-sale regardless of whether a non-controlling interest is retained in the subsidiary after the sale.

Non-current assets and disposal groups held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Assets classified as held-for-sale are not depreciated.

A discontinued operation is a component of the group's business that either has been disposed of or is classified as held-for-sale and is part of a co-ordinated single plan to dispose of all or substantially all of a separate major line of business or geographical area of operations.

Discontinued operations are presented separately on the face of the statement of comprehensive income, and related cash flow information is disclosed. The comparative statement of comprehensive income and cash flow information is re-presented for discontinued operations.

Taxation including deferred taxation

The tax expense represents current tax and deferred tax.

Current tax is based on the taxable profits for the year. The Company's current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date in the countries where the Company and its subsidiaries operate and generate taxable income.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither the accounting nor the taxable profit or loss. Deferred income tax assets are recognised to the extent that it is probable that the future taxable profit will be available against which the temporary differences can be utilised and the carry forward of unused tax credits and unused tax losses can be utilised.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability settled.

Share–based payments

The Company operates share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options and warrants) of the Company. The fair value of the employee options and warrants granted in exchange for the employee services is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. When options vest in instalments over the vesting period, each instalment is accounted for as a separate arrangement. At each reporting date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium when the options are exercised.

Warrants

Warrants issued to loan holders are regarded as derivative instruments, with a fair value at inception representing the value attributable to the option to convert the warrants into equity of the Company.

For warrants issued to loan holders by the Company, where there is a difference between the currency in which shares of the parent company are denominated and the functional currency of the Company, the option to convert the warrants is recorded as a derivative liability because it is not a contract to exchange a fixed number of shares for a fixed amount of US dollars. The derivative liability component is separately identified and measured at fair value through the consolidated statement of comprehensive income.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of comprehensive income, net of any reimbursement. The increase in the provision due to passage of time is recognised as interest expense.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of natural gas and oil products in the ordinary course of the Company's activities and is recognised when the amount can be reliably measured, it is probable that future economic benefits will flow to the entity, and when specific criteria have been met for each of the Company's activities as described below. Revenue is shown after eliminating sales within the Company.

Revenue from natural gas and oil sales is recognised when it has been lifted and the risk of loss transferred to a third-party purchaser and is shown net of value-added tax. Value-added tax is paid on goods and services purchased and collected on sales of goods and services. At the end of a stipulated period, a deficit is refunded and a surplus is paid to the local tax authority.

The Company recognises finance income earned on the Company's cash and cash equivalents and short term investments on an accruals basis.

Sales expenses

Sales expenses represent agent commissions paid in relation to securing its gas sales contracts and are accrued as gas sales revenue is generated.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying capital asset or project under construction are capitalised and added to the asset or project cost during construction until such time as the asset or project is substantially ready for its intended use. Where funds are specifically borrowed to finance an asset or project, the amount capitalised represents the actual amount of borrowing cost incurred. Where funds used to finance an asset or project form part of general borrowings, the amount capitalised is calculated by using a weighted average of rates applicable to relevant general borrowings of the Company during the period. All other borrowing costs are recognised in the consolidated statement of comprehensive income in the period in which they are incurred.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

Fair value

The fair value of investments, trade and other receivables, trade and other payables approximate their carrying amounts due to the short-term maturity of the instruments. Derivative financial instruments are recorded at fair value with movements in fair value recognised through the consolidated statement of comprehensive income.

Amortised Cost

Loan receivables, long term debt and other non-current liabilities have been recorded at amortised cost using the effective interest rate method.

(tabular amounts in thousands of US dollars, except where noted)

3 Financial Risk Management

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk, market risk, commodity price risk, interest rate risk and foreign exchange risk. 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 Executive Board of Directors 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.

a) Financial risk factors

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to financial instruments fails to meet its contractual obligations. Credit risk arises from the Company's loans receivable from jointly controlled entities, cash and cash equivalents and accounts receivable balances.

With respect to the Company's financial assets, the maximum exposure to credit risk due to default of the counter party is equal to the carrying value of these instruments.

The maximum exposure to credit risk as at the reporting date is:

	2016	2015
Trade receivables	2,241	918
Cash and cash equivalents	449	3,272
Restricted cash	4,951	2,448
	7,641	**6,638**

Concentration of credit risk associated with the above trade receivable balances in Kazakhstan is as a result of contracted sales to two customers during the year. The Company is dependent upon these customers for sales due to the location of oil production and the requirement to sell gas to the State Company. At December 31, 2016, the trade receivable amounted to USD2,241,000 (2015: USD918,000). Of this, USD1,454,000 of the trade receivables are overdue past 30 days (2015: USD nil), refer also to note 26.

Although a significant amount of the deposits at financial institutions are not covered by bank guarantees, the Company does not believe there to be a significant risk of credit loss as the majority of counterparty banks used are those with high credit ratings (A- or equivalent) assigned by international ratings agencies (Fitch and Standard and Poors). Banks used in Central Asia generally do not have credit ratings assigned by international ratings agencies, however, deposits held with these banks are kept to a minimum as much as possible.

The Company is exposed to credit risk in relation to its loans receivable from jointly controlled entities to the extent that the jointly controlled entities fail to meet their contractual obligations. The Company has impaired the balance due, to nil from jointly controlled entities at the reporting date.

(tabular amounts in thousands of US dollars, except where noted)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. This risk relates to the Company's ability to generate or obtain sufficient cash or cash equivalents to satisfy these financial obligations as they become due. Since inception, the Company has incurred significant consolidated losses from operations and negative cash flows from operating activities, and has an accumulated deficit at December 31, 2016. Refer also to note 1 - Going concern.

The Company's processes for managing liquidity risk includes preparing and monitoring capital and operating budgets, co-ordinating and authorising project expenditures and ensuring appropriate authorisation of contractual agreements. The budget and expenditure levels are reviewed on a regular basis and updated when circumstances indicate change is appropriate. The Company seeks additional financing based on the results of these processes.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

As at December 31, 2016	Carrying amount	Contractual cash flows	Less than 1 year	1-3 years	4-5 years	Thereafter
Non-derivative financial liabilities						
Trade and other payables	19,882	19,882	19,838	44	-	-
Financial liabilities - borrowings (note 21)	33,249	36,015	36,015	-	-	-
Total	**53,131**	**55,897**	**55,853**	**44**	**-**	**-**

As at December 31, 2015	Carrying amount	Contractual cash flows	Less than 1 year	1-3 years	4-5 years	Thereafter
Non-derivative financial liabilities						
Trade and other payables	14,322	14,322	14,189	133	-	-
Financial liabilities - borrowings (note 21)	32,032	37,772	11,924	25,848	-	-
Total	**46,354**	**52,094**	**26,113**	**25,981**	**-**	**-**

It is not expected that the cash flows included in the maturity schedule could occur significantly earlier, or at significantly different amounts. See note 30 – Subsequent events, for post balance sheet date update on the financial liabilities.

There can be no assurance that debt or equity financing will be available or sufficient to meet the Company's requirements or if debt or equity financing is available, that it will be on terms acceptable to the Company (see note 1 – Going concern). The inability of the Company to access sufficient capital for its operations could have a material adverse impact on the Company's financial condition, results of operations and prospects.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as commodity prices, interest rates and foreign exchange rates.

Commodity price risk

Commodity price risk arises from the effect that fluctuations of future commodity prices may have on the price received for sales of crude oil and gas. The marketability and price of natural gas and oil that is produced and may be discovered by the Company will be affected by numerous factors that are beyond the control of the Company.

Natural gas prices are subject to wide fluctuations. The Company entered into a fixed price contract for sales of gas from the Akkulka and Kyzyloi fields in Kazakhstan for the year ended December 31, 2016. Contractual terms for 2017 have not yet been agreed. However, any material decline in natural gas prices could result in a reduction of Tethys' future net production revenues and impact on the commercial viability of the Company's existing and future oil and gas discoveries. It may become uneconomic to produce from some wells as a result of lower prices, which could result in a reduction in volumes and the value of Tethys' gas reserves, if the Company elected not to produce from certain wells at lower prices.

Any material decline in oil prices could result in a reduction of the Company's oil revenues in Kazakhstan.

All of these factors could result in a material decrease in the Company's net production revenue causing a reduction in its acquisition and development activities.

There were no commodity price financial derivatives outstanding as at December 31, 2016 and 2015.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will be affected by changes in market interest rates. Existing long term debt is agreed at fixed interest rates and consequently has limited exposure to changes in market interest rates.

The Company is exposed to interest rate risk on short term deposits to the extent that reductions in market interest rates would result in a decrease in the interest earned by the Company. A decrease of 1% in the interest rate would have had minimal impact on the Company's results for the year (2015: USD nil).

(tabular amounts in thousands of US dollars, except where noted)

As at the reporting date the Company's interest rate profile was:

As at December 31, 2016	Fixed rate financial instruments	Variable rate financial instruments	Total
Restricted cash	2,238	2,713	4,951
Cash and cash equivalents	-	449	449
Financial liabilities - borrowings	(33,249)	-	(33,249)
Total	**(31,011)**	**3,162**	**(27,849)**

As at December 31, 2015	Fixed rate financial instruments	Variable rate financial instruments	Total
Restricted cash	2,238	2,713	4,951
Cash and cash equivalents	-	449	449
Financial liabilities - borrowings	(33,249)	-	(33,249)
Total	**(31,011)**	**3,162**	**(27,849)**

Foreign exchange risk

The Company is exposed to risks resulting from fluctuations in foreign currency exchange rates. A material change in the value of any such foreign currency could result in a material adverse effect on the Company's cash flow and future profits. The Company is exposed to exchange rate risk to the extent that balances and transactions are denominated in a currency other than the USD. In addition, a portion of expenditures in the UK, Kazakhstan, Tajikistan and Georgia are denominated in local currency, Sterling, Tenge, Somoni and Lari, respectively. The Company also attempts to negotiate exchange rate stabilisation conditions in new local Tenge denominated service and supply contracts in Kazakhstan.

The Company holds the majority of its cash and cash equivalents in USD. However, the Company does maintain deposits in other currencies, as disclosed in the following table, to fund ongoing general and administrative activity and other expenditure incurred in these currencies.

The carrying amounts of the Company's significant foreign currency denominated monetary assets and liabilities at the reporting dates are as follows:

In USD'000 equivalent as at December 31, 2016	GBP[1]	KZT[1]
Cash and cash equivalents	5	-
Trade and other receivables	27	5,193
Trade and other payables	(282)	(654)
Financial liabilities –borrowings	(1,356)	(3,833)
Net exposure	**(1,606)**	**706**

In USD'000 equivalent as at December 31, 2015	GBP[1]	KZT[1]
Cash and cash equivalents	246	641
Trade and other receivables	166	4,513
Trade and other payables	(796)	(366)
Financial liabilities –borrowings	(2,170)	(2,571)
Net exposure	**(2,554)**	**2,217**

Note 1 – GBP- British Sterling Pound, KZT – Kazakhstani Tenge

(tabular amounts in thousands of US dollars, except where noted)

The following table details the Company's sensitivity to a 10% movement in USD against the respective foreign currencies, which represents management's assessment of a reasonably likely change in foreign exchange rates.

Effect to profit or (loss) before tax in USD'000	2016	2015
GBP	(161)	(255)
KZT	335	222
Total	**174**	**(33)**

A 10% strengthening of the USD against the currencies above at December 31, 2016 would have had an equal but opposite effect on the amounts shown above, assuming all other variables remained constant.

b) Capital risk management

The Company's capital structure is comprised of shareholders' equity and net 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 has funded its expenditures on commitments 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 is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

	2016	2015
Total financial liabilities - borrowings (note 21)	33,249	32,032
Less: cash and cash equivalents	(449)	(3,272)
Net debt/(funds)	**32,800**	**28,760**
Total equity	93,228	131,570
Total capital	**126,028**	**160,330**

If the Company is in a net debt position, the Company 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 an alternative route such as the issuing of equity. Refer also to note 1 – Going concern.

c) Fair value hierarchy

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities. The Company does not have any assets or liabilities that require Level 1 inputs.

Level 2: Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly. For the Company, Level 2 inputs include prices that can be corroborated with other observable inputs for substantially the complete term of the contract.

Level 3: Unobservable inputs. For the Company, Level 3 inputs include production and price assumptions that are not based on observable market data (unobservable inputs) or are reliant on adjustments or interpolations are made by management to an otherwise standard valuation model.

Warrants (note 21.2)	**2016**	**2015**
Level 1	-	-
Level 2	-	275
Level 3	-	-
Total	**-**	**275**

4 Critical judgements and accounting estimates

The preparation of financial statements requires management to make certain judgements, accounting estimates and assumptions that affect the amounts reported for assets and liabilities as at the reporting date and the amounts reported for revenues and expenses during the year. The nature of estimation means that actual outcomes could differ from those estimates. Accordingly, the impact of these estimates, assumptions and judgments on the consolidated financial statements in future periods could be material. The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities are discussed below.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected.

Critical accounting estimates and assumptions

The significant areas of estimation uncertainty in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are summarised as follows:

Recoverability of asset carrying values

The Company assesses its property, plant and equipment and intangible exploration and evaluation assets, for possible indicators of impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable, or at least at every reporting date. Such indicators include changes in the Company's business plans, market capitalisation, changes in commodity prices, evidence of physical damage and, for oil and gas properties, significant downward revisions of estimated recoverable volumes or increases in estimated future development expenditure.

If there are low oil prices or natural gas prices during an extended period, the Company may need to recognise significant impairment charges. The assessment for impairment entails comparing the carrying value of the cash-generating unit with its recoverable amount, that is, the higher of fair value less cost of disposal ("FVLCD") or value-in-use ("VIU"). Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters such as future commodity prices, the effects of inflation on operating expenses, discount rates, production profiles and the outlook for regional market supply-and-demand conditions for crude oil, natural gas and refined products.

Oil and gas reserves

Proved and probable oil and gas reserves are used in the units of production calculation for depletion as well as the determination of the timing of well closure costs and impairment analysis. There are numerous uncertainties inherent in estimating oil and gas reserves. Assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may ultimately result in the reserves being restated.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Such estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Asset retirement obligation

Provisions for environmental clean-up and remediation costs associated with the Company's drilling operations are based on current legal or constructive requirements, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, prices, discovery and analysis of site conditions and changes in clean-up technology.

Income taxes

The Company is subject to income taxes in a number of jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognises liabilities for tax assessments based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Functional currency

The Company has foreign operations, principally in Kazakhstan. Significant judgement is required in determining the functional currency of those operations with consideration given to the currency of the primary economic environment in which it operates. This includes assessing inter alia the currency that mainly influences sales prices for goods and services, the currency of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services and the currency that mainly influences labour, material and other costs of providing goods. A number of secondary factors are also taken into account.

Other significant areas of judgement

The significant areas of critical judgment in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are summarised as follows:

Going concern

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 consolidated financial statements, in determining the ability of the Company to adopt the going concern basis in preparing the consolidated financial statements for the year ended December 31, 2016. The assessment of the Company's ability to execute its strategy to meet its future funding requirements involves judgement.

Fair value of stock based compensation and warrants

The estimates and assumptions made in relation to the fair value of stock based compensation and warrants and the associated expense recognition are subject to measurement uncertainty.

CGU Identification

A cash generating unit ("CGU") is defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of cash inflows of other assets or groups of assets. The allocation of assets into CGUs requires significant judgement and interpretations with respect to the integration between assets, the existence of active markets, similar exposure to market risks, shared infrastructures, and the way in which management monitors its operations.

