Tethys Petroleum Limited

Management's Discussion and Analysis
for the period ended March 31, 2017

Content

The following Management's Discussion and Analysis ("MD&A") is dated May 15, 2017 and should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and related notes for the period ended March 31, 2017 as well as the audited consolidated financial statements and the MD&A for the year ended December 31, 2016. The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by management and approved by the Company's Audit Committee and Board of Directors. The 2016 annual audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" and the requirements of the Disclosure and Transparency Rules ("DTR") of the Financial Conduct Authority ("FCA") in the United Kingdom as applicable to interim financial reporting. Additional information relating to the Company can be found on the SEDAR website at *www.sedar.com* 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.

Financial highlights

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

	Quarter ended March 31		
	2017	**2016**	**Change**
Oil and gas sales and other revenues	480	3,455	(86%)
Loss for the period from continuing operations	(4,390)	(5,677)	(23%)
Basic and diluted loss (USD) per share from continuing operations	(0.01)	(0.02)	(50%)
Adjusted EBITDA[1]	(1,425)	(934)	53%

	As at March 31		
	2017	**2016**	**Change**
Total assets	156,298	189,103	(17%)
Cash & cash equivalents	69	1,133	(94%)
Short & long term borrowings	33,460	30,532	10%
Total non-current liabilities	19,053	31,628	(40%)
Net debt[1]	33,391	29,399	14%
Number of ordinary shares outstanding	508,136,098	374,400,429	36%

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

First quarter 2017 versus first quarter 2016

- Oil and gas sales and other revenues decreased by 86% to USD0.5 million from USD3.5 million mainly because there were no gas sales in the quarter due to the placing of production in storage whilst seeking to attain better pricing. Gas production continued throughout the quarter and was sold in May 2017;
- The small decrease in oil revenue was due to the natural decline in production volumes partially offset by a price increase in USD terms due to a strengthening of the Kazakh currency, the Tenge against the USD;
- The loss of USD4.4 million was lower than the prior quarter's loss of USD5.7 million due to lower costs which more than offset the reduction in revenue;
- Adjusted EBITDA decreased to negative USD1.4 million from negative USD0.9 million as a result of the reduction in oil and gas revenues of USD3.0 million exceeding the reduction in costs (excluding finance costs and DD&A costs);
- Net debt increased as a result of working capital loans received from Olisol during 2016 which were expected to be converted into ordinary shares of the Company or repaid from the proceeds of the legally binding transactions which Olisol failed to complete.

Operational highlights

	Units	Quarter ended March 31 2017	2016	Change
Kazakhstan				
Oil	bopd	682	861	(21%)
Gas	boe/d	2,094	2,442	(14%)
Total	boe/d	**2,776**	**3,303**	**(16%)**
Oil				
Net production	Bbls	61,418	78,366	(22%)
Net revenue	USD'000	477	517	(8%)
Production costs	USD'000	581	656	(11%)
Gross margin	USD'000	**(104)**	**(139)**	**(25%)**
Gross sales price	USD/bbl	8.67	7.47	16%
Cost	USD/bbl	9.46	8.37	13%
Gross margin	USD/bbl	**(0.79)**	**(0.90)**	**(13%)**
Gas				
Gross production	Mcm	32,020	37,759	(15%)
Gas revenue net	USD'000	-	2,200	(100%)
Production costs[1]	USD'000	464	501	(7%)
Gross margin	USD'000	**(464)**	**1,699**	**(127%)**
Sales price net	USD/Mcm	-	59.12	(100%)
Cost[1]	USD/Mcm	14.49	13.27	9%
Gross margin	USD/Mcm	**(14.49)**	**45.85**	(132%)

Note 1 Gas production expenses of USD464,000 relates to unsold gas produced in the quarter.

Oil

- Current quarter oil production averaged 682 bopd compared with 861 bopd in Q1 2016, reflecting a natural decline in overall production;
- Oil production cost per barrel in the current quarter increased to USD9.46 compared with USD8.37 in Q1 2016 mainly due to a decrease in oil production and non-variable costs of production;
- Oil prices averaged USD8.67 bbl in the quarter compared with USD7.47 bbl in Q1 2016, an increase of 16%, reflecting a higher average price per barrel in Q1, 2017 and a stronger Kazakhstan currency, the Tenge against the US Dollar in the current quarter.

Gas

- Current quarter gross gas production averaged 2,094 boe/d compared with 2,442 boe/d in Q1 2016, reflecting a natural decline in overall production;
- Gas production cost per Mcm in the current quarter increased to USD14.49 compared with USD13.27 in Q1 2016 mainly due to a decrease in gas production and non-variable costs of production and a stronger Kazakhstan currency, the Tenge against the US Dollar in the current quarter;
- There were no gas sales in the quarter due to the placing of production in storage whilst seeking to attain better pricing. Gas production continued throughout the quarter and was sold in May 2017.

Operational Review

Outlook

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

The Company's objective is to become a leading oil and gas exploration and production Company in Central Asia, by exercising capital discipline, by generating cash flow from existing discoveries and by maturing large exploration prospects within our highly-attractive frontier acreage. The Company produces both oil and natural gas in order to balance its product portfolio and currently 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 shareholder 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 three months ended March 31, 2017

- *Georgia work programme commitments*

  On January 16, 2017 the Company announced that Tethys partner in Georgia, Georgia Oil and Gas Limited ("GOG"), had 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 XI^N by June 30, 2017 which would have cost Tethys approximately USD0.7 million.

  Had the minimum commitments previously agreed to not been met then Tethys may have been subject to penalties of up to USD2.0 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, 2017 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 (“TAG”), 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 following the equity placement announced in November 2016.

- *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 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 were 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. A few days later EGG submitted an amended claim to the Court which has 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, 2017 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 in the Court of Queen's Bench of Alberta, Canada. 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,

Operational Review - continued

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 had commenced and cancellation was expected to take effect at 7:00 am on Tuesday May 2, 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 after the Company's June 23, 2017 Annual General Meeting 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 be able to spread payment of these costs until the end of 2018 and expects to be able to pay from increased production. Following mobilisation, the Company announced that it hoped 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 July 2017. This is new technology for Central Asia and is intended to enhance gas production from existing wells 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 their life.

