Tethys Petroleum Limited

Condensed Consolidated Interim Financial Statements
(Unaudited)
June 30, 2017

NOTICE OF NO AUDITOR REVIEW OF 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.

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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 June 30, 2017.

For and on behalf of the Board

W. Wells
Chairman
July 28, 2017

A. Ogunsemi
Director
July 28, 2017

Tethys Petroleum Limited

Condensed Consolidated Interim Statements of Financial Position (unaudited)

(in thousands of US dollars)

		As at	
	Note	June 30, 2017	December 31, 2016
Non-current assets			
Intangible assets	7	42,836	42,732
Property, plant and equipment	8	99,069	103,115
Restricted cash	9	2,156	2,238
Investment in joint arrangements		4	4
Trade and other receivables		1,326	1,237
Deferred tax	5	95	208
		145,486	**149,534**
Current assets			
Cash and cash equivalents		817	449
Trade and other receivables		6,980	6,532
Inventories		611	676
Restricted cash	9	7	2,713
		8,415	**10,370**
Total assets		**153,901**	**159,904**
Non-current liabilities			
Trade and other payables		24	44
Financial liabilities - borrowings	10	6,789	-
Deferred tax	5	11,172	11,913
Provisions		944	910
		18,929	**12,867**
Current liabilities			
Financial liabilities - borrowings	10	26,950	33,249
Current taxation	5	560	522
Trade and other payables		22,396	19,838
Provisions		26	200
		49,932	**53,809**
Total liabilities		**68,861**	**66,676**
Equity			
Share capital	11	5,081	5,081
Share premium	11	358,444	358,444
Other reserves		43,755	43,648
Accumulated deficit		(328,336)	(320,041)
Non-controlling interest		6,096	6,096
Total equity		**85,040**	**93,228**
Total equity and liabilities		**153,901**	**159,904**
Going concern	1		
Commitments and contingencies	14		

The notes on pages 6 to 22 form part of these condensed consolidated interim financial statements. The condensed consolidated interim financial statements were approved by the Board on July 28, 2017 and were signed on its behalf.

W. Wells
Chairman
July 28, 2017

A. Ogunsemi
Director
July 28, 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 June 30 2017	Three months ended June 30 2016	Six months ended June 30 2017	Six months ended June 30 2016
Sales and other revenues	3	2,855	3,529	3,335	6,984
Sales expenses		-	(733)	-	(1,467)
Production expenses		(1,513)	(1,328)	(2,108)	(2,524)
Depreciation, depletion and amortisation		(2,503)	(2,927)	(5,070)	(5,783)
Administrative expenses		(1,392)	(1,230)	(2,566)	(3,025)
Restructuring costs		17	(676)	(101)	(1,423)
Share based payments	4	(51)	(81)	(107)	(163)
Profit on sale of fixed assets	4	-	-	-	10
Foreign exchange (loss)/gain		(153)	50	(171)	123
Fair value gain on derivative financial instruments		-	65	-	269
Finance costs		(977)	(2,012)	(2,080)	(3,942)
		(6,572)	(8,872)	(12,203)	(17,925)
Loss before tax from continuing operations		**(3,717)**	**(5,343)**	**(8,868)**	**(10,941)**
Taxation	5	(188)	409	573	330
Loss from continuing operations and total comprehensive income		**(3,905)**	**(4,934)**	**(8,295)**	**(10,611)**
Loss and total comprehensive income attributable to:					
Shareholders		(3,905)	(4,776)	(8,295)	(10,453)
Non-controlling interest		-	(158)	-	(158)
Loss and total comprehensive income		**(3,905)**	**(4,934)**	**(8,295)**	**(10,611)**
Loss per share attributable to shareholders:					
Basic and diluted - from continuing operations (USD)	6	(0.01)	(0.01)	(0.02)	(0.03)

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

The notes on pages 6 to 22 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		-	-	(10,453)	-	-	(158)	(10,611)
Transactions with shareholders								
Shares issued		6,304	-	-	-	-	-	6,304
Share-based payments		-	-	-	163	-	-	163
Total transactions with shareholders		6,304	-	-	163	-	-	6,467
At June 30, 2016	11	**40,000**	**321,803**	**(283,642)**	**26,728**	**16,601**	**5,936**	**127,426**
At January 1, 2017	11	**5,081**	**358,444**	**(320,041)**	**27,047**	**16,601**	**6,096**	**93,228**
Comprehensive loss for the period		-	-	(8,295)	-	-	-	(8,295)
Transactions with shareholders								
Share-based payments		-	-	-	107	-	-	107
Total transactions with shareholders		-	-	-	107	-	-	107
At June 30, 2017	11	**5,081**	**358,444**	**(328,336)**	**27,154**	**16,601**	**6,096**	**85,040**