5 Discontinued operations

The Board formally decided in December 2013 to exit from Uzbekistan and the results of the Uzbekistan segment have been disclosed as a discontinued operation and shown separately from the results of the Company's continuing operations in Kazakhstan, Tajikistan and Georgia. The results from discontinued operation can be summarised as follows:

	2016	**2015**
Expenses	-	(28)
Loss after tax	-	(28)
Cash flows from the discontinued operation were as follows:		
Net cash used in operating activities	-	(307)
Net cash used in discontinued operations	-	(307)

(tabular amounts in thousands of US dollars, except where noted)

6 Segmental Reporting

Geographical segments

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. Reports provided to the Board of Directors with respect to segment information are measured in a manner consistent with that of the 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 Board of Directors consider the business from predominantly a geographic perspective and the Company currently operates in three geographical markets: Kazakhstan, Tajikistan and Georgia. The company has discontinued operations in Uzbekistan and the results for the Uzbekistan segment have been shown separately from the rest of the Company.

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 several drilling rigs and related oil and gas equipment which are utilised in Kazakhstan according to operational requirements and which has provided loan funding for development activities in Kazakhstan.

The following is an analysis of the Company's revenue, results and assets by reportable segment:

2016	**Kazakhstan**	**Tajikistan**	**Georgia**	**Corporate**	**Total**
Gas sales	9,772	-	-	-	9,772
Oil sales	1,977	-	-	-	1,977
Other income	(17)	-	-	2	(15)
Other operating income	-	-	-	767	767
Segment revenue and other income	**11,732**	**-**	**-**	**769**	**12,501**
Inter-segment revenue	-	-	-	(767)	(767)
Segment revenue and other income from external customers	**11,732**	**-**	**-**	**2**	**11,734**
Loss before taxation	(7,408)	(23,737)	(1)	(14,401)	(45,547)
Taxation	(1,154)	-	-	(149)	(1,303)
Loss for the year	**(8,562)**	**(23,737)**	**(1)**	**(14,550)**	**(46,850)**
Total assets[1]	133,731	-	13,231	120,747	159,904
Total liabilities[1]	130,736	12,683	-	31,062	66,676
Cash expenditure on exploration & evaluation assets, property, plant and equipment	965	105	325	13	1,408
Depreciation, depletion & amortisation	7,369	1	-	2,601	9,971

Note 1 – Total is after elimination of inter-segment items of USD107,805,000.

In Kazakhstan sales were made to two customers representing greater than 10% of total segment revenue of USD9,772,000 (100% of gas sales were made to one customer) and USD1,977,000 (100% of oil sales were made to one customer).

(tabular amounts in thousands of US dollars, except where noted)

Borrowing costs of USD85,000 incurred in the Corporate segment were capitalised in the Kazakhstan segment during the year.

There was no capitalisation of amortisation of assets held in the Corporate segment during the year.

Total assets and liabilities for Tajikistan include the underlying assets of Seven Stars Energy Corporation ("SSEC"), in which the Company has an 85% ownership interest and its subsidiaries.

2015	Kazakhstan	Tajikistan	Georgia	Corporate	Continuing operations	Uzbekistan[2]	Total
Gas sales	16,228	-	-	-	16,228	-	16,228
Oil sales	5,898	-	-	-	5,898	-	5,898
Other income	9	-	-	-	9	-	9
Other operating income	-	-	-	919	919	-	919
Segment revenue and other income	**22,135**	**-**	**-**	**919**	**23,054**	**-**	**23,054**
Inter-segment revenue	-	-	-	(919)	(919)	-	(919)
Segment revenue and other income from external customers	**22,135**	**-**	**-**	**-**	**22,135**	**-**	**22,135**
Loss from jointly controlled entity	(2,796)	-	-	-	(2,796)	-	(2,796)
Loss before taxation	**(26,842)**	**(25,934)**	**(4)**	**(15,393)**	**(68,173)**	**(28)**	**(68,201)**
Taxation	(6,234)	-	-	(196)	(6,430)	-	(6,430)
Loss for the year	**(33,076)**	**(25,934)**	**(4)**	**(15,589)**	**(74,603)**	**(28)**	**(74,631)**
Total assets[1]	137,733	22,026	12,944	126,804	299,507	-	190,369
Total liabilities[1]	126,588	9,160	1	32,098	167,847	90	58,799
Cash expenditure on exploration & evaluation assets, property, plant and equipment	2,754	4,631	908	-	8,293	-	8,293
Depreciation, depletion & amortisation	25,388	-	-	3,343	28,731	-	28,731

Note 1 – Total is after elimination of inter-segment items of USD109,138,000.

Note 2 - Discontinued operation in 2013 (note 5).

In Kazakhstan sales were made to two customers representing greater than 10% of total segment revenue of USD16,228,000 and USD5,898,000.

Borrowing costs of USD595,000 and USD724,000 incurred in the Corporate segment were capitalised in the Kazakhstan and Tajikistan segments respectively during the year.

There was no capitalisation of amortisation of assets held in the Corporate segment during the year.

Total assets and liabilities for Tajikistan include the underlying assets of SSEC, in which the Company has an 85% ownership interest, and its subsidiaries.

(tabular amounts in thousands of US dollars, except where noted)

7 Sales and other operating revenues

	2016	2015
Gas sales	9,772	16,228
Oil sales	1,977	5,898
Other revenue	(15)	9
Revenue from continuing operations	**11,734**	**22,135**

8 Administrative expenses

Administrative expense by nature	2016	2015
Staff expenses	2,886	4,458
Office costs	438	941
Professional fees	760	1,503
Travel expenses	385	828
Regulation costs	281	391
Directors costs	327	439
Other administrative expenses	384	932
Total	**5,461**	**9,492**

9 Restructuring costs

	2016	2015
Restructuring costs	1,950	3,247
Restructuring provision	200	360

On December 1, 2014 the Company announced a downsizing program with staff reductions and cost reductions in all key general and administrative expenses areas. The Company closed offices in Guernsey, Brussels, Maastricht, Beijing and Tbilisi in 2015 and offices in Washington, Toronto, Dushanbe and Dubai in 2016. The costs associated with this programme of restructuring have been shown in the Consolidated Statement of Comprehensive Income/(Loss) separately from administrative expenses to provide additional information in relation to these expenses.

10 Share-based payments

The Company has adopted a stock incentive plan referred to as the "2007 Long Term Stock Incentive Plan" pursuant to which the Company may grant stock options to any director, employee or consultant of the Company, (collectively, "Service Providers").

The maximum number of ordinary shares reserved for issuance under the plan equals 12% (2015: 12%) of the outstanding ordinary shares. The plan is administered by the Compensation and Nomination Committee of the Board of Directors. Options may be granted pursuant to recommendations of the Compensation and Nomination Committee. The Compensation and Nomination Committee may determine the vesting schedule and term, provided that options may not have a term exceeding ten years. Subject to any resolution passed by the Compensation and Nomination Committee, options will terminate three months after an option holder ceases to be a Service Provider.

(tabular amounts in thousands of US dollars, except where noted)

The exercise price of options granted under the plan may not be less than the closing price of ordinary shares on the principal stock exchange where the ordinary shares are listed as of the date of the option grant. The plan contains amendment provisions which allow amendments to the plan by the Board of Directors, without shareholder approval, for amendments of a "housekeeping" nature, changes to vesting or termination provisions, and discontinuance of the plan. The plan also provides that outstanding options will vest immediately on the occurrence of a "change of control" (as defined in the plan). Options granted under the plan are only assignable to certain related entities of an option holder or otherwise with the consent of the Company.

Options granted vest in three tranches with one third vesting immediately, one third after one year and one third after two years with the exception of grants made in 2015 which vest in three tranches with one third vesting at end of each year over a period of 3 years. In all instances, these options are equity settled share based payment transactions.

The following table lists the options outstanding at December 31, 2016 by exercise price:

Exercise price		Outstanding		Exercisable	
Local	**USD equivalent**	**No of options**	**Weighted average remaining term (in years)**	**No of options**	**Weighted average remaining term (in years)**
CAD 0.80	0.59	90,000	1.92	90,000	1.92
CAD 0.88	0.65	1,272,000	0.31	1,272,000	0.31
GBP 0.15	0.20	3,685,000	3.06	1,228,333	3.06
GBP 0.025	0.03	14,307,500	4.25	4,769,167	4.25
Total		**19,354,500**	**3.75**	**7,359,500**	**3.34**

The following table summarises the activity under the 2007 Long Term Stock Incentive Plan.

	2016		2015	
	Number of options	**Weighted average exercise price (USD)**	**Number of options**	**Weighted average exercise price (USD)**
Outstanding at January 1	11,025,500	0.31	15,362,400	1.58
Granted	14,307,500	0.03	10,422,500	0.22
Forfeited	(3,015,000)	0.19	(1,545,000)	0.25
Expired	(2,963,500)	0.34	(13,214,400)	1.50
Outstanding at December 31	19,354,500	0.11	11,025,500	0.31
Exercisable at December 31	7,359,500	0.18	2,998,000	0.53

(tabular amounts in thousands of US dollars, except where noted)

The fair value of the share-based payment grants is estimated using the Black-Scholes pricing model using the following average assumptions:

	2016	2015
Weighted average fair value	USD0.039	USD0.0635
Risk free rate	0.59%	1.15%
Expected term	3.50 years	3.39 years
Volatility	83.48%	66.8%
Dividend	Nil	Nil
Weighted average share price of options exercised in year	n/a	n/a

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 option term.

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 21.2.

Warrants issued in connection with loans

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

	2016		2015	
	Number of warrants	Weighted average exercise price (USD)	Number of warrants	Weighted average exercise price (USD)
Outstanding at January 1	2,090,000	2.500	2,090,000	2.500
Granted	192,300,000	0.031	-	-
Outstanding at December 31	194,390,000	0.058	2,090,000	2.500
Exercisable at December 31	194,390,000	0.058	2,090,000	2.500

Of the warrants outstanding and exercisable at the end of the year, none relate to warrants granted to the Company's officers (2015: 280,000).

There are no performance conditions attached to the warrants and all the granted warrants were immediately vested. Each warrant is exercisable into one share. 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.

(tabular amounts in thousands of US dollars, except where noted)

The following table lists the warrants outstanding at December 31, 2016 by exercise price.

Exercise price (USD)	Warrants outstanding	Weighted average remaining term (in years)	Warrants exercisable	Weighted average remaining term (in years)
2.500	2,090,000	0.43	2,090,000	0.43
0.031	192,300,000	2.91	194,390,000	2.91

11 Taxation

Tethys is domiciled in the Cayman Islands which has no corporate 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:

	2016	2015
Loss before income taxes from continuing operations	(45,547)	(68,173)
Income tax rate	20%	20%
Expected income tax recovery	**9,109**	**13,635**
Decrease resulting from:		
Non-deductible expenses net of functional currency foreign exchange impact	(310)	(445)
Revisions in tax estimates and foreign exchange impact on tax pools	(1,838)	(11,565)
Impact of effective tax rates in other foreign jurisdictions	(7,683)	(8,385)
Losses and tax assets not utilised/recognised	(581)	330
	(1,303)	**(6,430)**
Current tax expense	(131)	(210)
Deferred tax expense	(1,172)	(6,220)
Total	**(1,303)**	**(6,430)**

The temporary differences comprising the deferred income tax asset/(liability) are as follows:

	2016	2015
Tax losses	208	226
Deferred tax asset	**208**	**226**
Capital assets	11,845	13,008
Other	68	(2,216)
Deferred tax liability	**11,913**	**10,792**

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

Deferred income tax assets are recognised for tax loss carry forwards and other deductible temporary differences to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Company has not recorded deferred tax assets in respect of the following temporary differences:

	2016	2015
Capital assets	33,625	31,797
Tax losses	39,862	39,627
Other	588	639
Total	**74,075**	**72,063**

Earnings retained by subsidiaries amounted to USD12.1 million at December 31, 2016 (December 31, 2015 - USD12.8 million). No provision has been made for withholding and other taxes that would become payable on the distribution of these earnings as it is not expected that they will be remitted in the foreseeable future.

12 Loss per share

		2016		2015	
	Units	Continuing operations	Discontinued operations	Continuing operations	Discontinued operations
Loss for the purpose of basic and diluted loss attributable to ordinary shareholders	USD'000	(46,852)	-	(74,601)	(28)
Weighted average shares	000s	393,065	393,065	336,717	336,717
Per share amount	USD	(0.12)	-	(0.22)	-

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 dilutive shares, comprising share options and warrants, are currently anti-dilutive and therefore there is no difference between basic and diluted earnings per share. The number of potential dilutive shares excluded from the calculation is 201,749,500 (2015: 5,088,000).

13 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 (note 19)	29,168	-	-	29,168
December 31, 2015	29,297	12,905	22,000	64,202
Additions	205	325	3,627	4,157
Exploration and evaluation expenditure written off	-	-	(25,627)	(25,627)
December 31, 2016	**29,502**	**13,230**	**-**	**42,732**

Borrowing costs of USD16,000 (2015: USD734,000) have been capitalised within exploration and evaluation assets during the year. The effective weighted average interest rate of the relevant borrowings was 15%

(tabular amounts in thousands of US dollars, except where noted)

(2015: 16%). The effective interest rate is higher than the nominal rate due to the cost of associated warrants (note 21.2).

For the year ended December 31, 2016, USD102,000 (2015: USD1,739,000) was capitalised from staff costs and share-based payment expense.

Tajikistan – Impairment

The Company's exploration and evaluation assets in Tajikistan are held via an effective 28.33% participating interest in Bokhtar Production Sharing Contract ("PSC"), with its partners Total and CNPC. The Company ceased paying cash calls from September 2015 and due to the default was issued with a Notice to Withdraw from Total and CNPC. In 2015, the Company wrote off USD25,918,000 of its carrying value to an estimated recoverable amount of USD22,000,000 using the higher of fair value less cost of disposal ("FVLCD") or value-in-use ("VIU") method. In 2016, the Company wrote off the total carrying book value of USD25,627,000 on the basis that the Company has not budgeted or nor planned expenditure on further exploration for and evaluation of mineral resources in Tajikistan. Further, it is understood that the operator in Tajikistan has demobilised and the partners, whilst intending to do the minimum to fulfil the requirements of the PSC, do not intend to invest further in the asset at this time. In absence of any recent market transactions the recoverable amount of nil was determined using a VIU method.

14 Property, plant and equipment

	Oil and gas properties			Oil and gas equipment			Other fixed assets[1]			Total net book amount
	Cost	Amortisation	Total	Cost	Depreciation	Total	Cost	Depreciation	Total	
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 (note 19)	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	872	-	872	-	-	-	57	-	57	929
Disposals	-	-	-	-	-	-	(846)	782	(64)	(64)
Amortisation and depletion	-	(6,838)	(6,838)	-	(2,773)	(2,773)	-	(360)	(360)	(9,971)
Impairment charges	(1,176)		(1,176)	-	-	-	-	-	-	(1,176)
December 31, 2016	**167,878**	**(75,075)**	**92,803**	**25,343**	**(15,327)**	**10,016**	**4,306**	**(4,010)**	**296**	**103,115**

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

Borrowing costs of USD69,000 have been capitalised to oil and gas properties in the current year (2015: USD585,000). The effective weighted average interest rate of the relevant borrowing was 15%, (2015: 16%). The effective interest rate is higher than the nominal rate due to the cost of associated warrants (note 21.2).

For the year ended December 31, 2016, USD236,000 (2015: USD627,000) was capitalised to oil and gas properties from staff costs and share-based payment expense.

"Oil and gas properties" assets with a net book value amounting to USD9,447,000 (2015: USD9,571,000) have been pledged by Tethys Aral Gas LLP ("TAG") as security for the bank loan facility (note 21.1).