Results of Operations and Operational Review - Kazakhstan

Oil production – Akkulka Contract

	2017					2016				
	Gross fluid		Net	Net production		Gross fluid		Net	Net production	
	m^3	barrels	barrels	days	bopd	m^3	barrels	barrels	days	bopd
Q1	17,701	111,336	61,418	90	682	16,851	105,988	78,366	91	861
Total	**17,701**	**111,336**	**61,418**	**90**	**682**	**16,851**	**105,988**	**78,366**	**91**	**861**

The Company produces oil from the AKD01 well under a pilot production license which had been performing to expectation. The AKD06 well has been shut in since late Q4 2014 due to the lower oil price received and the increased operating costs of a high water-cut well. The AKD05 well has been off production since November 2015. The option of using enhanced oil recovery ("EOR") techniques for this well is currently being evaluated by Schlumberger, who are performing a hydrodynamic study of the Jurassic Carbonates. The study is expected to be completed by the end of June 2017. A large volume Electrical Submersible Pump ("ESP") has been delivered and is planned to be in operation to support AKD01 in Q2, 2017. In preparation for this, production from AKD01 was stopped on May 3, 2017 and installation of the ESP is expected to take several weeks.

Operational Review - continued

Oil operations update

General

Oil production averaged 682 barrels per day in Q1 from AKD01 only. The well has been on a 15mm choke with a Flowing Tubing Head Pressure ("FTHP") of 161 psi and an approximate 44% water-cut. The water-cut has been on an increasing trend over the past 16 months and has been expected at some point to require the use of artificial lift (ESP).

AKD05 has been offline since November 2015 and could be brought back on in 2017 and possibly AKD06 as well depending on the oil price. The current oil price is the equivalent of USD8.67 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.

The Company is in the process of installing the ESP. Once the effectiveness of the ESP and the AKD05 EOR have been determined and if higher production rates proven, 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")

Oil produced and sold by the Company in Q1 2017 has not been trans-shipped through the AOT as the new buyer has made their own transportation arrangements. The Company is considering options to divest its interest in the AOT.

Gas production – Kyzyloi and Akkulka Contracts

	2017				**2016**			
	Mcm	Mcf	Mcm/d	Boe/d	Mcm	Mcf	Mcm/d	Boe/d
Kyzyloi								
Q1	17,370	613,325	193	1,136	16,112	568,923	177	1,042
Total	**17,370**	**613,325**	**193**	**1,136**	**16,112**	**568,923**	**177**	**1,042**
Akkulka								
Q1	14,651	517,319	163	958	21,647	764,339	238	1,400
Total	**14,651**	**517,319**	**163**	**958**	**21,647**	**764,339**	**238**	**1,400**
Grand total	**32,020**	**1,130,644**	**356**	**2,094**	**37,759**	**1,333,262**	**415**	**2,442**

Production commenced from the Kyzyloi field in 2007, following the construction of a 56 km, 325mm outside diameter 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 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 14% (59 Mcm per day) in the current quarter compared with the same quarter in the prior year primarily as a result of natural decline in the fields.

Operational Review - continued

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 Q1, 2017 being 356 Mcm/d (415 Mcm/d).

The completed Bozoi-Shymkent-China gas pipeline means that Tethys now has two potential gas export routes that provide alternatives to sell its gas; the route taking gas to the more populous south eastern part of Kazakhstan and, ultimately to China, and the Bukhara-Urals trunk line that transports gas from Central Asia into Russia. Currently, the Chinese pipeline is only taking domestic gas within Kazakhstan to Shymkent and it is expected that exports to China could commence at any time, which would allow the Company to realise a higher net sales price. The Company believes that the long-term price for gas will rise in the region, in particular dry gas 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 Q2 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.

Shallow gas drilling is planned to restart 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. The Company has awarded a ten well shallow gas well drilling program to drilling contractor “Great Wall” and they are expected to commence operations shortly. 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.

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 although the Company requires funding or a partner prepared to meet the drilling costs in order to drill the well. On April 28, 2017 the Addendum No.8, to the Kulbas Contract, was signed, and it stipulates the work program until November 11, 2017.

Results of Operations and Operational Review - Tajikistan

Since completion of the farm-out to Total and CNPC in 2013, the joint operating company 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. The wide line 2D survey conducted was specially designed to image the deep targets described in an independent resource report and consisted 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 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 data and is unable to comment on the status of the operations and prospectivity potential.

The Company's indirectly held subsidiary, Kulob Petroleum Limited ("KPL"), the contracting partner in the Bokhtar Production Sharing Contract, was informed by legal counsel representing Total and CNPC (the "Partners"), that on May 19, 2016, the Partners 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 USD9.0 million (now USD12.6 million) plus an award of costs. Tethys has submitted its answer to the request for arbitration to the court setting out its arguments against the Partners' claim. Following further submissions by the parties in the interim period the arbitration hearings are scheduled to commence in November 2017.

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 USD1.1 million whilst the potential block non-compliance fine was set as USD2.0 million 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. Tethys and its partner are pursuing options to relinquish XI^A and XI^N whilst retaining XI^M without committing to drilling. The Company is in active negotiations with the State Agency of Oil and Gas in the Ministry of Energy of Georgia on these matters.

The Government of Georgia represented by the State Agency of Oil and Gas of the Ministry of Energy of Georgia has announced an Open International Tender for onshore oil and gas blocks. The Tender started on April 3, 2017 and will be closed by May 23, 2017. In parallel Jindal Petroleum Georgia Limited is in the final phase of negotiations to reach a deal with Schlumberger SPM to manage Jindal assets under long-term commercial agreements. These developments may provide opportunities to the Company in respect of its three blocks or for the provision of services.

Financial Review

Summary of Quarterly Results

	Q1, 2017	Q4, 2016	Q3, 2016	Q2, 2016	Q1, 2016	Q4, 2015	Q3, 2015	Q2, 2015
Oil & gas sales and other revenues	480	1,631	3,119	3,529	3,455	3,607	5,736	6,838
Loss for the period								
– continuing operations	(4,390)	(32,203)	(4,036)	(4,934)	(5,677)	(43,593)	(3,698)	(25,278)
– discontinued operations	-	-	-	-	-	60	(11)	(36)
Basic & diluted loss ($) per share:								
– continuing operations	(0.01)	(0.08)	(0.01)	(0.01)	(0.02)	(0.13)	(0.01)	(0.08)
– discontinued operations	-	-	-	-	-	-	-	-
Adjusted EBITDA[1]	(1,425)	(1,093)	(838)	(338)	(934)	(4,248)	(637)	(4,425)
Capital expenditure	999	354	318	342	394	374	1,938 -	4,034
Total assets	156,298	159,904	187,323	185,634	189,103	190,595	225,170	226,024
Cash & cash equivalents	69	449	1,800	700	1,133	3,272	4,286	4,942
Short & long term borrowings	(33,460)	(33,249)	(34,167)	(30,502)	(30,532)	(32,032)	(32,479)	(26,719)
Total non-current liabilities	(19,053)	(12,867)	(12,908)	(13,447)	(31,628)	(34,644)	(24,264)	(23,197)
Net debt[1]	(33,391)	(32,800)	(32,367)	(29,802)	(29,399)	(28,760)	(28,193)	(21,777)
Number of common shares outstanding	508,136,098	508,136,098	400,004,848	400,004,848	374,400,429	336,960,387	336,839,315	336,712,385

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

Loss for the period

The Company recorded a net loss after taxation of USD4.4 million for the period ended March 31, 2017 (2016: USD5.7 million), the principal variances between the two periods being lower sales revenue by 86% (USD3.0 million) due to there being no gas sales in Q1, 2017 and reduced costs across all cost categories. Further variances between the two periods are summarised below together with a discussion of significant variances between the two periods.