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 22 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 June 30		Six months ended June 30	
	Note	**2017**	**2016**	**2017**	**2016**
Cash flow from operating activities					
Loss before tax from continuing operations		(3,717)	(5,343)	(8,868)	(10,941)
Adjustments for:					
Share based payments		51	81	107	163
Net finance cost		977	2,012	2,080	3,942
Depreciation, depletion and amortisation		2,503	2,927	5,070	5,783
Profit on sale of fixed assets		-	-	-	(10)
Fair value gain on derivative financial instruments		-	(65)	-	(269)
Net unrealised foreign exchange gain		51	(293)	67	(357)
Movement in provisions		(155)	(845)	(275)	(1,636)
Net change in working capital	13	2,342	(79)	2,531	(216)
Cash generated from/(used in) operating activities		**2,052**	**(1,605)**	**712**	**(3,541)**
Corporation tax paid		(10)	(21)	(18)	(21)
Net cash generated from/(used in) operating activities		**2,042**	**(1,626)**	**694**	**(3,562)**
Cash flow from investing activities:					
Expenditure on exploration and evaluation assets		(51)	(177)	(104)	(455)
Expenditure on property, plant and equipment		(58)	(165)	(1,004)	(281)
Proceeds from sale of fixed assets		-	33	-	33
Movement in restricted cash		108	(3)	2,788	148
Movement in advances to construction contractors		14	(203)	-	(199)
Movement in value added tax receivable		(343)	206	(42)	428
Net change in working capital	13	(214)	61	(228)	39
Net cash (used in)/generated from investing activities		**(544)**	**(248)**	**1,410**	**(287)**
Cash flow from financing activities:					
Proceeds from issuance of borrowings, net of issue costs		-	1,500	-	3,500
Repayment of borrowings		(502)	(234)	(744)	(574)
Interest paid on borrowings		(134)	(544)	(754)	(1,713)
Movement in other non-current liabilities		-	(21)	(21)	(68)
Net cash (used in)/generated from financing activities		**(636)**	**701**	**(1,519)**	**1,145**
Effects of exchange rate changes on cash and cash equivalents		(114)	740	(217)	132
Net increase/(decrease) in cash and cash equivalents		**748**	**(433)**	**368**	**(2,572)**
Cash and cash equivalents at beginning of the period		69	1,133	449	3,272
Cash and cash equivalents at end of the period		**817**	**700**	**817**	**700**

The notes on pages 6 to 22 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 190 Elgin Avenue, George Town, Grand Cayman, KY1-9007, 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 six months ended June 30, 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 USD8.3 million for the period ended June 30, 2017 (year ended December 31, 2016: USD46.9 million) and an accumulated deficit as at that date of USD328.3 million (December 31, 2016: USD320.0 million) and negative working capital of USD41.5 million (December 31, 2016: negative USD43.4 million). In addition, the Company reported cash flow generated from operating activities before tax of USD0.7 million for the period ended June 30, 2017 (year ended December 31, 2016: negative USD4.3 million).

The Company also has various commitments and contingencies as described in note 14. These include commitments and contingencies in relation to assets of Tethys subsidiary Tethys Aral Gas LLP ("TAG") pending the outcome of a commercial claim which the Company is contesting in the Kazakhstan courts.

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 ("EGG"), Olisol Petroleum Limited and Olisol Investments Limited (together "Olisol");

- Work with the Company's other major shareholders in Kazakhstan to market the Company's oil and gas for better pricing, including potential export pricing for gas, and obtain direct 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;
- Increase gas production from the new shallow gas well drilling programme, well work-overs and tie-in of already drilled wells;
- Seek drilling company partners, or other investors, to fund other drilling activities in the Company's Kazakhstan licence areas on a deferred payment or contingent production sharing basis. These include 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 the Tajikistan and Georgia assets; and
- Implement further restructuring and cost optimisation across the business.

Three of the Company's loans falling due in 2017 were 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 June 30, 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 are not yet effective have not 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.

(in thousands of US dollars)

The Company also operates a corporate segment which acquired several drilling rigs and related oil and gas equipment which are utilised in Kazakhstan according to operational requirements and which has provided loan funding for development activities in Kazakhstan.