(tabular amounts in thousands of US dollars, except where noted)

Oil and gas properties – Impairment

As of December 31, 2016, the Company performed an assessment for impairment on the carrying value of its oil and gas assets. The recoverable amount was determined using the higher of FVLCD or VIU. As a result, the Company impaired USD1,176,000 of its oil and gas assets in relation to the Akkulka oil field cash generating unit.

Due to continuing depressed global oil prices and since the oil and gas carrying amount of assets is higher than the Company's market capitalisation, indicators of impairment were noted for the Kazakhstan Cash Generating Units ("CGUs"). Based on the impairment tests performed by management, the recoverable amount of all CGUs exceeded their carrying values except for the Company's oil and gas properties in Kazakhstan. The FVLCD was calculated using a discounted cash flow model based on the proved plus probable reserves using forecast oil and gas prices and an after-tax discount rate of 13% for all CGUs. The cash flow model used is considered a level 3 fair value technique based on the unobservable inputs used. An increase of 1% to the discount rate would have increased the impairment by USD2,329,000, while a 1% decrease to the discount rate would have decreased the impairment to nil.

FVLCD calculation assumes the following forecast oil and gas sales prices in USD/bbl and USD/Mcm, respectively, which was based on the December 31, 2016 price decks prepared by the Company's independent reserve evaluator.

Year	Domestic gas Mcm	Export gas Mcm	Domestic oil bbl	Export oil bbl
2017	44.99	167.12	12.50	40.37
2018	51.04	198.69	14.82	47.70
2019	54.53	216.92	16.15	51.93
2020	57.31	231.42	17.21	55.30
2021	60.39	247.54	18.40	59.04
2022	62.95	260.88	19.37	62.14
2023	64.18	267.31	19.85	63.64
2024	65.46	274.02	20.34	65.19
2025	66.80	281.01	20.85	66.82
2026	68.15	282.10	21.37	68.45
2027	69.48	282.10	21.87	70.06
2028 and thereafter	75.95	282.10	21.87	70.06

15 Restricted Cash

	2016	2015
Non-current	2,238	2,233
Current	2,713	215
Total	4,951	**2,448**

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.

(tabular amounts in thousands of US dollars, except where noted)

Current amounts consist of USD2,648,000 cash balance held by Tethys subsidiary, TAG. The amount was deemed restricted due to a Kazakhstan court order as described in note 28. On December 26, 2016 the count order was lifted and the Company gained access to the funds in late January 2017. The remainder of the current balance of USD65,000, comprises monies placed on temporary deposit as security against corporate credit cards and a deposit with the Ministry of Finance in Dubai.

16 Trade and other receivables

	2016	2015
Non-current		
Value added tax receivable	1,073	2,457
Other	164	-
	1,237	**2,457**
Current		
Trade receivables	2,241	918
Prepayments	414	319
Other receivables	1,971	1,097
Value added tax receivable	1,906	1,376
	6,532	**3,710**

Current trade and other receivables are unsecured and non-interest bearing. Normal payment terms for the Company are 30 days. Prepayments primarily relate to corporate operating expense items. As at December 31, 2016, USD1,454,000 of trade receivables are overdue past 30 days (2015: USD nil). The other classes within trade and other receivables do not contain impaired assets.

17 Loan receivable from jointly controlled entity

Joint Venture – Aral Oil Terminal (Kazakhstan)

On February 16 2011, the Company signed a Joint Venture agreement with Olisol Investments Limited (“Olisol”) to construct and operate a rail oil loading terminal in Kazakhstan through a separate jointly controlled legal entity, Aral Oil Terminal LLP (“AOT”). The terminal was used to deliver and sell oil for the Akkulka block. In conjunction with the Company’s oil production facilities at the Akkulka field which enable the processing of oil to refinery specification, the Terminal significantly reduced trucking distances and provides storage capacity and unloading/loading facilities.

The following amounts represent the movements in the loan receivable:

	2016	2015
Transfer from assets of a disposal group held for sale (note 19)	-	1,500
Reclassification from investment in joint arrangements	-	867
Finance income on loan receivable	180	180
Provision made against loan receivable	(180)	(2,547)
Balance, end of year	-	-

The loan bears interest at 10% per annum, is unsecured and repayable on demand. At December 31, 2016, the Company recognised full impairment of the loan receivable from AOT due to the losses incurred by the terminal.

(tabular amounts in thousands of US dollars, except where noted)

18 Investment in joint arrangements

Aral Oil Terminal (Kazakhstan)

As discussed in note 17, in 2011, the Company entered into a Joint Venture agreement with Olisol under which it has a 50% interest in the jointly controlled entity, AOT. At December 31, 2016, investment in the joint venture was USD nil (2015: nil). The Company has classified the arrangement as a joint venture and it is accounted for using the equity method of accounting. The key risk faced by AOT is its reliance on a single customer as currently only the oil produced by the Company is processed at the facility.

The net book value of the joint venture's assets amounting to USD3,137,000 (2015: USD3,358,800) has been pledged by the Joint Venture as security for a bank loan facility.

Bokhtar Operating Company (Tajikistan)

On June 18, 2013, a subsidiary of the Company, Kulob Petroleum Limited ("Kulob"), completed a farm-out agreement with subsidiaries of Total Exploration and Production ("Total") and China National Petroleum Corporation ("CNPC") whereby each acquired a one third interest in Kulob's Bokhtar Production Sharing Contract. An operating company, Bokhtar Operating Company BV, has been established and is jointly owned by the three partners. The Company has classified the arrangement as a joint operation (where the company has rights to the assets, and obligations for the liabilities, relating to the arrangement) and recognises its own assets, liabilities and transactions, including its share of those incurred jointly, in accordance with the relevant IFRSs.

19 Assets and liabilities of disposal group held for sale

On November 1, 2013 Tethys announced the sale of a 50% interest in its Kazakhstan businesses to SinoHan Oil and Gas Investment Number 6 B.V. As the sale did not take place in 2015, the Company announced on May 1, 2015 that the sale would not be taking place. As a result the assets and liabilities of the Company's Kazakhstan businesses were therefore reclassified in the Consolidated Statement of Financial Position on that date from "assets of a disposal group held for sale" shown as current assets and "liabilities of a disposal group held for sale" shown as current liabilities to their previous categories.

20 Cash and cash equivalents

	2016	**2015**
Cash at bank and in hand	449	3,272
	449	**3,272**

Cash at bank balances earn interest at floating rates based on daily bank deposit rates.

(tabular amounts in thousands of US dollars, except where noted)

21 Financial liabilities

21.1 Borrowings

	Contractual interest rate per annum	Effective interest rate per annum	Maturity date	2016	2015
Current					
Rig loans	12.0%	14.8%	2017	3,724	1,386
Kazakh loan KZT	22.0%	23.6%	2019	2,823	2,571
Kazakh loan USD	11.0%	12.3%	2017	1,010	-
Corporate loans					
- USD6 million loan financing	10.5%	24.4%	2017	7,301	-
- USD3.5 million loan financing	8.0%	20.5%	2017	3,248	-
Convertible loans	9.0%	10.6%	2017	9,270	-
Olisol loan	9.0%	9.0%	2017	5,873	5,202
				33,249	**9,159**
Non-current					
Rig loans	12.0%	14.8%	2017	-	3,995
Corporate loans					
- USD6 million loan financing	10.5%	24.4%	2017	-	6,885
- USD3.5 million loan financing	8.0%	20.5%	2017	-	2,961
Convertible loans	9.0%	10.6%	2017	-	9,032
				-	**22,873**

The fair value of financial liabilities held at amortised cost approximates the carrying value.

None of the loan agreements contains financial covenants. The Company is not aware of any non-compliances with the terms of the above loan agreements as at December 31, 2016.

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 December 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. Interest is as shown in the table above.

See note 30 – Subsequent events, for post balance sheet date update on the loans.

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 had an initial term of up to four years depending on the Company’s requirements, now extended to February 2019.

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 were principally the same (i.e. the same principal repayment on maturity with the same 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 were advanced to the Company under the loan agreement, with the outstanding balance of the loan at December 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.

On April 29, 2016 the maturity date was extended to February 2019 and the interest rate was increased to 22%.

Certain oil and gas property assets have been pledged by TAG to the bank as security for funds advanced.

On September 7, 2016, the Company received an additional USD1.0m drawdown denominated in USD. The interest on this advance is 11% and the maturity date is July 2017 with principal payments due monthly.

Corporate - 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 CAD0.19. The Company valued these warrants at initial recognition at USD2.1 million. The warrants were surrendered during 2015 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.

On March 12, 2016, certain terms of the loan were amended including a change in the interest rate from 8.0% to 10.5% per annum payable every three months.

See note 30 – Subsequent events, for post balance sheet date update on the loans.

Corporate - 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 due every 6 months at the rate shown in the table above.

In connection with the loan financing, the Company issued the lender with 23,333,333 warrants over the Company's shares with a price of CAD0.19. The Company valued these warrants at initial recognition at USD0.8 million.

See note 30 – Subsequent events, for post balance sheet date update on the loan.

Unsecured convertible loan facility from AGR Energy No. 1

On May 15, 2015, the Company issued USD7.5 million aggregate principal amount of convertible debentures (the "AGR Debentures") to AGR Energy Limited 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 was valued by the Company at initial recognition at USD180,000.

The AGR Debentures mature on June 30, 2017 and pay interest every six months at the interest rate shown in the table above.

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 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 was valued by the Company at initial recognition at USD70,000.

The ALR Debentures mature on June 30, 2017 and pay interest every six months at the interest rate shown in the table above.

See note 30 – Subsequent events, for post balance sheet date update on the loans.

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. The Interim Financing Facility was convertible into Tethys ordinary shares at CDN0.17 per share. The Interim Financing Facility had 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 Olisol 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.

(tabular amounts in thousands of US dollars, except where noted)

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

On April 28, 2016, the Company and Olisol signed the Amended and Restated Investment Agreement. Olisol was obliged under the legally binding terms of the Amended and Restated Investment Agreement to continue to provide Tethys with amounts reasonably requested by Tethys, to fund working capital requirements during the period ending on the latest of (i) the completion of the TAG Loan and (ii) the occurrence of the Closing Date. Olisol undertook to work with Tethys and a Kazakh bank to obtain a bank loan of not less than USD10 million for TAG ("TAG Loan") and to date Olisol has not been able to complete the TAG Loan.

Olisol did not perform its financing obligations under the Amended and Restated Investment Agreement by the October 27, 2016 Closing Date and has sought to terminate the Amended and Restated Investment Agreement and demand repayment of its loan.

21.2 Derivative financial instrument

Warrants

	2016	2015
Balance, beginning of year	275	-
Issued during the year	-	2,949
Fair value loss	(275)	(573)
Surrender of warrants (see note 21.1)	-	(2,101)
Balance, end of year	-	**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 21.1.

As the warrants are denominated in 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 as a liability at fair value and subsequently measured at fair value through income.

(tabular amounts in thousands of US dollars, except where noted)

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

	2016	2015
Weighted average fair value	USD0.001	USD0.01
Risk free rate	0.74%	0.48%
Expected term	0.2 years	1.2 years
Volatility	87.32%	108.00%
Dividend	Nil	Nil

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

	Number of warrants	Weighted average exercise price USD
Outstanding at January 1, 2015	-	-
Issued	58,933,333	0.15
Surrender of warrants (see note 21.1)	(35,600,000)	0.15
Outstanding at December 31, 2015	**23,333,333**	**0.15**
Outstanding and exercisable at December 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 21.1. 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.

	2016	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:

	2016	2015
Credit spread	9.94%	9.94%
Volatility	70.00%	70.00%

(tabular amounts in thousands of US dollars, except where noted)

21.3 Finance costs / (income)

The net finance cost / (income) comprises:

	2016	2015
Finance costs	5,495	3,513
Finance income	(182)	(184)
Total	**5,313**	**3,329**

22 Trade and other payables

	2016	2015
Current		
Trade payables	785	366
Accruals	17,076	11,710
Other creditors	1,977	2,113
	19,838	**14,189**
Non-current		
Other non-current payables	44	133
Total	**19,882**	**14,322**

Trade payables are non-interest bearing and are normally settled on contractual terms which typically range from due on presentation of invoice to 30 days. Due to the Company's liquidity issues in 2016 payments have been made on average in excess of the contractual payment terms. Accruals mainly comprise cash calls outstanding to the Bokhtar Operating Company BV joint venture in Tajikistan.

23 Asset retirement obligations

	2016	2015
Balance, beginning of year	846	-
Transfer from liabilities of disposal group held for sale (note 19)	-	966
Change in estimated cash flow	-	(168)
Unwinding of discount due to passage of time	64	48
Balance, end of year	**910**	**846**

The Company makes provision for the future cost of decommissioning oil and gas production facilities and pipelines on a discounted basis. These costs are expected to be incurred between 2017 and 2029. The provision has been estimated using existing technology at current prices, escalated at 5.4% (2015: 5.4%) and discounted at 7.4% (2015: 7.4%). The economic life and the timing of the asset retirement obligation are dependent on Government legislation, commodity prices and the future production profiles of the projects. In addition, the estimated cash outflows are subject to inflationary and/or deflationary pressures in the cost of third party service provision. The undiscounted amount of liability at December 31, 2016 is USD1,704,000 (2015: USD1,797,000).

(tabular amounts in thousands of US dollars, except where noted)

24 Capital and reserves

Share capital and share premium

	Number of shares
Authorised as at December 31, 2015:	
Ordinary shares with a par value of USD0.10 each	700,000,000
Preference shares with a par value of USD0.10 each	50,000,000
Authorised as at December 31, 2016:	
Ordinary shares with a par value of USD0.01 each	1,450,000,000
Preference shares with a par value of USD0.01 each	50,000,000

Ordinary equity share capital Allotted and fully paid	**Date**	**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**
Debt conversion by Olisol[1]	March 21, 2016	37,440,042	3,744	-
Debt conversion by Olisol[2]	April 15, 2016	25,604,419	2,560	-
Par value reduction[3]	August 31, 2016	-	(36,000)	36,000
Private placement[4]	November 29, 2016	87,903,396	879	521
Debt conversion by ALR[5]	December 20, 2016	20,227,854	202	120
At December 31, 2016		**508,136,098**	**5,081**	**358,444**

Note 1 - Issued to Olisol Petroleum Limited at USD0.10 per share on March 21, 2016 for conversion of outstanding indebtedness of USD3,744,004.

Note 2 - Issued to Olisol Petroleum Limited at USD0.10 per share on April 15, 2016 for conversion of outstanding indebtedness of USD2,560,442.

Note 3 - On August 23, 2016 the Grand Court in the Cayman Islands approved a motion by Tethys to reduce the par value of the Company's ordinary shares. Accordingly, on August 31, 2016, the Company reduced the par value of its ordinary shares from USD0.10 per share to USD0.01 per share.

Note 4 - 43,951,698 ordinary shares issued to each of Prax Pte Ltd. And Jin Guang Ltd. at USD0.01593 per share on November 28, 2016 for cash consideration of USD700,000 each.

Note 5 - Issued to Annuity and Life Reassurance Limited at USD0.01593 per share on December 20, 2016 in satisfaction of loan prepayment of USD322,161.

As at December 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 December 31, 2016 is 19,354,500 of which 7,359,000 were exercisable and the number of warrants outstanding is 217,723,333 all of which were exercisable. Loan facilities are in place which are convertible into a total of 234,316,677 ordinary shares, excluding accrued interest. Details of the options and warrants are given in notes 10 and 21.

The preference shares have the rights as set out in the Memorandum and Articles of Association approved at the AGM on April 24, 2008. Significant terms related to preference shares are summarised below:

- May be issued in one or more series;
- Are entitled to any dividends in priority to the ordinary shares;

(tabular amounts in thousands of US dollars, except where noted)

- Confer upon the holders thereof rights in a winding-up priority to the ordinary shares;
- And may have such other rights, privileges and conditions (including voting rights) as the Board may determine prior to the first allotment of any series of preference shares, provided that if a series of preference shares has no or limited voting rights it shall be designated as such by the Board.