	Quarter ended March 31		
	2017	**2016**	**Change**
Sales and other revenue	480	3,455	(86%)
Sales expenses	-	(734)	(100%)
Production expenses	(595)	(1,196)	(50%)
Depreciation, depletion & amortization	(2,567)	(2,856)	(10%)
Administrative expenses	(1,174)	(1,787)	(34%)
Restructuring costs	(118)	(755)	(84%)
Share based payments	(56)	(82)	(32%)
Profit on sale of fixed assets	-	10	(100%)
Foreign exchange (loss)/gain	(18)	73	(125%)
Fair value gain on derivative financial instruments	-	204	(100%)
Finance costs	(1,103)	(1,930)	(43%)
Loss before taxation from continuing operations	**(5,151)**	**(5,598)**	**(8%)**
Taxation	761	(79)	(1063%)
Loss for the period	**(4,390)**	**(5,677)**	**(23%)**

Sales & other revenue

	Quarter ended March 31		
	2017	**2016**	**Change**
Summary			
Oil	477	517	(8%)
Gas	-	2,934	(100%)
Other	3	4	(25%)
Total	**480**	**3,455**	**(86%)**
By region			
Kazakhstan - Oil	477	517	(8%)
Kazakhstan - Gas	-	2,934	(100%)
Kazakhstan - Other	3	2	50%
Other	-	2	(100%)
Total	**480**	**3,455**	**(86%)**

Kazakhstan – Oil revenue and price

	Gross sales bbls	Revenue $000	Realised price at wellhead $/bbl	Compensation $000	VAT $000	Net sales $000
2017						
Q1	61,575	534	8.67	-	57	477
Total	**61,575**	**534**	**8.67**	**-**	**57**	**477**
2016						
Q1	79,251	592	7.47	12	63	517
Total	**79,251**	**592**	**7.47**	**12**	**63**	**517**

- Under the pilot production licence oil can only be sold in the domestic Kazakhstan market;
- Sale price is determined at the wellhead where the oil is sold and therefore the Company incurs no transportation or marketing costs;
- Current quarter revenue was affected by the natural decline in production volumes offset by the stronger Kazakh Tenge against the US Dollar compared to Q1, 2016, which affected the realised US Dollar price.

Kazakhstan - Gas revenue and price

- There were no gas sales in the quarter due to the placing of production in storage whilst seeking to attain better pricing. Gas production continued throughout the quarter and was sold in May 2017;
- The 2016 gas sales contract was for a minimum 150 million cubic metres at a fixed Tenge price of KZT 21,000 per 1,000 cubic metres, net of VAT and sales expenses, (USD59.12 at an average Q1 2016 exchange rate of 358.1 Tenge);
- Gas contracts are subject to exchange rate risk – refer to page 20 – "*Sensitivities*".

Sales expenses

Sales expenses in the prior period represent Kazakh marketing agent commissions paid in relation to the gas sale contract. There is no equivalent arrangement in 2017.

Financial Review – continued

Production expenses

	Units	Quarter ended March 31 2016	2016	Change
Kazakhstan				
Oil production	USD000's	581	656	(11%)
Gas production	USD000's	464	501	(7%)
Gas production - unsold[1]	USD000's	(464)	-	100%
Other	USD000's	14	39	(64%)
Total	USD000's	595	1,196	(50%)
Oil				
Net production	bbls	61,418	78,366	(22%)
Cost	USD/bbl	9.46	8.37	13%
Gas				
Production	boe	188,453	222,224	(15%)
Cost[1]	USD/boe	2.46	2.25	9%
Weighted average cost per boe	USD/boe	4.18	3.85	9%

Note 1 Gas production expenses of USD464,000 relates to unsold gas produced in the quarter.

Kazakhstan – oil production

A significant proportion of costs associated with oil production are fixed, so costs are not generally expected to reduce in the same proportion as a decline in production. Oil production costs reduced in the quarter but cost per barrel of oil produced increased due to the decline in production and non-variable or fixed costs.

Kazakhstan – gas production

Gas production costs decreased marginally in the current quarter as a result of lower production volume, however, costs per barrel of oil equivalent increased quarter-on-quarter due to an element of fixed costs. Gas production, generally more so than the oil, has a significant fixed cost element which includes compressor supplies denominated in US dollars and consequently, as production declines, the production cost per Mcm (or boe) generally increases.

Depreciation, depletion and amortization ("DD&A")

DD&A for the quarter was USD2.6 million (2016: USD2.9 million) mainly arising on the Kazakh assets but also on oil and gas equipment. The decrease in DD&A expense mainly reflects the decrease in production volumes against Q1, 2016.

Financial Review – continued

Administrative expenses

	Quarter ended March 31		
	2017	**2016**	**Change**
Staff	534	898	(41%)
Travel	66	133	(50%)
Office	69	162	(57%)
Professional fees	285	265	8%
Regulatory	98	81	21%
Marketing costs	50	74	(32%)
Non-executive director fees	47	126	(63%)
Other costs	25	48	(48%)
Total	**1,174**	**1,787**	**(34%)**
G&A expenses per boe (USD)	4.70	5.94	(21%)

- Staff costs reduced significantly in the current quarter as a result of a reduction in staffing levels;
- Reductions in travel expenses reflect management's focus to reduce costs in this area and are also lower due to closure of a number of international offices and reductions in staff levels across the business;
- Office costs reduced in the current quarter following the closure of a number of offices in 2016. The Tethys group now has offices in Almaty, Aktobe and London with the Company's registered office being in the Cayman Islands. The Company plans to close its Almaty office and combine it with its existing Aktobe office;
- Professional and regulatory fees increased marginally as a result higher legal fees. Fees in connection with strategic transactions and legacy issues in the prior period were 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 as a result of the lower number of directors in the current quarter and the weaker GBP versus USD in the current quarter as director fees are set in GBP;
- Other costs, which include bank charges, vehicles costs and insurance are lower in the current quarter due to lower activity levels and cost reduction initiatives.