There are currently no preference shares outstanding (2015: None).

Other reserves

Other reserves comprise of option reserves and warrant reserves as set out in the Statement of Changes in Equity. The option and warrant reserves relate to stock options issued to employees under the Long Term Incentive Plan and issuance of warrants, details of which are disclosed in note 10.

25 Non-controlling interest

The table below summarise the information relating to subsidiaries in which there is as a material non-controlling interest, before any group eliminations. In each case the non-controlling interest is 15%.

2016	Seven Stars Energy Corporation	Tethys Services Tajikistan Limited	Kulob Petroleum Limited
Non-current assets	-	-	11,984
Current assets	36,282	8	5,552
Non-current liabilities	-	-	-
Current liabilities	(1,117)	(1,133)	(46,796)
Net assets	**35,165**	**(1,125)**	**(29,260)**
Revenue	-	-	-
Profit/(loss) after tax	-	(1)	1
Cash balance at beginning of year	-	-	12
Cash balance at end of year	-	-	1

2015	Seven Stars Energy Corporation	Tethys Services Tajikistan Limited	Kulob Petroleum Limited
Non-current assets	-	1	9,582
Current assets	36,282	8	5,641
Non-current liabilities	-	-	-
Current liabilities	(1,118)	(1,133)	(44,488)
Net assets	**35,164**	**(1,124)**	**(29,265)**
Revenue	-	-	-
Profit/(loss) after tax	(2)	(16)	(25,916)
Cash balance at beginning of year	-	19	262
Cash balance at end of year	-	-	12

(tabular amounts in thousands of US dollars, except where noted)

During 2016, Tethys Services Tajikistan Limited and Kulob Petroleum Limited had cash outflows in respect of operating costs and capitalised exploration and evaluation expenditure and cash inflows in the form of funding from Tethys companies.

26 Related party transactions

A list of the investments in subsidiary undertakings including the name, proportion of ownership interest, nature of business, country of operation and country of registration, is given below.

	Percentage	Nature of business	Country of registration	Country of operation
Subsidiaries				
Tethys Kazakhstan SA	100.00%	Holding company	Belgium	Belgium
Transcontinental Oil Transportation SPRL	100.00%	Holding company	Belgium	Belgium
Seven Stars Energy Corporation	85.00%	Holding company	BVI	Tajikistan
Tethys Tajikistan Limited	100.00%	Holding company]	Cayman Islands	Tajikistan
Imperial Oilfield Services Limited	100.00%	Rig owner	Cayman Islands	Cayman Islands
South Caucasus Petroleum Corporation	100.00%	Holding company	Cayman Islands	Georgia
Trialeti Petroleum limited	100.00%	Georgian licence holder	Cayman Islands	Georgia
Lisi Petroleum Limited	100.00%	Georgian licence holder	Cayman Islands	Georgia
Saguramo Petroleum Limited	100.00%	Georgian licence holder	Cayman Islands	Georgia
Kulob Petroleum Limited	85.00%	Tajik licence holder	Cayman Islands	Tajikistan
Tethyda Limited	100.00%	Financing	Cyprus	Cyprus
Tethys Services Georgia limited	100.00%	Inactive	Georgia	Georgia
Tethys Aral Gas LLP	100.00%	Oil & gas E&P	Kazakhstan	Kazakhstan
Kul-Bas LLP	100.00%	Exploration	Kazakhstan	Kazakhstan
Tethys Services Kazakhstan LLP	100.00%	Service company	Kazakhstan	Kazakhstan
Asia Oilfield Equipment BV	100.00%	Equipment lease company	Netherlands	Kazakhstan
Tethys Services Limited	100.00%	Service company	England & Wales	England
Tethys Petroleum Incorporated	100.00%	Inactive	USA	USA
Tethys Afghanistan Incorporated	100.00%	Inactive	USA	USA
Jointly controlled entities				
Aral Oil Terminal	50.00%	Oil terminal operations	Kazakhstan	Kazakhstan
Bokhtar Operating Company BV	28.33%	Joint operating company	Netherlands	Tajikistan

Transactions between the Company's subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Olisol Investments Limited and Olisol Petroleum Limited

Alexander Abramov, former Chairman and Non-Executive Director of Tethys Petroleum Limited, and Alexander Skripka, the Company's former Chief Commercial Officer are controlling parties of Olisol Investments Limited and its wholly owned subsidiary Olisol Petroleum Limited (together "Olisol"). Olisol and the Company are:

(i) Equal partners in the Aral Oil Terminal ("AOT"), a limited liability partnership in Kazakhstan. All of the oil produced and sold by the Company is trans-shipped through the AOT. At December 31, 2016, AOT had a loan owing to Olisol, including accrued interest, of USD3,278,000 (2015: USD3,063,000) and a loan owing to the Company of USD2,727,000 (2015: USD2,547,000);

(ii) Parties to the Interim Financing Facility and Facility Amendment Agreement, details of which are given in note 21;

(iii) Parties to the Amended and Restated Investment Agreement under which Olisol undertook by October 27, 2016 to provide equity investments to Tethys in the amount of CDN9.8 million and also extended a working capital loan in the amount of USD5.7 million which Olisol could convert into additional shares ("Investment Agreement"). Olisol did not perform its financing obligations under the Amended and Restated Investment Agreement and has sought to terminate the Amended and Restated Investment Agreement and demand repayment of its loan. The Company does not believe that Olisol has the right to terminate the Amended and Restated Investment Agreement or that the loan is repayable.

Eurasia Gas Group

Alexander Skripka, the former Company's Chief Commercial Officer, is the controlling party of Eurasia Gas Group LLP ("EGG"). EGG is the sole customer for oil produced by the Company and purchases the oil at the wellhead. In 2016 oil sales of USD1,977,000 were made by the Company to EGG (2015: USD5,898,000). At December 31, 2016 amounts owing to the Company by EGG for oil sales amounted to USD1,454,000 (2015: USD566,000).

EGG has arranged a loan for the Company from a Kazakh bank which is repaid as a deduction from oil sales. Further details of this arrangement are given in note 21.

EGG is also the sole customer of the AOT. In the six months to June 30, 2016 (latest date information has been made available to the Company) EGG paid trans-shipment fees of USD228,000 to the AOT (December 31, 2015: USD1,196,000). At June 30, 2016 the AOT had a loan owing to EGG, including accrued interest, of USD2,596,000 (December 31, 2015: USD2,592,000).

Pope Asset Management and Annuity and Life Reassurance Ltd

Pope Asset Management ("PAM"), together with Annuity and Life Reassurance Ltd ("ALR") and other PAM affiliates own or controls 17.3% of the Company's shares as a result of which they considered to be related parties of the Company. The Company has received two loans from ALR, further details of which are disclosed in note 21.

(tabular amounts in thousands of US dollars, except where noted)

Remuneration of key management personnel

Key management personnel have been identified as five Vice Presidents, the CEO, one Executive Director and the Non-Executive Directors (2015: five Vice Presidents, three Executive Directors and the Non-Executive Directors) who have served during the year. The remuneration of the key management personnel of the Company is set out below in aggregate.

	2016	**2015**
Salaries and short-term employee benefits	2,006	2,931
Share-based payments	402	386
Termination payments	584	168
Total	2,992	**3,485**

Transactions with affiliates or other related parties including management of affiliates are recorded at their exchange amount.

27 Changes in working capital

	2016	**2015**
Trade and other receivables	(2,822)	2,431
Inventories	203	479
Trade and other payables	5,564	4,582
Change in working capital	2,945	7,492
Non-cash transactions	(1,471)	(8,015)
Net changes in working capital	**1,474**	**(523)**

Net changes in working capital are categorised in the Consolidated Statement of Cash Flows as follows:

	2016	**2015**
Operating activities	1,249	752
Investing activities	225	(1,275)
Balance	**1,474**	**(523)**

28 Commitments 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.

Contingent liability - Claim against the Company by EGG

On October 27, 2016, the Company announced that on October 26, 2016 the Company was notified of a claim lodged by EGG in the Almaty City Court against the Company's subsidiary TAG. EGG is seeking an award equivalent to USD2.6 million at current exchange rates for the alleged failure by TAG to deliver certain minimum volumes of crude oil to EGG. EGG is a company whose principal is also a principal of Olisol. EGG's claim followed TAG's formal notification to EGG requiring it to settle long overdue unpaid oil sales debts of USD1.3 million within 10 days or TAG would take Court action against EGG to recover those debts.

The Company's view is that EGG's claim is without merit or substance as TAG has no contractual obligation to deliver minimum volumes of crude oil to EGG, nor is there any penalty clause in contracts entered into between TAG and EGG for failure to deliver minimum volumes of crude oil. The Company is also of the view that EGG has not followed correct legal process which requires it to notify the Company at least 30 days prior to filing a claim with the Court.

On February 1, 2017, the Company announced that the Almaty City Court found in favour of TAG in rejecting the appeal of EGG against the previous court ruling of December 26, 2016, which also found in favour of TAG.

As a result of EGG's claim against TAG, restrictions have been in place over TAG's bank accounts pending the hearing of EGG's appeal. Following the rejection of EGG's appeal, TAG applied to the court to have these restrictions removed which the court approved and were implemented. A few days later EGG submitted an amended claim to the Court which resulted in new restrictions being imposed on most of TAG's bank accounts.

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.

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.

(tabular amounts in thousands of US dollars, except where noted)

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. The Company has accrued in 2016 for penalties of USD592,000 relating to the under fulfillment of financial commitments under the agreed Kazakh work programmes. The Company has been working with the authorities to have these withdrawn or reduced due to mitigating circumstances. Under Kazakh regulations two or more contractual violations, e.g. significant non-fulfillment of financial obligations which are not remedied by a sub-soil user or waived by the authorities, gives the Kazakh authorities the right to unilaterally terminate a sub-soil user's licence. In the event of a contractual violation the Company actively engages with the authorities in order to agree to a remedy or waiver to mitigate the risk of termination. At the date of this report the Company had not received any notifications from the authorities that they were intending to cancel or suspend any of the Company's sub-soil licences.

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.

The work programme commitments in Kazakhstan 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		5,661	1,570	8,840
Investments		2,452	565	3,806
Kyzyloi Production Contract (Gas)	2029			
Financial obligations, total		1,565	1,484	10,751
Investments		1,162	748	9,631
Akkulka Exploration Contract (Oil)	2019			
Financial obligations, total		5,270	3,478	11,156
Investments		4,143	1,599	8,460
Kul-Bas Exploration Contract	2017			
Financial obligations, total		410	146	6,471
Investments		386	89	6,119
Total				
Financial obligations, total		**12,906**	**6,678**	**37,218**
Investments (subset of Financial obligations)		**8,143**	**3,001**	**28,016**

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 December 31, 2016, the Company had reimbursed the Kazakh State USD702,144 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 a two year extension to November 11, 2017 subject to approval of an appraisal extension project and work programme, which has been done and subsequent registration of a suitable addition to the contract which is awaiting signing.

Tajikistan

The Company has an effective 28.33% interest (33.33% interest via its 85% owned subsidiary) in the Bokhtar Production Sharing Contract with partners Total and CNPC (the "Partners") each having a 33.33% interest. Under the terms of the farm-out agreement entered into on September 18, 2013 with the Partners the Company was only required to contribute 11.11% or USD9.0 million of the first USD80.0 million of the initial work programme. As at December 31, 2016, the Company and the Partners had contributed in excess of USD100.0 million to the Bokhtar Operating Company of which the Company's share was USD16.3 million. Apart from cash call request the Company has not been provided with information by the joint operating company since August 2015 as a result of being in default of cash calls in the amount of USD12.7 million.

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 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 (and continuing) plus an award of costs. KPL has submitted its answer to the request for arbitration to the court setting out its arguments against the Partners' claim and its counter-claim which is the first stage of the arbitration proceedings. The costs of the arbitration could be significant, although KPL has actively sought to reach an amicable resolution with the Partners and will continue to do so. There is no guarantee in place of KPL's obligations by the Company.

Total informed the Company in May 2016 that it has been required to pay the equivalent of USD5.0 million to the tax authorities in Tajikistan in relation to the farm-out of the Company's interest to Total in 2013. Total is seeking to have the Company indemnify it for these taxes under the terms of the farm-out agreement. The Company does not agree with Total's interpretation of the farm-out agreement or that it is liable to indemnify Total for these taxes. No similar claim has been received from CNPC although the terms of the farm-out with CNPC were the same for Total and CNPC.

(tabular amounts in thousands of US dollars, except where noted)

Georgia

The Company has a 49% interest in three blocks in Eastern Georgia (XIA, XIN and XIM) 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 was reduced and deferred on all 3 blocks. This involved ground based gravity work which was completed in Q3 2015 at a net cost to Tethys of USD0.6m and required focused 2D seismic acquisition in 2016 at a cost to Tethys of USD0.9m after which the joint venture would be required to make an informed decision in 2017 whether to drill or cease further activity with contingent drilling of any wells in 2018.

On January 16, 2017 the Company was notified that it will not be required to complete the previously agreed work programme commitment to conduct 50 km of 2D seismic acquisition in Block XIN by June 30, 2017 which would have cost Tethys approximately USD700,000. Instead of the previously agreed commitment the agency will evaluate whether the partners should instead conduct 50 km of 2D seismic acquisition over an alternative prospective area. The deadline for any such work has not yet been determined.

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 believes the claim is without foundation or merit and 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.

29 Operating leases

Leases as a lessee:

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

	2016	2015
Less than 1 year	230	611
1 – 3 years	135	722
Greater than 3 years	-	75

In February 2017, the lease for the group's London office was terminated by mutual agreement of the parties. As a result, lease commitments less than 1 year were reduced from USD230,000 to USD159,000 and lease commitments between 1 to 3 years were reduced to nil. 2016 expenditure on lease commitments included in the consolidated statement of comprehensive income amounted to USD541,000 (2015: USD1,060,000).

30 Subsequent events

Georgia work programme commitments

On January 16, 2017 the Company announced that Tethys' partner in Georgia, Georgia Oil and Gas Limited ("GOG"), has been notified by the Georgian State Agency of Oil and Gas that GOG and Tethys will not be required to complete the previously agreed work programme commitment to conduct 50 km of 2D seismic acquisition in Block XIN by June 30, 2017 which would have cost Tethys approximately USD700,000.

Had the minimum commitments previously agreed not been met then Tethys may have been subject to penalties of up to USD2 million.

Instead of the previously agreed commitment the agency will evaluate whether the partners should instead conduct 50 km of 2D seismic acquisition over an alternative prospective area. The deadline for any such work has not yet been determined.

Loan restructuring amendments

On January 27, 2017 shareholders at the Company's Extraordinary General Meeting approved the amendments to the two loan agreements between the Company and Annuity and Life Reassurance Limited which had been entered into on December 20, 2016. The main changes to the loan agreements are to:

(i) extend the maturity dates to January 27, 2020
(ii) provide that the loans are convertible in whole, or in part, at ALR's option at any time prior to the extended maturity date at a conversion price of USD0.031
(iii) add a covenant that, other than a loan with a bank, the Company may not enter into any new secured loan or amend an existing loan to provide security, unless ALR consents to such loan or is provided with equivalent security, and
(iv) amend the interest rate payable to provide that if the loans are converted, semi-annual interest shall accrue at a rate of 4% per annum payable only at the time of conversion through the issuance of ordinary shares at the USD0.031 conversion price, however, if any part of the loans are not converted, but rather repaid at maturity, the interest rate shall be 9%

Rig loan extension of maturity dates

The Company has agreed amendments to the loan agreement entered into on February 13, 2014 by a wholly owned subsidiary of the Company as borrower, the Company as guarantor and a group of lenders and which had various maturity dates between February and June 2017 i.e. three years after the receipt of each lender's tranche.

The loan, which bears interest at 12% per annum and has a principal amount currently outstanding of approximately USD3.5 million, is secured by the shares of the borrower, which in turn owns two drilling rigs and related equipment.
The lenders have agreed to an extension of the maturity dates by 18 months. They will continue to receive the same equal monthly payments as before, incorporating interest and capital, together with a single balloon repayment of the remaining amount due at the new maturity dates.

The Company retains the option to repay the loan early, without penalty, and may choose to do so if it is able to secure a buyer for one or both of the drilling rigs or a bank loan which would provide the funds to repay the lenders. Refer also to note 21.

Corporate - USD6.0 million loan financing extension of maturity dates

The Company has agreed amendments to the loan agreement which had a maturity date on January 28, 2017. The loan bears interest at 10.5% per annum and has a principal amount currently outstanding of approximately USD7.9 million. The lender has agreed to an extension of the maturity date by two years to January 28, 2019. The interest rate on the loan has been increased to 12% and there are scheduled quarterly repayments of principal as well as a requirement for additional principal repayments in certain circumstances. The Company can also choose to repay the loan prior to the maturity date without penalty. Refer also to note 21.

Tethys Petroleum Limited to cancel listing in the United Kingdom

On March 24, 2017 the Company announced that it had applied to the United Kingdom Listing Authority ("UKLA") to cancel the standard listing of the Company's ordinary shares (the "Shares") from the Official List of the UKLA and the cancellation of trading in the Shares on the Main Market of the London Stock Exchange.

Tethys Petroleum Limited

Management's Discussion and Analysis
for the year ended December 31, 2016

Content

The Tethys Petroleum Limited Annual Report and Accounts for 2016 consists of three documents as detailed below:

1) Management's Discussion & Analysis: this includes the documents required to be disclosed pursuant to National Instrument 51-102 of Canadian Securities Administrators "Continuous Disclosure Obligations" ("Canadian NI 51-102") in respect of an annual Management's Discussion & Analysis and the documents required to be disclosed pursuant to Disclosure and Transparency Rules ("DTR") 4.1 "Annual Financial Report"; and
2) Annual financial information: this includes the Consolidated Financial Statements, the documents required to be disclosed pursuant to Canadian NI 51-102 with respect to an annual financial report and the documents required to be disclosed pursuant to DTR 4.1 and;
3) The Annual Information Form ("AIF"): this includes the documents required to be disclosed pursuant to Canadian NI 51 –102 and DTR 4.1 and the statement which is required to be presented in accordance with DTR 7.2 "Corporate Governance Statements".

The following Management's Discussion and Analysis ("MD&A") is dated March 31, 2017 and should be read in conjunction with the Company's audited Consolidated Financial Statements and related notes for the year ended December 31, 2016. The accompanying Consolidated Financial Statements of the Company have been prepared by management and approved by the Company's Audit Committee and Board of Directors. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and in accordance with the requirements of the DTR with respect to DTR 4.1 "Annual Financial Report" of the Financial Conduct Authority in the United Kingdom as applicable to annual financial reporting. Amounts are stated in US dollars unless otherwise noted. Additional information relating to the Company can be found on the SEDAR website *www.sedar.com* and the Company's website at *www.tethyspetroleum.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.

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"). On March 24, 2017 the Company announced that it had applied to cancel its listing on the LSE, further details are provided below under *"Significant events and transactions subsequent to the year-end".*

Financial highlights

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

	Twelve months ended December 31				
	2016	**2015**	**Change**	**2014**	**Change**
Oil and gas sales and other revenues	11,734	22,135	(47%)	27,389	(57%)
Loss for the period:					
– continuing operations	(46,850)	(74,603)	(37%)	(15,473)	203%
– discontinued operations	-	(28)	(100%)	(912)	(100%)
	(46,850)	(74,631)	(37%)	(16,385)	186%
Basic and diluted loss (USD) per share					
– continuing operations	(0.12)	(0.22)	(45%)	(0.05)	140%
– discontinued operations	-	-	0%	-	0%
Adjusted EBITDA[1]	(3,253)	(10,569)	(69%)	(12,286)	(74%)
					0%
Capital expenditure	1,408	8,293	(83%)	26,069	(95%)

	As at 31 December				
	2016	**2015**	**Change**	**2014**	**Change**
Total assets	159,904	190,595	(16%)	238,695	(33%)
Cash & cash equivalents	449	3,272	(86%)	3,112	(86%)
Cash & cash equivalents – held in a disposal group[2]	-	-	-	757	(100%)
Short & long term borrowings	33,249	32,032	4%	10,628	213%
Short & long term borrowings – held in a disposal group[2]	-	-	-	4,871	(100%)
Total non-current liabilities	12,867	34,644	(63%)	5,489	134%
Total non-current liabilities – held in a disposal group[2]	-	-	-	7,937	(100%)
Net debt[1]	32,800	28,760	14%	11,630	182%
Number of ordinary shares outstanding	508,136,098	336,960,387	51%	336,452,667	51%

Note 1 Adjusted EBITDA and net debt are non-GAAP Measures, refer to page 29 for details.

Note 2 All assets and liabilities of the Kazakh segment were designated as "Assets and Liabilities of a disposal group held for sale" due to the conditional sale of 50% (plus one share) to SinoHan. On May 1, 2015, the Company announced that the sale would no longer be taking place, whereupon the assets and liabilities of the Kazakh segment reverted back to their original positions on the Statement of Financial Position. For further information – refer to note 19 of the 2015 Consolidated Financial Statements.

Twelve months 2016 versus twelve months in 2015

- Oil and gas sales and other revenues decreased by 47% to USD11.7m from USD22.1m due to a natural decline in production volumes and a price reduction for oil in USD terms as a result of the Tenge devaluation from August 2015;
- The loss for the current year of USD46.9m is lower than the loss of USD74.6m in 2015 due to additional depletion in the prior period following the reclassification of assets previously shown as held for sale and a large deferred tax charge due to the significant devaluation of the Kazakhstan Tenge. In addition to this, there was a significant reduction in production expenses and administrative costs as a result of cost optimisation efforts.

Financial highlights - continued

The current year was impacted by a USD25.6m write-off of Tajikistan exploration and evaluation expenditure (2015: USD25.9m) and a USD1.2m impairment charge against Kazakhstan oil properties. Finance costs were higher due to an increase in net debt and higher interest rates. The prior year had a large foreign exchange loss following the devaluation of the Tenge and a write down of the Company's interest in the Aral Oil Terminal joint venture, neither of which recurred in 2016;

- Adjusted EBITDA at negative USD3.3m decreased by 69% from negative USD10.6m for the prior year as a result of reduced costs which more than offset the reduction in revenue;
- Net debt increased to USD32.8m from USD28.8m as a result of interim finance obtained as part of larger strategic transactions which did not complete. A number of the group's loans were restructured and maturity dates extended subsequent to the end of the year, details are given under *"Significant events and transactions subsequent to the year-end"*;
- Total non-current liabilities reduced significantly from USD34.6m to USD12.9m due to loans becoming due in less than one year and being reclassified to current liabilities;
- The number of ordinary shares outstanding increased to 508m from 337m as a result of:
  - 37m shares issues to Olisol Petroleum Limited in March and a further 26m in April on conversion of USD6.3m of debt at USD0.10 per share;
  - 44m shares issued to each of Prax Pte Ltd, and Jin Guang Ltd. in November at USD0.01593 per share in cash;
  - 20m shares issued to Annuity and Life Reassurance Limited in December on conversion of USD0.3m of debt at USD0.01593 per share.
- Cash and cash equivalents at December 31, 2016 were USD0.4m (2015: USD3.3m) although there was an additional USD2.6m of restricted cash which became available to The Company in January 2017.

Operational highlights

	Units	Quarter ended December 31 2016	2015	Change	Twelve months ended December 31 2016	2015	Change
Kazakhstan							
Oil	bopd	584	1,416	(59%)	787	1,568	(50%)
Gas	boe/d	961	2,766	(65%)	1,953	3,077	(37%)
Total	boe/d	**1,545**	**4,182**	**(63%)**	**2,740**	**4,645**	**(41%)**
Oil							
Production	Bbls	53,732	130,251	(59%)	288,185	572,164	(50%)
Oil revenue	USD'000	386	1,014	(62%)	1,977	5,898	(66%)
Production costs	USD'000	572	997	(43%)	2,510	4,856	(48%)
Gross margin	USD'000	**(186)**	**17**	**(1194%)**	**(533)**	**1,042**	**(151%)**
Oil sales price	USD/bbl	7.95	8.98	(12%)	7.78	12.02	(35%)
Cost	USD/bbl	10.65	7.65	39%	8.71	8.49	3%
Gross margin	USD/bbl	**(2.70)**	**1.33**	**(303%)**	**(0.93)**	**3.53**	**(126%)**
Gas							
Production	Mcm	15,022	43,237	(65%)	121,453	190,799	(36%)
Gas revenue net	USD'000	1,111	1,945	(43%)	7,508	12,018	(38%)
Production costs	USD'000	438	842	(48%)	2,027	3,801	(47%)
Gross margin	USD'000	**673**	**1,103**	**(39%)**	**5,481**	**8,217**	**(33%)**
Sales price net[1]	USD/Mcm	62.10	45.09	38%	61.37	60.82	1%
Cost	USD/Mcm	29.16	19.47	50%	16.69	19.92	(16%)
Gross margin	USD/Mcm	**32.94**	**25.62**	29%	**44.68**	**40.90**	9%

Note 1 Using a 2016 average exchange rate of USD1 = Tenge 342.17 (2015: USD1 = Tenge 224.43) for the twelve months and USD1 = Tenge 338.15 (2015: USD1 = Tenge 302.75) for the quarter.

Oil

- Average oil production for the quarter decreased from 1,416 bopd to 584 bopd and for the year from 1,568 bopd to 787 bopd reflecting a natural decline in production from the AKD01 well;
- Oil production cost per barrel for the quarter increased to USD10.65 compared with USD7.65 in Q4 2015. This was mainly due to a decrease in oil production and non-variable costs of production. There was only a small increase in cost per barrel to USD8.71 in 2016 from USD8.49 in 2015, notwithstanding the 50% reduction in production. Total costs were lower due to the lower production volume and also from the Tenge devaluation in August 2015. There has also been a continuing focus on cost optimisation;
- Oil prices averaged USD7.95 per bbl for the quarter (Q4 2015: USD8.98 per bbl) which was mainly exchange rate related and to USD7.78 per bbl for 2016 (2015: USD12.02), reflecting the fall in world oil price which has impacted the domestic Kazakh price the Company receives and the devaluation of the Tenge.

Gas

- Current quarter gas production averaged 961 boe/d compared with 2,766 boe/d in Q4 2015. This was due to a temporary stoppage of gas production between October 18, 2016 and December 9, 2016 whilst contractual matters were resolved with the customer Intergas Central Asia JSC ("ICA") as well as a natural decline in production with no new wells coming on line. Gas production averaged 1,953 boe/d for 2016 compared with 3,076 boe/d for 2015, reflecting a natural decline in overall production with no new wells coming online and the abovementioned stoppage period;

Operational highlights - continued

- Gas production cost per Mcm in the current quarter increased to USD29.16 compared with USD19.47 in Q4 2015 mainly due to the disruption to the abovementioned gas stoppage period and the impact of non-variable costs of production with declining production volumes. Costs decreased to USD16.69 in 2016 compared with US19.92 2015 despite lower production volume as a result of the Tenge devaluation in August 2015 and a continuing focus on cost optimisation;
- 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 an increase of 38% for the quarter to USD62.10 per Mcm from USD45.09 per Mcm in Q4 2015 and to USD61.37 per Mcm in 2016 compared with USD60.82 per Mcm in 2015, net of sales costs.

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 33 of this MD&A.

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

The Company's long-term ambition is to achieve a significant role in the production and delivery of hydrocarbons from the Central Asian region to local and global markets, especially to the Chinese market. In common with many oil and gas companies, in implementing its strategies, the Company regularly considers farm-out/farm-in and joint venture opportunities and new projects which provide synergy with the Company's activities. Meanwhile, the specific focus of management in the short term is to:

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

Significant events and transactions for the year

- *Olisol transaction updates*

On February 8, 2016 the Company announced that Olisol had 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 ("LOI") which would include changes to the Interim Facility and the Investment Agreement which the Company announced entering into on December 8, 2015.

On February 22, 2016 the Company announced 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 Interim 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 would work with a bank in Kazakhstan to secure a loan for the Company's subsidiary, Tethys Aral Gas LLP ("TAG"), 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 181.2 million 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 USD6.25 million under the Interim Facility into equity, the Board would 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.

On March 21, 2016, Olisol converted USD3.7 million of the outstanding amount into 37.4 million shares. On April 15, 2016, Olisol converted a further USD2.6 million of the outstanding amount into 25.6 million shares.

On April 28, 2016 the Company entered into a binding investment agreement (the "Amended and Restated Investment Agreement") with Olisol setting out the terms and conditions upon which it 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 would generate proceeds of CAD2.7 million for a total of CAD12.5 million. The Amended and Restated Investment Agreement amended and restated the investment agreement announced on December 8, 2015.

On September 2, 2016, the Company announced that the Amended and Restated Investment Agreement requires a closing date two business days after all closing conditions have been satisfied or waived by the parties and the Company was therefore prepared to complete the private placement with Olisol on September 2, 2016 as originally scheduled or to agree a short extension with Olisol if Olisol met certain funding commitments. As Olisol did not do so the Company announced that it considered Olisol to be in breach of the Amended and Restated Investment Agreement, however, the Company would continue to work with Olisol to complete the private placement.

On October 20, 2016 the Company announced that it acknowledged Olisol's press release dated October 12, 2016 ("Release") whilst wishing to clarify certain matters pertaining to Olisol's Release.

Olisol stated in its Release that it intended to direct Tethys to apply all funds to be repaid to Olisol in connection with outstanding working capital advances, plus accrued interest thereon, to its obligation to subscribe for 181.2 million ordinary shares at CAD0.054 per share.

Tethys clarified that under the Amended and Restated Investment Agreement Olisol was required to transfer the full purchase price of CAD9.8 million (USD7.3m equivalent) for 181.2 million ordinary shares to Tethys prior to the closing date.

In addition to this, Tethys clarified that under the Amended and Restated Investment Agreement, Olisol has the right to convert any amounts outstanding under the Interim Facility and any amounts of working capital indebtedness, in each case with accrued but unpaid interest thereon, into Tethys ordinary shares at the placing price of CAD0.054 per share.

On October 27, 2016 the Company announced that the private placement with Olisol had not closed by the October 27, 2016 outside date under the Amended and Restated Investment Agreement. Tethys took all steps required to close the private placement and was ready, willing and able to do so, however, Olisol failed to provide Tethys with any of the CAD9.8 million purchase price required to purchase the subscription shares under the Amended and Restated Investment Agreement. Therefore, Tethys considers Olisol to be in breach of the Amended and Restated Investment Agreement and has reserved all of its legal rights.

Olisol sent a letter to the Company claiming that it is entitled to terminate the Amended and Restated Investment Agreement as a result of a material adverse change (as defined in the Amended and Restated Investment Agreement) having occurred. In addition, Olisol also demanded immediate repayment, in full, of the outstanding USD5.7 million of working capital indebtedness under the terms of the Interim Facility as Olisol alleges an event of default has occurred. Tethys disagrees with Olisol that it has the right to terminate the Amended and Restated Investment Agreement and further disagrees that there has been an event of default under the Interim or that the amount is repayable.