Restructuring costs

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

Share based payments

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

Financial Review – continued

Fair value gain on derivative financial instruments

The fair value gain of USD0.2 million in Q1, 2016 was due to the revaluation of the warrants issued in connection with corporate loans and also loans with conversion features. The warrants were subsequently revalued to nil in the course of 2016.

Finance costs - net

Finance costs comprise interest expense net of interest income and are lower in the current quarter due to an over-accrual of estimated effective interest charges in Q1 2016, for example due to the cost of warrants, which were subsequently revised downwards.

Taxation

A reconciliation of the loss before income tax to the current tax expense is provided in note 5 of the condensed consolidated interim financial statements.

Liquidity and Capital Resources

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

The Company's 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 March 31		
	2017	**2016**	**Change**
Total financial liabilities - borrowings	33,460	30,532	10%
Less: cash and cash equivalents	(69)	(1,133)	(94%)
Net debt	**33,391**	**29,399**	**14%**
Total equity	88,894	129,719	(31%)
Total capital	**122,285**	**159,118**	**(23%)**

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 1 of the condensed consolidated interim financial statements.

Cash Flow

	Quarter ended March 31		
	2016	**2016**	**Change**
Net cash used in operating activities	**(438)**	**(1,925)**	**(77%)**
Capital expenditure	(999)	(394)	154%
Net changes in working capital	(14)	(22)	(36%)
Other investing cash flows	2,967	377	687%
Net cash generated/(used) in investing activities	**1,954**	**(39)**	**(5110%)**
Proceeds from loan financing	-	2,000	(100%)
Loan principal and interest payments	(862)	(1,509)	(43%)
Other financing cash flows	(21)	(47)	**(55%)**
Net cash (used)/generated from financing activities	**(883)**	**444**	**(299%)**
Effect of exchange rates	(103)	(619)	(83%)
Net (decrease) in cash	**(380)**	**(2,139)**	**(82%)**
Cash & cash equivalents at beginning of period	449	3,272	**(86%)**
Cash & cash equivalents at end of period	**69**	**1,133**	**(94%)**

Operating activities

The decrease in net cash used in operating activities in the current quarter is primarily due to a reduction in payments to employees and suppliers.

Investing activities

The increase in net cash from investing activities was mainly a result of payments classified for accounting purposes as capital items offset by a release of cash previously classified as restricted due restrictions imposed by a Kazakhstan court.

Financing activities

Loan repayments includes scheduled repayments on the Company's rig loans and interest payments due on other borrowings. Proceeds from loan financing in the prior period were working capital advances provided by Olisol.

Accounting policies, changes to accounting standards and critical estimates

The Company's significant accounting policies and discussion of changes to accounting standards are disclosed in note 2 of the March 31, 2017 condensed consolidated interim financial statements. Refer to note 4 of the 2016 Consolidated Financial Statements for information on the Company's significant judgments and assumptions and critical estimates.

Financial Review – continued

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Non-GAAP Measures

Adjusted EBITDA

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

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

	Quarter ended March 31		
	2017	2016	Change
Adjusted EBITDA	(1,425)	(934)	53%
Depreciation, depletion and amortization	(2,567)	(2,856)	(10%)
Share based payments	(56)	(82)	(32%)
Fair value gain on derivative financial instrument - net	-	204	(100%)
Finance costs - net	(1,103)	(1,930)	(43%)
Loss before taxation	**(5,151)**	**(5,598)**	**(8%)**

Net debt / (funds)

Net debt is calculated as total borrowings (which includes current and non-current borrowings) less cash and cash equivalents. Total capital is calculated as equity plus net debt. All figures are as stated in the December 31, 2016 Consolidated Financial Statements.

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

Stockholder Equity

As at March 31, 2017 the Company had authorised share capital of 1,450,000,000 ordinary shares of which 508,136,098 (2016: 374,400,429) had been issued and 50,000,000 preference shares of which none had yet been issued. The preference shares have the rights as set out in the Memorandum and Articles of Association of the Company.

As at March 31, 2017, a total of 40,374,320 (2015: 40,374,320) ordinary shares were reserved under the Company's Long Term Stock Incentive Plan. The number of options outstanding as at March 31, 2017 is 17,262,375 of which 7,281,125 were exercisable. The number of warrants outstanding is 194,390,000, of which all were exercisable. Loan facilities are in place which are convertible into a total of 261,289,064 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 12 of the condensed consolidated interim financial statements.

Commitments and contingencies

Details of the Company's commitments and contingencies including litigation, claims and assessments, work programme commitments and operating leases are provided in notes 14 and 15 of the condensed consolidated interim financial statements.

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

Contractual obligations	Total	Payments due by period Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Borrowings	37,608	37,608	-	-	-
Operating leases	76	76	-	-	-
Kazakhstan work programme commitments	27,636	17,880	9,756	-	-
Trade and other payables	21,156	21,133	23	-	-
Total contractual obligations	**86,476**	**76,697**	**9,779**	**-**	**-**

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 2017 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 is priced in Tenge and is sensitive to a fluctuation in exchange rates. A 20% devaluation of the Tenge, from 322 to the USD to 386 for example, would result in a net price reduction of USD8.24 per Mcm (i.e. USD49.69 from USD41.45). Based on a sales volume of 120,000 Mcm per annum, this would result in a reduction of USD0.9 million in gas sales receipts.

The price of oil sales from the Doris discovery is sensitive to movements in the market price. On a production level of 700 bopd, a movement of USD1.0 per barrel on the price received by the Company would result in a plus or minus movement in oil sales revenue of USD0.3 million per annum.

Critical Accounting Policies and Estimates

The annual and condensed consolidated interim financial statements of the Company are prepared in accordance with IFRS and IFRIC Interpretations issued by the IFRS Interpretations Committee, refer to 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 had a derivative financial liability relating to share warrants where the shares were denominated in a currency that is not the Company's functional currency. These warrants expired during Q1 2017. The Company also has convertible loans where the conversion option is treated as a derivative financial liability.

Disclosure and Internal Controls

Disclosure and Internal Controls Over Financial Reporting

As at March 31, 2017, 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 March 31, 2017, the design and operation of the Company's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Corporation in reports filed with, or submitted to, securities regulatory authorities were reported within the time periods specified under Canadian securities laws.