- *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 was also 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).

- *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 proposed USD10 million loan facility from a Kazakhstan bank. The loan interest on the initial USD1 million is 11%, maturing in July 2017 and also included a six-month principal grace period.

  Under the Amended and Restated Investment Agreement Olisol undertook to work with Tethys and a Kazakh bank to obtain a bank loan of not less than USD10 million for TAG ("TAG Loan") and to date Olisol has not been able to complete the TAG Loan and the Company has not received any further drawdowns.

- *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 the Partners on October 11, 2015, following the Company's 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 tried to engage with the Partners to reach an amicable resolution. The arbitration process has commenced although hearings have not yet been held.

- *Director and management 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 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 James Rawls all informed the Company that they would not stand for re-election at the AGM.

  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. On October 14, 2016, his position as Chief Commercial Officer was terminated.

  On August 2, 2016, the Company announced the appointment of Kenneth 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 when his position would be reviewed.

On November 3, 2016, The Company announced that Alexander Abramov had been removed from the Board of Directors of the Company by a majority vote of the Board and in accordance with the Company's Articles of Association. Alexander Abramov was replaced as Chairman of the Board by William Wells. In addition to the board changes, Kenneth May was confirmed as the Company's permanent Chief Executive Officer.

On November 16, 2016 the Company announced the appointment of Mattias Sjoborg to the Board of Directors of the Company.

- *Par value reduction of ordinary shares from USD0.10 to USD0.01 per share*

On August 23, 2016 the Grand Court in the Cayman Islands approved a motion by Tethys to reduce the par value of the Company's ordinary shares. Accordingly, on August 31, 2016, the Company reduced the par value of its ordinary shares from USD0.10 per share to USD0.01 per share. The par value reduction exercise was performed to facilitate the Amended and Restated Investment Agreement between Tethys and Olisol.

- *Cost optimisation*

Also on August 23, 2016 the Company announced a new cost optimisation programme that, once fully implemented, should save the company an estimated USD2.5 million a year. The programme followed an extensive review into costs and operations that was started after the Company's May 31, 2016 AGM.

- *Kazakhstan legal proceedings*

Also on August 23, 2016 the Company provided an update to the Q2, 2016 Consolidated Financial Statements where it was reported that the assets of one of the Company's Kazakhstan subsidiaries remained frozen after the first court hearing of a claim brought against the Company by a private individual in relation to the USD7.5 million debenture due June 30, 2017 originally issued to AGR Energy Limited No.1. The Court was scheduled to hold further hearings on Tuesday, August 23 and Tethys expected a release of its assets and dismissal of all claims. Tethys had been working tirelessly to resolve what it believed to be an unfounded claim.

On September 2, 2016 the Company provided an update that on August 24, 2016 the Court dismissed the claim and ordered the lifting of the seizure order over the Company's assets. The claimant lodged an appeal on August 29, 2016 and until the appeal was heard restrictions remained in place over the operation of the Company's bank accounts in Kazakhstan.

On September 30, 2016 the Company announced that the Almaty City Court's Board of Appeals found in favour of Tethys by dismissing the previously announced appeal of the claimant and upholding the earlier court decision on August 24, 2016 to lift the seizure order over the Company's assets. The Court's decision was effective immediately, with no right of further appeal and restrictions over the operation of the Company's bank accounts in Kazakhstan were lifted.

- *Claim against the Company by EGG*

  On October 27, 2016 the Company announced that on October 26, 2016 the Company was notified of a claim lodged by EGG in the Almaty City Court against the Company's subsidiary TAG. EGG is seeking an award equivalent to USD2.6 million at current exchange rates for the alleged failure by TAG to deliver certain minimum volumes of crude oil to EGG. This amount is equivalent to the advance for oil sales made to the Company by EGG, net of amounts owing to the Company by EGG for oil sales. EGG is a company whose principal is also a principal of Olisol. EGG's claim followed TAG's formal notification to EGG requiring it to settle long overdue unpaid oil sales debts of USD1.3 million within 10 days or TAG would take Court action against EGG to recover those debts.

  The Company's view is that EGG's claim is without merit or substance as TAG has no contractual obligation to deliver minimum volumes of crude oil to EGG, nor is there any penalty clause in contracts entered into between TAG and EGG for failure to deliver minimum volumes of crude oil. The Company is also of the view that EGG has not followed correct legal process which requires it to notify the Company at least 30 days prior to filing a claim with the Court. As a consequence of EGG's claim the bank accounts of TAG have been blocked.

- *Tethys gas sales contract*

  On November 1, 2016 the Company announced that it acknowledged the press release by Olisol on October 28, 2016 relating to TAG's gas sales contract with ICA, the Kazakh State-owned gas transport company ("Gas Contract"). Olisol's unauthorized release of confidential information contained factual inaccuracies and Tethys issued a clarification.

  Prior to Olisol's press release, Tethys had filed a confidential material change report (the "Report") with the relevant Canadian securities regulator as it is permitted to do under applicable Canadian securities laws. Tethys filed the Report confidentially as the Company contests the grounds for the cancellation of the receipt of gas by ICA and its right to terminate the Gas Contract, was in discussions with ICA and Kazakh Government officials regarding such matters, and was hopeful that such matters would be resolved amicably and to the satisfaction of all parties in the near future.

  As such, the Company believed that disclosure of the cancellation of receipt of gas and the termination of the Gas Contract would be unduly detrimental to the interests of Tethys, and potentially be misleading or confusing to investors, in the event that the Company was successful in having the Gas Contract reinstated.

  Contrary to Olisol's assertion that the cancellation of the Gas Contract is irrevocable, the Company continued discussions with ICA and Governmental officials, believing that there remained a reasonable prospect that ICA would reinstate the Gas Contract. Further, the Company does not believe that the loss of the gas sales to date has been material to the Company.

  On December 12, 2016, the Company announced that ICA had notified TAG that it intended to continue accepting gas produced by TAG under the existing gas sales contract ("Gas Contract") and gas supply by TAG to ICA recommenced on December 9, 2016.

- *Proposals to acquire shares in the Company*

On November 6, 2016, the Company announced that it had received non-binding proposals from two private investors which would result in each investor acquiring approximately 9.9% (when measured individually against the current number of shares outstanding) of the enlarged share capital of the Company. The price for the ordinary shares would be USD0.01593 per share and the total proceeds would amount to approximately USD1.4m. The investors would also be granted warrants giving them the right to acquire additional ordinary shares of Tethys with an exercise price of USD0.031 per share. Each of the investors would be appointed to the Board of the Company on closing of the placings. If completed, the placements would bring much needed funding to the Company as well as provide it with strong in-country partners in Kazakhstan and internationally.

On November 29, 2016 the Company announced it had completed the placements.

- *Allegations made against Tethys Aral Gas LLP employees. Searches and seizures at the office of Tethys Aral Gas LLP, Tethys Services Kazakhstan LLP and Kul-Bas LLP*

On November 6, 2016 the Company announced that on November 1, 2016 allegations of improper conduct were made against certain employees of TAG in an action initiated by the Company's former Chairman Alexander Abramov and searches and seizures at TAG's offices in Kazakhstan took place by law enforcement agencies.

On November 15, 2016 the Company announced that the claims had been dismissed and that Tethys wished to acknowledge the assistance of the Office of the Almaty City Prosecutor in quickly reviewing the claims and dismissing the case. Property taken during the investigation was returned to the Company and the Company announced that it was working to have the Court imposed freezing order over TAG's bank accounts lifted and normal business operations restored as soon as possible.

Alexander Abramov has since appealed the decision to dismiss the case which is ongoing. The Company has been working to have Alexander Abramov removed as a party to the case and for it to be concluded as soon as possible.

- *Prepayment of debt and amendment to debt agreements*

On December 20, 2016, the Company announced that it has prepaid approximately USD0.3 million of the USD3.5 million non-convertible loan received on March 20, 2015 and due on March 20, 2017 from Annuity and Life Reassurance Ltd. ("ALR"), an affiliate of Pope Asset Management Inc. and had entered into amendment agreements with ALR to the loan as well as to the USD1.76 million convertible debenture issued to ALR on June 1, 2015 and due June 30, 2017. The prepayment was satisfied by the issuance of 20.2 million ordinary shares at USD0.01593 per share. The amendments to both loans became effective on January 27, 2017 following receipt of shareholder approval and:

(i) extend the maturity dates of the loan and debenture to January 27, 2020
(ii) provide that the loans are convertible in whole, or in part, at ALR's option at any time prior to the extended maturity date at a conversion price of USD0.031;
(iii) add a covenant that, other than a loan with a bank, the Company may not enter into any new secured loan or amend an existing loan to provide security, unless ALR consents to such loan or is provided with equivalent security, and
(iv) amend the interest rate payable to provide that if the loans are converted, semi-annual interest shall accrue at a rate of 4% per annum payable only at the time of conversion

through the issuance of ordinary shares at the USD0.031 conversion price, however, if any part of the loans are not converted, but rather repaid at maturity, the interest rate shall be 9%.

Significant events and transactions subsequent to the year-end

- *Georgia work programme commitments*

  On January 16, 2017 the Company announced that Tethys partner in Georgia, Georgia Oil and Gas Limited ("GOG"), has been notified by the Georgian State Agency of Oil and Gas that GOG and Tethys will not be required to complete the previously agreed work programme commitment to conduct 50 km of 2D seismic acquisition in Block XIN by June 30, 2017 which would have cost Tethys approximately USD0.7 million.

  Had the minimum commitments previously agreed not been met then Tethys may have been subject to penalties of up to USD2 million.

  Instead of the previously agreed commitment the agency will evaluate whether the partners should instead conduct 50 km of 2D seismic acquisition over an alternative prospective area. The deadline for any such work has not yet been determined.

- *Kazakhstan change of registered address and relocation of office to Aktobe City*

  Also on January 16, 2016 the Company announced that in December 2016 Tethys completed the transfer of the registered legal addresses of its three Kazakhstan subsidiaries, Tethys Aral Gas LLP, Kul-bas LLP and Tethys Services Kazakhstan LLP from Almaty to Aktobe City and that Tethys also plans to relocate its main administrative office from Almaty to Aktobe City during the first half of 2017 where it already has an office.

  These changes are part of an ongoing process of corporate reorganisation and cost optimisation. Tethys field operations and exploration acreage are both in the Aktobe region which is in the west of Kazakhstan and Aktobe City is the main regional centre.

- *Appointment of director*

  On January 20, 2017 Medgat Kumar was appointed to the Board of Directors of the Company.

- *Results of Extraordinary General Meeting*

  On January 27, 2017 the Company held its Extraordinary General Meeting ("EGM") and announced that all resolutions put to shareholders at the EGM were passed on a poll at the meeting including the Warrant Exercise Resolution and the Debt Conversion Resolution.

- *Rig loan extension of maturity dates*

  The Company has agreed amendments to the loan agreement entered into on February 13, 2014 by a wholly owned subsidiary of the Company as borrower, the Company as guarantor and a group of lenders and which had various maturity dates between February and June 2017 i.e. three years after the receipt of each lender's tranche.

The loan, which bears interest at 12% per annum and has a principal amount currently outstanding of approximately USD3.5 million, is secured by the shares of the borrower, which in turn owns two drilling rigs and related equipment.

The lenders have agreed to an extension of the maturity dates by 18 months. They will continue to receive the same equal monthly payments as before, incorporating interest and capital, together with a single balloon repayment of the remaining amount due at the new maturity dates.

The Company retains the option to repay the loan early, without penalty, and may choose to do so if it is able to secure a buyer for one or both of the drilling rigs or a bank loan which would provide the funds to repay the lenders.

- *Court ruling in favour of Tethys and unblocking of bank accounts*

  On February 1, 2017 the Company announced that the Almaty City Court found in favour of Tethys' wholly owned subsidiary, TAG, in rejecting the appeal of EGG against the previous court ruling of December 26, 2016, which also found in favour of TAG.

  As a result of EGG's claim against TAG, restrictions have been in place over TAG's bank accounts pending the hearing of EGG's appeal. Following the rejection of EGG's appeal, TAG applied to the court to have these restrictions removed which the court approved and were implemented allowing TAG to operate its bank accounts normally with full and unrestricted access to its bank accounts. A few days later EGG submitted an amended claim to the Court which resulted in new restrictions being imposed on most of TAG’s bank accounts and these remain in place at the date of this MD&A.

- *Announcement from Olisol*

  On February 10, 2017s the Company acknowledged the public announcement by Olisol on February 9, 2017 regarding the validity of Tethys EGM held on January 27, 2017.

  The Tethys Board informed shareholders and other interested parties that the Management Information Circular dated December 22, 2016 mailed to shareholders did contain all material information required for shareholders to make an informed decision at the EGM and the EGM was conducted in accordance with proper procedure under applicable laws as well as the Company's Articles of Association.

  Prior to the EGM, Tethys and each of its Kazakhstan subsidiaries commenced legal action against Olisol, EGG and certain of their respective principals and in the Court of Queen's Bench of Alberta. The legal action was to seek, among other things, damages arising from failure to meet contractual obligations under the Amended and Restated Investment Agreement on October 27, 2016 and damages arising from unlawful interference with Tethys' business activities, including issuing erroneous press release information about Tethys as alleged. Tethys intends to enforce its rights and legitimate interests to the fullest extent permitted by law, to protect its investors, assets, investments, management and employees.

- *Tethys Petroleum Limited to cancel listing in the United Kingdom*

  On March 24, 2017 the Company announced that it had applied to the United Kingdom Listing Authority (“UKLA”) to cancel the standard listing of the Company’s ordinary shares (the

"Shares") from the Official List of the UKLA and the cancellation of trading in the Shares on the Main Market of the London Stock Exchange (together, the "Cancellation"), following a determination by the Company that the costs of maintaining a dual listing on the London and Toronto stock exchanges is unnecessarily expensive for a company of Tethys' size. Following the Cancellation, the Shares will continue to trade on the Toronto Stock Exchange which should provide shareholders with liquidity and places sufficient corporate governance requirements upon the Company. Further, the Company's conclusion, that the London listing be cancelled, is supported by the limited trading and liquidity of the Shares on the London Stock Exchange (meaning that limited benefit is brought by that listing).

Pursuant to Listing Rule 5.2.8, the Company announced that the cancellation notice period has now commenced and cancellation is expected to take effect at 7:00 am on Tuesday 2 May, 2017.

The Company currently has two share registers, a register maintained by Capita Asset Services in the UK and a register maintained by TSX Trust Company in Canada. It is the Company's intention to transfer the shareholdings on the Capita Asset Services register to the TSX Trust Company register following the Cancellation which should result in further cost savings for the Company.

- *Update on gas drilling program*

On March 29, 2017 the Company announced a ten well shallow gas well drilling program which is expected to cost approximately USD6 million. The Company will have until the end of 2018 fiscal year to pay these costs and expects to be able to pay from increased production. Following mobilization, the Company hopes to begin drilling on or about May 1, 2017. Additionally, the Company will work over three existing wells and tie in two wells drilled but not tied into production. This program is designed to add twelve or more new wells to existing production.

The Company also announced the signing of a lease contract with MSI to build and install a mini-compressor in Bozoi. Installation is expected during the July 2017 time period. This is new technology for Central Asia and is intended to enhance gas production prior to the new wells being tied in. After new production is tied in, then the mini-compressor will be used on older wells to extend the life of wells.