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

Management has designed and implemented, under the supervision of the CEO and CFO, a system of internal controls over financial reporting which it believes is effective for a company of its size. Management has not identified any material weaknesses relating to the design of these internal controls and consequently, the CEO and CFO have concluded that internal control over financial reporting was effective as at March 31, 2017, and provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes.

The Company's CEO and CFO have filed certifications with the Canadian securities regulators regarding the quality of the Company's public disclosures relating to the period ending March 31, 2017.

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 expected timing and level of capital and operating expenditure required to meet the Company's commitments and development plans, shallow and deep gas targets, targeting of the Klymene prospect and plans to drill on the Kul-bas license, the targeted deeper exploration potential in Tajikistan, whether projected cash flow is sufficient to service debt and support ongoing operations, Tethys' intention to enforce its rights and legitimate interests to the fullest extent permitted by law, to protect its investors, assets, investments, management and employees, the intention to enhance gas production from existing wells using new mini compressor technology, the plan to relocate Tethys main administrative office from Almaty to Aktobe City, plans to install an Electrical Submersible Pump which is expected to take several weeks, plans to conduct 3D seismic acquisition starting in Q2 2017 and plans for shallow gas drilling in Kazakhstan, the Company's belief that the long-term price for gas will rise in the Central Asian region, management's belief that internal controls over financial reporting are effective for a company of Tethys' size, the expectation that the shallow gas well drilling program will cost approximately USD6 million, that the mini-compressor in Bozoi will be installed during July 2017, that the Schlumberger study will be completed by the end of June 2017, that gas exports to China could commence at any time and that drilling contractor "Great Wall" will commence operations shortly . 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 realised; 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

Forward-looking statements -continued

and contradictions in local laws and their interpretation and application in local jurisdictions in which the Company operates; the risk of international war, hostilities and terrorist threats, civil insurrection and instability affecting countries in which the Company and its subsidiaries operate; risks associated with existing and potential future lawsuits and regulatory actions made against the Company and its subsidiaries; and other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by Tethys.

With regard to forward looking information contained in this MD&A, the Company has made assumptions regarding, amongst other things, the continued existence and operation of existing pipelines; the proposed increase in the selling price for the delivery of gas and crude oil to China; future prices for natural gas; future currency and exchange rates; the Company's ability to generate sufficient cash flow from operations and access to capital markets to meet its future obligations and ability to continue as a going concern; the regulatory framework representing mineral extraction taxes, royalties, taxes and environmental matters in the countries in which the Company conducts its business, gas production levels; that it will be able to farm out or sell its Georgian and Tajikistan assets; and the Company's ability to obtain qualified staff and equipment in a timely and cost effective manner to meet the Company's demands. Statements relating to "reserves" or "resources" or "resource potential" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described exist in the quantities predicted or estimated, and can be profitably produced in the future. Although Tethys believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A and, except as required by law, Tethys does not undertake any obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Glossary

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
CEO	Chief Executive Officer
CFO	Chief Financial Officer
DTR	Disclosure and Transparency Rules
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
IFRS	International Financial Reporting Standards
KPL	Kulob Petroleum Limited
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
OPEX	Operating expenditure or production costs
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

Tethys Petroleum Limited

Condensed Consolidated Interim Financial Statements
(Unaudited)
March 31, 2017

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

Contents

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

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

We draw attention to the section entitled "Going Concern" in Note 1 to the condensed consolidated interim financial statements which describes the material uncertainties relating to the Company's adoption of the going concern basis in preparing the condensed consolidated interim financial Statements for the period ended March 31, 2017.

For and on behalf of the Board

W. Wells
Chairman
May 15, 2017

A. Ogunsemi
Director
May 15, 2017

Tethys Petroleum Limited

Condensed Consolidated Interim Statements of Financial Position (unaudited)

(in thousands of US dollars)

		As at	
	Note	**March 31, 2017**	**December 31, 2016**
Non-current assets			
Intangible assets	7	42,785	42,732
Property, plant and equipment	8	101,513	103,115
Restricted cash	9	2,249	2,238
Investment in joint arrangements		4	4
Trade and other receivables		1,645	1,237
Deferred tax	5	205	208
		148,401	**149,534**
Current assets			
Cash and cash equivalents		69	449
Trade and other receivables		6,717	6,532
Inventories		1,089	676
Restricted cash	9	22	2,713
		7,897	**10,370**
Total assets		**156,298**	**159,904**
Non-current liabilities			
Trade and other payables		23	44
Financial liabilities - borrowings	10	6,980	-
Deferred tax	5	11,123	11,913
Provisions		927	910
		19,053	**12,867**
Current liabilities			
Financial liabilities - borrowings	10	26,480	33,249
Current taxation	5	540	522
Trade and other payables		21,133	19,838
Provisions		198	200
		48,351	**53,809**
Total liabilities		**67,404**	**66,676**
Equity			
Share capital	11	5,081	5,081
Share premium	11	358,444	358,444
Other reserves		43,704	43,648
Accumulated deficit		(324,431)	(320,041)
Non-controlling interest		6,096	6,096
Total equity		**88,894**	**93,228**
Total equity and liabilities		**156,298**	**159,904**
Going concern	1		
Commitments and contingencies	14		

The notes on pages 6 to 21 form part of these condensed consolidated interim financial statements. The condensed consolidated interim financial statements were approved by the Board on May 15, 2017 and were signed on its behalf.

W. Wells
Chairman
May 15, 2017

A. Ogunsemi
Director
May 15, 2017

Tethys Petroleum Limited

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

(in thousands of US dollars except per share information)

	Note	Three months ended March 31 2017	2016
Sales and other revenues	3	480	3,455
Sales expenses		-	(734)
Production expenses		(595)	(1,196)
Depreciation, depletion and amortisation		(2,567)	(2,856)
Administrative expenses		(1,174)	(1,787)
Restructuring costs		(118)	(755)
Share based payments	4	(56)	(82)
Profit on sale of fixed assets		-	10
Foreign exchange (loss)/gain		(18)	73
Fair value gain on derivative financial instruments		-	204
Finance costs		(1,103)	(1,930)
		(5,631)	(9,053)
Loss before tax from continuing operations		**(5,151)**	**(5,598)**
Taxation	5	761	(79)
Loss from continuing operations and total comprehensive income		**(4,390)**	**(5,677)**
Loss and total comprehensive income attributable to:			
Shareholders		(4,390)	(5,677)
Non-controlling interest		-	-
Loss and total comprehensive income		**(4,390)**	**(5,677)**
Loss per share attributable to shareholders:			
Basic and diluted - from continuing operations (USD)	6	(0.01)	(0.02)
Basic and diluted - from discontinued operations (USD)	6	-	-

No dividends were paid or are declared for the period (2016 – none).