Reserves

Following the completion of the annual evaluation of the Kazakhstan reserves by an independent qualified reserves evaluator, Gustavson Associates Limited ("Gustavson"), of Colorado, USA, in accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities of the Canadian Securities Administrators ("NI 51-101"), the Company announced Total Gross (i.e. before the application of Kazakh Mineral Extraction Tax) Oil and Gas Reserves consisting of "Proved" 1P reserves of 12.17 million BOE (2015: 13.18 million BOE) and "Proved and Probable" 2P reserves of 22.9 million BOE (2015: 23.97 million BOE).

The NPV10 value after tax of the Company's 2P Kazakh reserves as at December 31, 2016 was USD157.6 million (2015: USD183.6 million).

Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. There is a 10% probability that the quantities actually recovered will equal or exceed the sum of proved plus probable plus possible reserves.

Operational Review - continued

The Company's 2016 Annual Information Form includes more detailed disclosure and reports relating to petroleum and natural gas activities for 2016. Both oil and gas reserves are based on availability of sufficient funding to allow development of the known accumulations.

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	199,681	177,785	91	1,954
Q3	17,532	110,274	68,248	92	742	31,159	195,986	156,599	92	1,702
Q4	15,181	95,483	53,732	92	584	26,620	167,434	130,251	92	1,416
Total	**70,550**	**443,747**	**288,185**	**366**	**787**	**109,190**	**686,784**	**572,164**	**365**	**1,568**

The Company produces oil from AKD01 under a pilot production license. AKD01 has been performing to expectation and AKD06 has been shut in since late Q4 2014 due to the lower oil price received and the increased operating costs of a high water-cut well. AKD05 has been off production since November 2015. The option of using enhanced oil recovery ("EOR") techniques for this well is currently being evaluated by Schlumberger, who performs hydrodynamic study for Jurassic Carbonates. A large volume Electrical Submersible Pump ("ESP") has been delivered and will be out into operation to support the AKD01 well when required.

Oil operations update

General

Oil production averaged 584 barrels per day in Q4 from AKD01 only. The well is currently on a 14mm choke with a Flowing Tubing Head Pressure ("FTHP") of 164 psi and an approximate 43% water-cut. The water-cut has been on an increasing trend over the past 16 months and it is expected at some point to require the use of artificial lift (ESP).

AKD05 is currently offline since November 2015 and is expected on in 2017 and possibly AKD06, both depending on the oil price. The current oil price is the equivalent of USD8.79 per barrel following the fall in world oil prices and 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.

Once the effectiveness of the ESP has been determined and AKD05 EOR will prove higher production rates, the Company would then, subject to funding, invest in the required gas utilisation facilities and apply for oil export consent which would enable higher sales prices to be achieved.

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. Current levels of oil production have meant AOT throughput has been insufficient and the AOT has operated at a loss, however, the AOT joint venture has continued to operate since 2013 without recourse to additional loan funding from the joint venture partners including Tethys. Repayments on an external loan have been rescheduled with the agreement of the lender. The Company is considering options to divest its interest in the AOT.

Gas production – Kyzyloi and Akkulka Contracts

	2016				2015			
	Mcm	Mcf	Mcm/d	Boe/d	Mcm	Mcf	Mcm/d	Boe/d
Kyzyloi								
Q1	16,113	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
Q3	16,384	578,532	178	1,048	15,836	559,104	172	1,013
Q4	7,237	255,532	79	463	17,668	623,862	192	1,130
Total	**56,773**	**2,004,642**	**155**	**913**	**53,487**	**1,888,618**	**147**	**862**
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
Q3	16,533	583,766	180	1,058	32,948	1,162,991	358	2,108
Q4	7,784	274,885	85	498	25,569	902,828	278	1,636
Total	**64,680**	**2,283,846**	**177**	**1,040**	**137,312**	**4,848,484**	**376**	**2,214**
Grand total	**121,453**	**4,288,488**	**332**	**1,953**	**190,799**	**6,737,102**	**523**	**3,077**

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 Intergas Central Asia JSC ("ICA"), a division of the Kazakh State natural gas company KazTransGas JSC ("KTG");

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

Gas production decreased by 65% or 307 Mcm per day in the current quarter compared with the same quarter in the prior year primarily as a result of the stoppage of gas production between October 18, 2016 and December 9, 2016 whilst contractual matters were resolved with the customer ICA as well as a natural decline in production with no new wells coming on line.

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 production for September being 345 Mcm/d (12.18 Mcf/d).

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 completed Bozoi-Shymkent-China gas pipeline means that Tethys now has two potential gas export routes that provide alternatives to sell its gas; the route taking gas to the more populous south eastern part of Kazakhstan and, ultimately to China, and the Bukhara Urals trunk line that transports gas from Central Asia into Russia. Currently, the Chinese pipeline is only taking domestic gas within Kazakhstan to Shymkent and it is expected that exports to China to commence at any time, that will allow the Company to realise a higher net sales price. The Company believes that the long term price for gas will rise in the region, in particular dry gas 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.

It is currently planned to conduct 3D seismic acquisition starting in Q1 2017. The goal of the survey is to identify shallow gas targets for drilling in 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, subject to funding, 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. Currently the Company is in tender process for shallow gas well drilling and pipeline tie-in projects.

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 Q2 2017.

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. On September 22, 2016 the company passed the TsCR meeting and received approval on the appraisal extension project for the Kul-Bas area.

Results of Operations and Operational Review - Tajikistan

Since completion of the farm-out to Total and CNPC in 2013, the joint operating company has 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 completed in 2015 with an option for an additional 200 kms. 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. Due to the default situation under the joint operating agreement, 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, 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 (and continuing) 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. The arbitration hearings have not yet commenced.

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 XI^A, XI^M and XI^N, activities performed since the 2013 2D seismic acquisition have focused on the collation, preparation, processing and interpretation of seismic and well data across blocks XI^A and XI^M 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 Norio Operating Company Limited 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 XI^A phase III obligation gravity, 197.5 sq.km of XI^M phase II obligation and 721.1 sq.km of XI^N 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 stipulated the main capital expenditure item to be a minimum of 50km of 2D seismic to be finished and evaluated by July 1, 2017 in XI^N, at an estimated net to Tethys cost of USD1.1m whilst the potential block non-compliance fine is set as USD2m net to Tethys.

Final drill or drop decision points are June 1, 2017 for XI^A and July 1, 2017 for XI^M and XI^N respectively, with any chosen well drilling needing to be complete 12 months later, in 2018.

On November 3, 2016, representatives of the Company and its partner met with the State Agency of Oil and Gas in the Ministry of Energy of Georgia and requested a new extension on the XI^N PSA area. Partners have received the confirmation letter from the Agency whereas the Agency, under Ministry of Georgia, considers to revise the Minimum Work Program deadline for 2D seismic survey and delay it to June 2018. The Agency agreed to this extension subject to the Ministry of Justice approving not to impose any non-compliance penalty and final approval of the Cabinet.

In January 2017, the Company and its partner were advised that they will not be required to complete the previously agreed work programme commitment to conduct 50 km of 2D seismic acquisition in Block XI^N by July 1, 2017. Instead of the previously agreed commitment the agency will evaluate whether the partners should instead conduct 50 km of 2D seismic acquisition over an alternative prospective area. The deadline for any such work has not yet been determined.

Financial Review

Summary of Quarterly Results

	Q4, 2016	Q3, 2016	Q2, 2016	Q1, 2016	Q4, 2015	Q3, 2015	Q2, 2015	Q1, 2015
Oil & gas sales and other revenues	1,631	3,119	3,529	3,455	3,607	5,736	6,838	5,954
Loss for the period – continuing operations – discontinued operations	 (32,203) -	 (4,036) -	 (4,934) -	 (5,677) -	 (43,593) 60	 (3,698) (11)	 (25,278) (36)	 (2,034) (41)
Basic & diluted loss ($) per share: – continuing operations – discontinued operations	 (0.08) -	 (0.01) -	 (0.01) -	 (0.02) -	 (0.13) -	 (0.01) -	 (0.08) -	 (0.01) -
Adjusted EBITDA[1]	(1,093)	(838)	(338)	(934)	(4,248)	(637)	(4,425)	(1,259)
Capital expenditure	354	318	342	394	374	1,938 -	4,034	1,947
Total assets	159,904	187,323	185,634	189,103	190,595	225,170	226,024	243,560
Cash & cash equivalents Cash & cash equivalents – held in a disposal group	449 -	1,800 -	700 -	1,133 -	3,272 -	4,286 -	4,942 -	5,280 1,707
Short & long term borrowings Short & long term borrowings – held in a disposal group	(33,249) -	(34,167) -	(30,502) -	(30,532) -	(32,032) -	(32,479) -	(26,719) -	(16,637) (4,641)
Total non-current liabilities Total non-current liabilities – held in a disposal group	(12,867)	(12,908)	(13,447) -	(31,628) -	(34,644) -	(24,264) -	(23,197) -	(11,468) (814)
Net debt[1]	(32,800)	(32,367)	(29,802)	(29,399)	(28,760)	(28,193)	(21,777)	(14,291)
Number of common shares outstanding	508,136,098	400,004,848	400,004,848	374,400,429	336,960,387	336,839,315	336,712,385	336,543,145

Note 1 Adjusted EBITDA and net debt are non-GAAP Measures, refer to page 29 for details

Financial Review – continued

Loss for the period

	Quarter ended December 31			Twelve months ended December 31		
	2016	**2015**	**Change**	**2016**	**2015**	**Change**
Sales and other revenue	1,631	3,607	(55%)	11,734	22,135	(47%)
Sales expenses	(311)	(647)	(52%)	(2,443)	(4,210)	(42%)
Production expenses	(782)	(1,654)	(53%)	(5,285)	(10,232)	(48%)
Depreciation, depletion & amortisation	(1,715)	(3,727)	(54%)	(9,971)	(28,731)	(65%)
Exploration & evaluation expenditure written off	(25,627)	(25,918)	(1%)	(25,627)	(25,918)	(1%)
Impairment charges	(1,176)	-	100%	(1,176)	-	100%
Administrative expenses	(1,082)	(1,884)	(43%)	(5,461)	(9,492)	(42%)
Restructuring costs	(515)	(340)	51%	(1,915)	(3,247)	(41%)
Transaction costs of assets held for sale	-	-	0%	-	(1,065)	(100%)
Share based payments	(299)	(92)	225%	(482)	(450)	7%
Profit on sale of fixed assets	(10)	-	0%	-	53	(100%)
Foreign exchange loss	(24)	(784)	(97%)	117	(1,715)	(107%)
Gain on derivative financial instruments	-	1,057	(100%)	275	824	(67%)
Loss from jointly controlled entity	-	(2,546)	(100%)	-	(2,796)	(100%)
Finance costs	(478)	(481)	(1%)	(5,313)	(3,329)	60%
Loss before taxation	**(30,388)**	**(33,409)**	**(9%)**	**(45,547)**	**(68,173)**	**(33%)**
Taxation	(1,815)	(10,184)	(82%)	(1,303)	(6,430)	(80%)
Loss for the period from continuing operations	**(32,203)**	**(43,593)**	**(26%)**	**(46,850)**	**(74,603)**	**(37%)**
Loss for the period from discontinued operations	-	60	(100%)	-	(28)	(100%)
Loss for the period	**(32,203)**	**(43,533)**	**(26%)**	**(46,850)**	**(74,631)**	**(37%)**

The Company recorded a net loss after taxation of USD32.2m for the current quarter compared with USD43.5m in Q4 2015 and USD46.8 for 2016 (2015: USD74.6m), the principal variances being:

- Decrease in sales and other revenue due to the impact of lower world oil prices on the Kazakh domestic oil price, the Tenge devaluation in August 2015 and lower production of both oil and gas due to natural decline in overall production and no new wells coming on line. Gas sales expenses are corresponding lower;

- Lower production costs due to lower production of both oil and gas and also the impact of the Tenge devaluation on the translation of Tenge costs;

- Additional depletion in the prior year as a result of the reclassification of the Kazakh assets which were previously shown as held for sale;

- Foreign exchange loss in 2015 from the Tenge devaluation, transaction costs associated with the failed SinoHan transaction and loss from the jointly controlled Aral Oil Terminal which was written down to nil in 2015. These items did not recur in 2016;

- Lower administrative expenses due to cost reduction initiatives including headcount reductions and office closures. Restructuring costs are also lower as a number of restructuring decisions were taken in 2015 and costs fully provided for;

- Lower deferred tax charge. The larger charge in 2015 arose due to a reduction in Tenge denominated tax losses and tax pools in USD terms due to the Tenge devaluation from August 2015.

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

Financial Review – continued

Sales & other revenue

	Quarter ended December 31			Twelve months ended December 31		
	2016	**2015**	**Change**	**2016**	**2015**	**Change**
Summary						
Oil	386	1,014	(62%)	1,977	5,898	(66%)
Gas	1,243	2,592	(52%)	9,772	16,228	(40%)
Other	2	1	100%	(15)	9	(267%)
Total	**1,631**	**3,607**	**(55%)**	**11,734**	**22,135**	**(47%)**
By region						
Kazakhstan - Oil	386	1,014	(62%)	1,977	5,898	(66%)
Kazakhstan - Gas	1,243	2,592	(52%)	9,772	16,228	(40%)
Kazakhstan - Other	2	1	100%	(15)	9	(267%)
Other	-	-	0%	-	-	0%
Total	**1,631**	**3,607**	**(55%)**	**11,734**	**22,135**	**(47%)**

Kazakhstan – Oil revenue and price

	Gross sales bbls	Revenue $000	Realized price at wellhead $/bbl	Compensation $000	VAT $000	Net sales $000
2016						
Q1	79,250	593	7.47	12	64	517
Q2	88,417	702	7.94	14	73	615
Q3	67,119	524	7.81	10	55	459
Q4	55,505	441	7.94	9	46	386
Total	**290,291**	**2,260**	**7.78**	**45**	**238**	**1,977**
2015						
Q1	100,773	1,424	13.00	30	149	1,245
Q2	177,178	2,275	13.00	26	241	2,008
Q3	152,267	1,863	12.24	38	194	1,631
Q4	129,085	1,160	8.98	25	121	1,014
Total	**559,303**	**6,722**	**12.02**	**119**	**705**	**5,898**

- Under the pilot production licence oil can only be sold in the domestic Kazakhstan market;
- Net figures exclude the compensation for water content plus compensation for natural wastage 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.
- Current quarter and year to date revenue, have been affected by natural decline in production volumes and year to date revenue from 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.

Financial Review – continued

Kazakhstan - Gas revenue and price

- Gas revenue decreased in the current quarter against Q4 2015 from USD2.6m to USD1.2m. This was due to a temporary stoppage of gas production between October 18, 2016 and December 9, 2016 whilst contractual matters were resolved with the customer ICA as well as a natural decline in production with no new wells coming on line. The year on year decrease in gas revenue from USD16.2m to USD9.8m is a result of lower production volumes, from 3,076 boe/d to 1,953 boe/d whereas the gas price achieved, whilst higher in Tenge, was similar in USD terms;
- 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, (USD60.82 at an average YTD Q4 2015 exchange rate of 224.43 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, (USD61.37 at an average YTD Q4 2016 exchange rate of 342.17 Tenge);
- Gas contracts are subject to exchange rate risk – refer to page 31 – Sensitivities.

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, (USD20.46 at a 2016 period to date average exchange rate of 342.17 Tenge), (2015: KZT 4,550 per Mcm, net of 12% VAT, (USD20.27 at a 2015 period to date average exchange rate of 224.43 Tenge).