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

Tethys Petroleum Limited

Condensed Consolidated Interim Statements of Changes in Equity (unaudited)

(in thousands of US dollars)

		Attributable to shareholders						
	Note	**Share capital**	**Share premium**	**Accumulated deficit**	**Option reserves**	**Warrant reserves**	**Non-controlling interest**	**Total equity**
At January 1, 2016	11	**33,696**	**321,803**	**(273,189)**	**26,565**	**16,601**	**6,094**	**131,570**
Comprehensive loss for the period		-	-	(5,677)	-	-	-	(5,677)
Transactions with shareholders								
Shares issued		3,744	-	-	-	-	-	3,744
Share-based payments		-	-	-	82	-	-	82
Total transactions with shareholders		3,744	-	-	82	-	-	3,826
At March 31, 2016	11	**37,440**	**321,803**	**(278,866)**	**26,647**	**16,601**	**6,094**	**129,719**
At January 1, 2017	11	**5,081**	**358,444**	**(320,041)**	**27,047**	**16,601**	**6,096**	**93,228**
Comprehensive loss for the period		-	-	(4,390)	-	-	-	(4,390)
Transactions with shareholders								
Share-based payments		-	-	-	56	-	-	56
Total transactions with shareholders		-	-	-	56	-	-	56
At March 31, 2017	11	**5,081**	**358,444**	**(324,431)**	**27,103**	**16,601**	**6,096**	**88,894**

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

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

Tethys Petroleum Limited

Condensed Consolidated Interim Statements of Cash Flows (unaudited)

(in thousands of US dollars)

		Three months ended March 31	
	Note	2017	2016
Cash flow from operating activities			
Loss before tax from continuing operations		(5,151)	(5,598)
Adjustments for:			
Share based payments		56	82
Net finance cost		1,103	1,930
Depreciation, depletion and amortisation		2,567	2,856
Fair value gain on derivative financial instruments		-	(203)
Net unrealised foreign exchange gain		16	(64)
Movement in provisions		(120)	(791)
Net change in working capital	13	189	(137)
Cash used in operating activities		**(1,340)**	**(1,925)**
Corporation tax paid		(8)	-
Net cash used in operating activities		**(1,348)**	**(1,925)**
Cash flow from investing activities:			
Expenditure on exploration and evaluation assets		(53)	(278)
Expenditure on property, plant and equipment		(946)	(116)
Movement in restricted cash		2,680	151
Movement in advances to construction contractors		(14)	4
Movement in value added tax receivable		301	222
Net change in working capital	13	(14)	(22)
Net cash generated from/(used in) investing activities		**1,954**	**(39)**
Cash flow from financing activities:			
Proceeds from issuance of borrowings, net of issue costs		-	2,000
Repayment of borrowings		(242)	(340)
Interest paid on borrowings		(620)	(1,169)
Movement in other non-current liabilities		(21)	(47)
Net cash (used in)/generated from financing activities		**(883)**	**444**
Effects of exchange rate changes on cash and cash equivalents		(103)	(619)
Net decrease in cash and cash equivalents		**(380)**	**(2,139)**
Cash and cash equivalents at beginning of the period		449	3,272
Cash and cash equivalents at end of the period		**69**	**1,133**

The notes on pages 6 to 21 form part of these condensed consolidated interim 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 had a standard listing on the London Stock Exchange ("LSE") until May 2, 2017 when it cancelled its UK listing. The Company is also listed on the Kazakhstan Stock Exchange ("KASE").

Going concern

The Management and the Board has considered the Company's current activities, funding position and projected funding requirements for the period of at least twelve months from the date of approval of the condensed consolidated interim financial statements in determining the ability of the Company to adopt the going concern basis in preparing the condensed consolidated interim financial statements for the three months ended March 31, 2017. The Company currently does not have sufficient funding to fund its obligations for the next twelve months.

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

The Company reported a loss of USD4.4 million for the period ended March 31, 2017 (year ended December 31, 2016: USD46.9 million) and an accumulated deficit as at that date of USD324.4 million (December 31, 2016: USD320.0 million) and negative working capital of USD40.5 million (December 31, 2016: negative USD43.4 million). In addition, the Company reported negative cash flow from operating activities before tax of USD1.3 million for the period ended March 31, 2016 (year ended December 31, 2016: USD4.3 million).

The Company also has various commitments and contingencies as described in note 14. These include commitments and contingencies in relation to 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 and get the Company on a sustainable financial footing, management's focus in the short term is to:

- Resolve the Company's current issues in Kazakhstan, including disputes with Eurasia Gas Group LLP, Olisol Petroleum Limited and Olisol Investments Limited (together "Olisol");

- Work with the Company's new shareholder 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.

Three of the Company's loans falling due in 2017 have been restructured in 2016 and discussions are ongoing with the other lenders.

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 Basis of preparation and accounting policies

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

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as applicable to interim financial reporting and do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual consolidated financial statements reported for the year ended December 31, 2016.

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

New accounting policies

There were no new and revised standards adopted by the Company during the financial period ended March 31, 2017 that had an impact on the condensed consolidated interim financial statements.

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

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

3 Segmental Reporting

Geographical segments

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

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

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

The Company also operates a corporate segment which acquired 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.

(in thousands of US dollars)

The following is an analysis of the Company's revenue, results and assets by reportable segment for the three months ended March 31, 2017 are as follows:

	Kazakhstan	Tajikistan	Georgia	Corporate	Total
Gas sales	-	-	-	-	-
Oil sales	477	-	-	-	477
Other income	3	-	-	-	3
Other operating income	-	-	-	27	27
Segment revenue and other income	**480**	**-**	**-**	**27**	**507**
Inter-segment revenue	-	-	-	(27)	(27)
Segment revenue and other income from external customers	**480**	**-**	**-**	**-**	**480**
Loss before taxation	(2,625)	(13)	-	(2,513)	(5,151)
Taxation	781	-	-	(20)	761
Loss for the period	**(1,844)**	**(13)**	**-**	**(2,533)**	**(4,390)**
Total assets[1]	130,105	8	13,281	118,585	156,298
Total liabilities[1]	129,315	12,685	1	31,084	67,404
Cash expenditure on exploration & evaluation assets, property, plant and equipment	43	-	50	906	999
Depreciation, depletion & amortization	1,932	-	-	635	2,567

Note 1 – Total is after elimination of inter-segment items of USD105,681,000.