Production expenses

		Quarter ended December 31			Twelve months ended December 31		
	Units	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Kazakhstan							
Oil production	USD000's	572	997	(43%)	2,510	4,856	(48%)
Gas production	USD000's	438	842	(48%)	2,027	3,801	(47%)
Other	USD000's	(228)	(185)	23%	748	1,575	(53%)
Total	**USD000's**	**782**	**1,654**	**(53%)**	**5,285**	**10,232**	**(48%)**
Oil							
Net production	bbls	53,732	130,251	(59%)	288,185	572,164	(50%)
Cost	USD/bbl	10.65	7.65	39%	8.71	8.49	3%
Gas							
Production	boe	88,408	254,465	(65%)	714,793	1,122,921	(36%)
Cost	USD/boe	4.95	3.31	50%	2.84	3.38	(16%)
Weighted average cost per boe	USD/boe	7.11	4.78	49%	4.52	5.11	(11%)

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 reduced in the quarter but cost per barrel of oil produced increased due to the decline in production and non-variable or fixed costs. 2016 production costs reduced significantly and marginally increased on a per barrel basis as 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, offset by non-variable or fixed costs expenditures.

Kazakhstan – gas production

Gas production costs decreased significantly in the current quarter and twelve 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. Costs per barrel of oil equivalent also reduced year on year, but not to the same extent due to an element of fixed costs. Q4 2016 costs per barrel increased compared to the previous year due to a temporary stoppage of gas production between October 18, 2016 and December 9, 2016 whilst contractual matters were resolved with the customer ICA.

Gas production, generally more so than the oil, 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.

Other production expenses

Other production costs include time writing costs of corporate personnel. Also, in 2016 the Company accrued for penalties relating to the under fulfilment of agreed 2016 Kazakh work programmes. The Company has been working with the authorities to have these withdrawn or reduced due to mitigating circumstances.

In 2015 the Company accrued additional production taxes relating to prior years, along with related interest which increased production expenses by USD1,271,000 finance costs by USD747,000 and tax benefit by USD254,000.

Depreciation, depletion and amortization (DD&A)

DD&A for Q4 2016 was USD1.7m (Q4 2015: USD3.7m) and for 2016 was USD10.0m (2015: USD28.7m). The significantly higher charge in 2015 was required after the May 2015 reclassification of assets shown previously as held for sale giving rise to a "catch up" depletion charge since assets classified as held for sale are not depreciated. Excluding the "catch up" from 2015, DD&A in 2016 is lower as a result of lower production volumes, combined with lower reserves and asset base brought forward.

Exploration & evaluation expenditure written-off and impairment charges

The Company's capitalised exploration and evaluation (E&E) expenditure in Tajikistan was written down by USD25.9m in 2015. In 2016, due to the Company not budgeting for further investment in the project and the Company's partners Total and CNPC also deciding not to invest further in the project at this time and the joint venture operating company demobilising and ceasing operations the remainder of the Company's E&E expenditure amounting to USD25.6m was written off. The Company still has its interest in the project although this is subject to arbitration proceedings as described under *"Results of Operations and Operational Review – Tajikistan"*.

The Company also incurred an impairment charge in relation to its Akkulka oil property of USD1.2m. Further details of how this arose are provided in note 14 of the Consolidated Financial Statements.

Financial Review – continued

Administrative expenses

	Quarter ended December 31			Twelve months ended December 31		
	2016	**2015**	**Change**	**2016**	**2015**	**Change**
Staff	570	852	(33%)	2,886	4,458	(35%)
Travel	82	180	(54%)	385	828	(54%)
Office	116	233	(50%)	438	941	(53%)
Professional fees	94	231	(59%)	760	1,503	(49%)
Regulatory	80	131	(39%)	281	391	(28%)
Marketing costs	58	131	(56%)	242	545	(56%)
Non-executive director fees	33	67	(51%)	327	439	(26%)
Other costs	49	59	(17%)	142	387	(63%)
Total	**1,082**	**1,884**	**(43%)**	**5,461**	**9,492**	**(42%)**
G&A expenses per boe (USD)	7.61	4.90	55%	5.81	5.60	4%

- Staff costs have reduced significantly in Q4 2016 and 2016 as a result of reductions in staff levels, staff placed on unpaid leave and salary reductions and in 2016 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 Q4 2016 and YTD Q4 2016 following the closure of a number of offices in 2015 and 2016. The Tethys group now has offices in Almaty, Aktobe and London with the Company's registered office being in the Cayman Islands;
- Professional and regulatory fees were lower in Q4 2016 and for 2016 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 lower both in Q4 2016 and 2016 compared to the previous year due to a lower average numbers of directors in office in the course of 2016. There were also one off additional fees paid to certain directors in 2015 for extra duties;
- Other costs, which include bank charges, vehicles costs and insurance are lower in Q4 2016 and 2016 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 investment transaction as well as staff termination and office closure 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 current quarter due to the estimated cost of options granted in March 2016 under the Long Term Stock Incentive Plan which is spread over the vesting period. On a year on year basis, the share based payments expense increased 7% due to the relative cost of options granted in 2015 and 2016.

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. The loss in Q4 2015 and 2015 was due to the large devaluation of the Kazakhstan Tenge from August 2015.

Fair value gain on derivative financial instruments

The gain recognised relates to the revaluation of the warrants issued in connection with corporate loans and also loans with conversion features which is treated as an embedded derivative.

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 2016 year. 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 was previously written down to nil.

Finance costs - net

Finance costs comprise interest expense net of interest income. 2016 finance costs are higher than 2015 mainly due to the increase in net debt combined with higher interest rates on some of the Company's loans.

Taxation

The tax charge of USD10.2m for Q4 2015 and USD6.4m for 2015 is a non-cash deferred tax charge due to the revaluation of Tenge denominated tax losses and tax pools following the Tenge devaluation from August 2015. In Q4 2016 and 2016 there was a small movement in deferred tax balances. A reconciliation of the loss before income tax to the current tax expense is provided in note 11 of the Consolidated Financial Statements.

Liquidity and Capital Resources

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

The Company's objective 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 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 Consolidated Financial Statements.

	As at December 31		
	2016	**2015**	**Change**
Total financial liabilities - borrowings	33,249	32,032	4%
Less: cash and cash equivalents	(449)	(3,272)	(86%)
Net debt	**32,800**	**28,760**	**14%**
Total equity	93,228	134,116	(29%)
Total capital	**126,028**	**162,876**	**(21%)**

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 Consolidated Financial Statements.

Cash Flow

	Quarter ended December 31			Twelve months ended December 31		
	2016	**2015**	**Change**	**2016**	**2015**	**Change**
Net cash from/(used in) in operating activities	**1,023**	**(1,323)**	**(177%)**	**(4,256)**	**(11,998)**	**(65%)**
Capital expenditure	(354)	(374)	(5%)	(1,408)	(8,293)	(83%)
Net changes in working capital	(14)	(351)	(96%)	225	(1,275)	(118%)
Other investing cash flows	(2,609)	961	(371%)	(1,877)	2,218	(185%)
Net cash (used in)/ from investing activities	**(2,977)**	**236**	**(1361%)**	**(3,060)**	**(7,350)**	**(58%)**
Proceeds from loan financing	-	5,132	(100%)	7,930	28,107	(72%)
Loan principal and interest payments	(859)	(5,467)	(84%)	(4,764)	(11,717)	(59%)
Proceeds from equity, net of costs	1,400	-	100%	1,400	-	100%
Other financing cash flows	(24)	(230)	(90%)	(114)	(313)	(64%)
Net cash from/(used in) from financing activities	**517**	**(565)**	**(192%)**	**4,452**	**16,077**	**(72%)**
Effect of exchange rates	86	638	(87%)	41	2,675	(98%)
Net increase/(decrease) in cash	**(1,351)**	**(1,014)**	**33%**	**(2,823)**	**(596)**	**374%**
Cash & cash equivalents at beginning of period	1,800	4,286	**(58%)**	3,272	3,868	**(15%)**
Cash & cash equivalents at end of period	**449**	**3,272**	**(86%)**	**449**	**3,272**	**(86%)**

Financial Review – continued

Operating activities

The decrease in cash used in operating activities in Q4 2016 and YTD Q4 2016 is primarily due to lower production, administrative, restructuring and transaction cost payments which more than offset the decrease in revenue receipts.

Investing activities

Investing activities relate mainly to capital expenditure on oil and gas properties and exploration, details of which are given on the "Capital expenditure" section below.

Capital expenditure

Significant spend was as follows:

	Quarter ended December 31			Twelve months ended December 31		
	2016	**2015**	**Change**	**2016**	**2015**	**Change**
Kazakhstan – exploration and production	311	191	63%	965	2,754	(65%)
Tajikistan - exploration	2	70	(97%)	105	4,631	(98%)
Georgia - exploration	41	113	(64%)	325	908	(64%)
Corporate and other	-	-	0%	13	-	100%
Total	**354**	**374**	**(5%)**	**1,408**	**8,293**	**(83%)**

Financing activities

Cash generated from financing activities in the current quarter mainly comprise USD1.4m from private placements in November 2016. Further details of dates and amounts of new loans taken out in 2015 and 2016 are given in note 21 of the December 31, 2016 Consolidated Financial Statements. Loan repayments includes scheduled repayments on the Company's rig loan and interest payments due on other borrowings.

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 December 31, 2016 Consolidated Financial Statements. Refer to note 4 of the 2016 Consolidated Financial Statements for information on the Company's significant judgements and assumptions and critical estimates.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Financial Review – continued

Non-GAAP Measures

Adjusted EBITDA

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

The reconciliation of Adjusted EBITDA to Loss for the Period is as follows:

	Quarter ended December 31			Twelve months ended December 31		
	2016	2015	Change	2016	2015	Change
Adjusted EBITDA	(1,093)	(4,248)	(74%)	(3,253)	(10,569)	(69%)
Depreciation, depletion and amortization	(1,715)	(3,727)	(54%)	(9,971)	(28,731)	(65%)
Exploration and evaluation expenditure written off	(25,627)	(25,918)	(1%)	(25,627)	(25,918)	(1%)
Impairment charges	(1,176)	-	100%	(1,176)	-	100%
Share based payments	(299)	(92)	225%	(482)	(450)	7%
Fair value gain on derivative financial instrument - net	-	1,057	(100%)	275	824	(67%)
Finance costs - net	(478)	(481)	(1%)	(5,313)	(3,329)	60%
Loss before taxation	**(30,388)**	**(33,409)**	**(9%)**	**(45,547)**	**(68,173)**	**(33%)**

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 December 31, 2016 Consolidated Financial Statements.

Adjusted EBITDA 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 December 31, 2016 the Company had authorised share capital of 1,450,000,000 ordinary shares of which 508,136,098 (2015: 336,960,387) 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 December 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 December 31, 2016 is 19,354,500 of which 7,359,000 were exercisable and the number of warrants outstanding is 217,723,333 all of which were exercisable. Loan facilities are in place which are convertible into a total of 234,316,677 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 26 of the 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 28 and 29 of the Consolidated 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	36,015	36,015	-	-	-
Operating leases	365	230	135	-	-
Kazakhstan work programme commitments	30,748	17,971	12,777	-	-
Trade and other payables	19,882	19,838	44	-	-
Total contractual obligations	**87,010**	**74,054**	**12,956**	**-**	**-**

The table above reflects the contractual position as at December 31, 2016 although it should be noted that a number of the group's loans were restructured and maturity dates extended subsequent to the end of the year, details are given under *"Significant events and transactions subsequent to the year-end".*

Work programmes for exploration and production contracts agreed with the Kazakh State include a required level of "Investments" as defined in the 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. The Company has accrued in 2016 for penalties of USD592,000 relating to the under fulfillment of financial commitments under the agreed Kazakh work programmes. The Company has been working with the authorities to have these withdrawn or reduced due to mitigating circumstances. Under Kazakh regulations two or more contractual violations, e.g. significant non-fulfillment of financial obligations which are not remedied by a sub-soil user or waived by the authorities, gives the Kazakh authorities the right to unilaterally terminate a sub-soil user's licence. In the event of a contractual violation the Company actively engages with the authorities in order to agree to a remedy or waiver to mitigate the risk of termination. At the date of this report the Company had not received any notifications from the authorities that they were intending to cancel or suspend any of the Company's sub-soil licences.

Also, in February 2017, the lease for the group's London office was terminated by mutual agreement of the parties. As a result, lease commitments less than 1 year were reduced from USD230,000 to USD159,000 and lease commitments between 1 to 3 years were reduced to nil.

Risks, uncertainties and other information

Readers are encouraged to read and consider the risk factors and additional information regarding the Company, included in its 2016 AIF filed with the Canadian securities regulators, a copy of which is posted on the SEDAR website at *www.sedar.com*.

Risk management is carried out by senior management, in particular the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") as well as the Board of Directors. The Company has identified its principal risks for 2016 to include:

(1) Liquidity and going concern;

(2) Retention and extension of existing licences and development thereof with respect to success rates;

(3) Production volumes and pricing – both oil and gas; and

(4) Political, fiscal, litigation and related risks.

Financial Risk Management

The Company's activities expose it to a variety of financial risks including: market risk, credit risk, liquidity risk, interest rate, commodity price and foreign exchange risk. Details of the Company's exposure to these risks and how this is managed is given in note 3 to the Consolidated Financial Statements for the year ended December 31, 2016. 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 342.17 to the USD to 410.60 for example, would result in a net price reduction of USD10.23 per Mcm (i.e. USD51.14 from USD61.37). Based on a sales volume of 120,000 Mcm per annum, this would result in a reduction of USD1.5m 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 Consolidated Financial Statements of the Company are prepared in accordance with IFRS and IFRIC Interpretations issued by the IFRS Interpretations Committee, refer to 2016 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 21 of the Consolidated Financial Statements.

Disclosure and Internal Controls

Disclosure and Internal Controls over Financial Reporting

As at December 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 CEO and the CFO. Based on this evaluation, the CEO and the CFO concluded that, as at December 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 December 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 December 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, 2016.

Forward-looking statements

In the interest of providing Tethys' shareholders and potential investors with information regarding the Company and its subsidiaries, including management's assessment of the Company's and its subsidiaries' future plans and operations, certain statements contained in this MD&A constitute forward-looking statements or information (collectively referred to herein as "forward-looking statements") within the meaning of the "safe harbour" provisions of applicable securities legislation. Forward-looking statements are typically identified by words such as "anticipate", "believe", "expect", "plan", "intend", "forecast", "target", "project" or similar words suggesting future outcomes or statements regarding an outlook. 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 oil and gas 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 to China; future prices for crude oil and natural gas; future currency and exchange rates; the Company's ability to generate sufficient cash flow from operations and access to capital markets to meet its future obligations and ability to continue as a going concern; the regulatory framework representing mineral extraction taxes, 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

AGM	Annual General Meeting
AIF	Annual Information Form
AOT	Aral Oil Terminal LLP
Bbls	Barrels of oil
boe/d	Barrel of oil equivalent per day
bopd	Barrels of oil per day
CAD	Canadian Dollar
CEO	Chief Executive Officer
CFO	Chief Financial Officer
DTR	Disclosure and Transparency Rules
E&P	Exploration and production
EBITDA	Earnings before interest, taxes, depreciation and amortisation
EGG	Eurasia Gas Group LLP
ESP	Electrical submersible pump
FCA	Financial Conduct Authority
FTHP	Flowing tubing head pressure
GAAP	Generally accepted accounting principles
ICA	Intergas Central Asia
IFRS	International Financial Reporting Standards
KPL	Kulob Petroleum Limited
KTG	Kaz Trans Gas
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
MD&A	Management's Discussion & Analysis
MOU	Memorandum of Understanding
OPEX	Operating expenditure or production costs
OD	Outside diameter
Olisol	Olisol Investments Limited and Olisol Petroleum Limited
PSC	Production sharing contract
psi	Pounds per square inch
sq.km	Square kilometre
TAG	Tethys Aral Gas LLP
USD	United States Dollar
USD/bbl	USD per barrel
USD/Mcm	USD per thousand cubic metre
VAT	Value added tax
YTD	Year to date cumulative