No borrowing costs were capitalised during the period.

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

	Kazakhstan	Tajikistan	Georgia	Other and corporate	Total
Gas sales	2,934	-	-	-	2,934
Oil sales	517	-	-	-	517
Other income	2	-	-	2	4
Other operating income	-	-	-	191	191
Segment revenue and other income	**3,453**	**-**	**-**	**193**	**3,646**
Inter-segment revenue	-	-	-	(191)	(191)
Segment revenue and other income from external customers	**3,453**	**-**	**-**	**2**	**3,455**
Loss before taxation	(1,299)	-	9	(4,308)	(5,598)
Taxation	(45)	-	-	(34)	(79)
Loss for the period	**(1,344)**	**-**	**9**	**(4,342)**	**(5,677)**
Total assets[1]	138,728	22,808	13,091	123,835	189,103
Total liabilities[1]	127,751	10,143	-	30,849	59,384
Cash expenditure on exploration & evaluation assets, property, plant and equipment	189	49	156	-	394
Depreciation, depletion & amortization	2,230	-	-	626	2,856

Note 1 – Total is after elimination of inter-segment items of USD109,359,000.

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

(in thousands of US dollars)

4 Share based payments

Share options

Full details of the share options and stock incentive plan are outlined in the Company's annual consolidated financial statements for the year ended December 31, 2016. The options under the plan vest in three tranches over either two or three years. These options are equity settled share based payment transactions.

In respect of share options a charge for the value of services of USD56,000 (2015: USD82,000) was recorded for the period. No amounts were capitalised in the current or prior periods.

The following tables summarise the stock option activity for the periods ended March 31, 2017 and March 31, 2016.

	Three months ended March 31			
	2017		2016	
	Number of options	Weighted average exercise price ($)	Number of options	Weighted average exercise price ($)
Outstanding at January 1	19,354,500	0.31	11,025,500	0.31
Granted	-	n/a	14,307,500	0.04
Forfeited	(708,750)	0.12	(1,080,000)	0.22
Expired	(1,383,375)	0.31	(261,000)	0.90
Outstanding at March 31	17,262,375	0.09	23,992,000	0.14
Exercisable at March 31	7,281,125	0.15	5,292,833	0.38

Warrants classified as derivative financial instruments

The Company has issued warrants which are classified as derivative financial instruments.

Warrants issued in connection with loans

The following table summarises the warrant activity for the periods ended March 31, 2017 and March 31, 2016.

	Three months ended March 31			
	2017		2016	
	Number of warrants	Weighted average exercise price ($)	Number of warrants	Weighted average exercise price ($)
Outstanding at January 1	194,390,000	2.500	2,090,000	2.500
Outstanding at March 31	194,390,000	0.058	2,090,000	2.500
Exercisable at March 31	194,390,000	0.058	2,090,000	2.500

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.

(in thousands of US dollars)

5 Taxation

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

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

	Three months ended March 31	
	2017	**2016**
Loss before income taxes from continuing operations	(5,151)	(5,598)
Income tax rate	20%	20%
Expected income tax recovery	**1,030**	**1,120**
Decrease resulting from:		
Non-deductible expenses net of functional currency foreign exchange impact	(94)	(65)
Revisions in tax estimates and foreign exchange impact on tax pools	2,107	(467)
Impact of effective tax rates in other foreign jurisdictions	(952)	(808)
Losses and tax assets not utilised/recognised	(1,330)	141
	761	**(79)**
Current tax expense	(17)	(31)
Deferred tax expense	778	(48)
Total	**761**	**(79)**

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

	As at	
	March 31, 2017	**December 31, 2016**
Tax losses	205	208
Deferred tax asset	**205**	**208**
Capital assets	10,527	11,845
Other	596	68
Deferred tax liability	**11,123**	**11,913**

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

6 Loss per share

		Three months ended March 31	
Continuing operations	**Units**	**2017**	**2016**
Loss for the purpose of basic and diluted loss attributable to ordinary shareholders	$'000	(4,390)	(5,677)
Weighted average shares	000s	508,136	341,075
Per share amount	$	(0.01)	(0.02)

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

7 Intangible assets

Exploration and evaluation assets	**Kazakhstan**	**Georgia**	**Tajikistan**	**Total**
January 1, 2016	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**
Additions	3	50	-	53
March 31, 2017	**29,505**	**13,280**	**-**	**42,785**

8 Property, plant and equipment

	Oil and gas properties			Oil and gas equipment			Other fixed assets[1]			Total net book
	Cost	**Amortisation**	**Total**	**Cost**	**Depreciation**	**Total**	**Cost**	**Depreciation**	**Total**	**amount**
January 1, 2016	**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**
Additions	56	-	56	906	-	906	(53)	56	4	966
Amortisation and depletion	-	(1,790)	(1,790)	-	(716)	(716)	-	(61)	(61)	(2,567)
March 31, 2017	**167,934**	**(76,865)**	**91,069**	**26,249**	**(16,043)**	**10,206**	**4,253**	**(4,015)**	**238**	**101,513**

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

9 Restricted cash

Non-current amounts consist of interest bearing deposits held in Kazakhstan that have been placed to satisfy local Kazakh requirements in respect of asset retirement obligations. Current 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.

(in thousands of US dollars)

10 Financial liabilities

	Contractual interest rate per annum	Effective interest rate per annum	Maturity date	March 31, 2017	December 31, 2016
Current					
Rig loans	12.0%	14.8%	2018	1,697	3,724
Kazakh loan KZT	22.0%	23.6%	2019	3,048	2,823
Kazakh loan USD	11.0%	12.3%	2017	893	1,010
Corporate loans					
- USD6 million loan financing	10.5%	24.4%	2017	7,214	7,301
- AGR Energy No.1	9.0%	20.5%	2017	7,630	7,429
Financing facilities - ALR	9.0%	10.6%	2017	-	5,089
Olisol loan	9.0%	9.0%	Note 1	5,998	5,873
				26,480	**33,249**
Non -current					
Rig loans	12.0%	14.8%	2018	1,740	-
Corporate loans - Financing facilities - ALR	9.0%	10.6%	2017	5,240	-
				6,980	**-**
Total				**33,460**	**33,249**

Note 1 - Subject to litigation as described below.

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

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. Loans with a face value of USD4.7 million and GBP2.1 million were borrowed under the agreement.

During the financial period, the Company agreed amendments to the loan agreement which had various maturity dates between February and June 2017 i.e. three years after the receipt of each lender's tranche.

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.

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 ("EGG"), with the Company's consent, and is a bank loan to EGG, the Company's previous oil buyer and customer of the AOT, whereby EGG drew down on the bank loan facility with the approval of the Company and funds were transferred to the Company's subsidiary, TAG. The bank loan facility had an initial term of up to four years, since extended to February 2019.

In January 2013, the Kazakh loan arrangement was terminated and replaced with an arrangement whereby funds were 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 March 31, 2017 as shown in the table above.

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.

As a consequence of the legal disputes between the Company and EGG described below under "Olisol loan" and also in note 14 the Company is in discussions with the Kazakh bank to restructure the loan.

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 was due at the end of two years with interest payments at the rate of 8% per annum being due every 6 months.

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 was added to the principal amount and was 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. The loan fell due on January 30, 2017 and the Company has been in discussions with the lender regarding the terms of a proposed two year extension to the loan maturity date.

Financing facilities with Annuity and Life Reassurance Ltd ("ALR")

The Company entered into two agreements in 2015 with ALR, a company controlled by Pope Asset Management, the Company's largest shareholder:

a) *Corporate – USD3.5 million loan financing:*

On March 10, 2015, the Company obtained a USD3.5 million unsecured loan facility from ALR. The principal was due at the end of two years with interest payments due every 6 months at 8% per annum. 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 which expired during the period.

b) *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"). The ALR Debentures mature were due to mature June 30, 2017 and paid interest every six months at 9% per annum.

On January 27, 2017 shareholders approved amendments to the two loan agreements between the Company and ALR which had been entered into on December 20, 2016. The main changes to the loan agreements were 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%.

Unsecured convertible loan facility from AGR Energy Limited 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.

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.

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.

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. The Company does not agree that the loan is repayable and on January 26, 2016 the Company commenced legal action against Olisol, EGG and certain of their respective principals 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.

(in thousands of US dollars)

11 Share capital

Share capital and share premium

	March 31, 2017	December 31, 2016
Authorised		
Ordinary shares with a par value of $0.01 each	1,450,000,000	1,450,000,000
Preference shares with a par value of $0.01 each	50,000,000	50,000,000

Ordinary equity share capital **Allotted and fully paid**	**Date**	**Number**	**Share Capital**	**Share Premium**
At January 1, 2016		**336,960,387**	**33,696**	**321,803**
Debt conversion by Olisol	March 21, 2016	37,440,042	3,744	-
Debt conversion by Olisol	April 15, 2016	25,604,419	2,560	-
Par value reduction	August 31, 2016	-	(36,000)	36,000
Private placement	November 29, 2016	87,903,396	879	521
Debt conversion by ALR	December 20, 2016	20,227,854	202	120
At December 31, 2016		**508,136,098**	**5,081**	**358,444**
At March 31, 2017		**508,136,098**	**5,081**	**358,444**

12 Related party transactions

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

13 Change in working capital

	Three months ended March 31	
	2017	**2016**
Condensed Statement of Financial Position:		
Trade and other receivables	(184)	(2,498)
Inventories	(413)	7
Trade and other payables	1,273	2,019
Change in working capital	676	(472)
Non-cash transactions	(501)	313
Net changes in working capital	**175**	**(159)**
Condensed Statement of Cash Flows:		
Operating activities	189	(137)
Investing activities	(14)	(22)
Net changes in working capital	**175**	**(159)**

14 Commitment and contingencies

Litigation, claims and assessments

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

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 did not follow 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 which remain in place at the date of this report.

Kazakhstan

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

(in thousands of US dollars)

General background

Work programmes for exploration and production contracts agreed with the Kazakh State include a required level of "Investments" as defined in the contracts. "Investments" includes capital expenditure, operating expenses, social sphere, sub-soil monitoring and specialist training costs. It is this required level of Investments that forms the principal financial obligation of the Company in respect of its work programme commitments and against which the Company is mainly measured by the relevant Kazakh State authorities along with production volumes in the production contracts.

Failure by the Company to meet the required level of Investments could put the Company's licences at risk of forfeiture or give rise to penalties for non-fulfillment. 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 Kazakhstan businesses can be summarised as follows:

		Kazakhstan Work Programme Commitments		
	Expiry date	**Program 2017**	**Spend to date 2017**	**Program 2018 & later**
Akkulka Production Contract (Gas)	2018			
Financial obligations, total		5,500	304	3,860
Investments		2,242	112	1,788
Kyzyloi Production Contract (Gas)	2029			
Financial obligations, total		6,734	287	4,649
Investments		6,182	140	4,015
Akkulka Exploration Contract (Oil)	2019			
Financial obligations, total		6,793	826	5,019
Investments		5,462	463	3,495
Kul-Bas Exploration Contract	2017			
Financial obligations, total		3,588	9	3,264
Investments		3,400	-	3,079
Financial obligations, total		**22,615**	**1,426**	**16,792**
Investments, total		**17,286**	**715**	**12,377**

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

Akkulka Production Contract

On December 23, 2009, the Company and the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan signed the Akkulka Production Contract giving the Company exclusive rights to produce gas from the Akkulka Block for a period of nine years. Contingent upon commencement of commercial production on the Akkulka contractual territory, an amount of USD3,500,000 was due to the Kazakh State as a reimbursement of historical costs previously incurred in relation to the contractual territory. For that part of the contractual territory from which production commenced in 2010, staged payments over a period of nine years totalling approximately USD933,997 are to be paid in equal quarterly instalments from the commencement of production until full reimbursement. To March 31, 2017, the Company had reimbursed the Kazakh State USD728,088 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.

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 required to contribute 11.11% or USD9.0 million of the first USD80.0 million of the initial work programme. As at March 31, 2017, 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 submitted its answer to the request for arbitration to the court setting out its arguments against the Partners' claim and its counter-claim. Arbitration hearings are scheduled to commence in November 2017 There is no guarantee in place of KPL's obligations by the Company or any other group 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 claims the Company should 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.

(in thousands of US dollars)

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.

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.

15 Operating leases

Leases as a lessee:

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

	March 31, 2017	December 31, 2016
Less than 1 year	76	230
1 – 3 years	-	135
Greater than 3 years	-	-

16 Subsequent events

Gas sales contract

In May 2017 the Company's wholly owned Kazakh subsidiary Tethys Aral Gas LLP agreed a sales contract for the gas produced and held in storage and payment due under the contract has been received.