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

	Kazakhstan	Tajikistan	Georgia	Corporate	Total
Gas sales	2,510	-	-	-	2,510
Oil sales	809	-	-	-	809
Other income	16	-	-	-	16
Other operating income	-	-	-	54	54
Segment revenue and other income	**3,335**	**-**	**-**	**54**	**3,389**
Inter-segment revenue	-	-	-	(54)	(54)
Segment revenue and other income from external customers	**3,335**	**-**	**-**	**-**	**3,335**
Loss before taxation	(4,091)	(24)	-	(4,753)	(8,868)
Taxation	609	-	-	(36)	573
Loss for the period	**(3,482)**	**(24)**	**-**	**(4,789)**	**(8,295)**
Total assets[1]	128,407	8	13,330	116,238	153,901
Total liabilities[1]	128,749	12,683	-	31,511	68,861
Cash expenditure on exploration & evaluation assets, property, plant and equipment	97	-	99	912	1,108
Depreciation, depletion & amortization	3,792	-	-	1,278	5,070

Note 1 – Total is after elimination of inter-segment items of USD104,082,000.

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 six months ended June 30, 2016 are as follows:

	Kazakhstan	Tajikistan	Georgia	Corporate	Total
Gas sales	5,870	-	-	-	5,870
Oil sales	1,132	-	-	-	1,132
Other income	(20)	-	-	2	(18)
Other operating income	-	-	-	382	382
Segment revenue and other income	**6,982**	**-**	**-**	**384**	**7,366**
Inter-segment revenue	-	-	-	(382)	(382)
Segment revenue and other income from external customers	**6,982**	**-**	**-**	**2**	**6,984**
Loss before taxation	(2,867)	-	2	(8,076)	(10,941)
Taxation	409	-	-	(79)	330
Loss for the period	**(2,458)**	**-**	**2**	**(8,155)**	**(10,611)**
Total assets[1]	134,801	23,806	13,146	120,727	185,634
Total liabilities[1]	125,559	11,122	-	28,373	58,208
Cash expenditure on exploration & evaluation assets, property, plant and equipment	403	81	239	13	736
Depreciation, depletion & amortisation	4,375	1	7	1,400	5,783

Note 1 – Total is after elimination of inter-segment items of USD106,846,000.

(in thousands of US dollars)

Borrowing costs of USD22,000 incurred in the Corporate segment were capitalised in the Kazakhstan segment respectively during the period.

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

	Kazakhstan	Tajikistan	Georgia	Corporate	Total
Gas sales	2,510	-	-	-	2,510
Oil sales	332	-	-	-	332
Other income	13	-	-	-	13
Other operating income	-	-	-	27	27
Segment revenue and other income	**2,855**	**-**	**-**	**27**	**2,882**
Inter-segment revenue	-	-	-	(27)	(27)
Segment revenue and other income from external customers	**2,855**	**-**	**-**	**-**	**2,855**
Loss before taxation	(1,466)	(11)	-	(2,240)	(3,717)
Taxation	(172)	-	-	(16)	(188)
Loss for the period	**(1,638)**	**(11)**	**-**	**(2,256)**	**(3,905)**
Total assets[1]	128,407	8	13,330	116,238	153,901
Total liabilities[1]	128,749	12,683	-	31,511	68,861
Cash expenditure on exploration & evaluation assets, property, plant and equipment	54	-	49	6	109
Depreciation, depletion & amortisation	1,860	-	-	643	2,503

Note 1 – Total is after elimination of inter-segment items of USD104,082,000.

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 June 30, 2016 are as follows:

	Kazakhstan	Tajikistan	Georgia	Corporate	Total
Gas sales	2,936	-	-	-	2,936
Oil sales	615	-	-	-	615
Other income	(22)	-	-	-	(22)
Other operating income	-	-	-	191	191
Segment revenue and other income	**3,529**	**-**	**-**	**191**	**3,720**
Inter-segment revenue	-	-	-	(191)	(191)
Segment revenue and other income from external customers	**3,529**	**-**	**-**	**-**	**3,529**
Loss before taxation	(1,568)	-	(7)	(3,768)	(5,343)
Taxation	454	-	-	(45)	409
Loss for the period	**(1,114)**	**-**	**(7)**	**(3,813)**	**(4,934)**
Total assets[1]	134,801	23,806	13,146	120,727	185,634
Total liabilities[1]	125,559	11,122	-	28,373	58,208
Cash expenditure on exploration & evaluation assets, property, plant and equipment	214	32	83	13	342
Depreciation, depletion & amortisation	2,145	1	7	774	2,927

Note 1 – Total is after elimination of inter-segment items of USD106,846,000.

Borrowing costs of USD12,000 incurred in the Corporate segment were capitalised in the Kazakhstan and segment 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 USD107,000 (2016: USD163,000) 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 June 30, 2017 and June 30, 2016.

	Six months ended June 30			
	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	0.03
Forfeited	(708,750)	0.13	(1,080,000)	0.20
Expired	(2,256,375)	0.45	(357,000)	0.95
Outstanding at June 30	**16,389,375**	**0.06**	**23,896,000**	**0.13**
Exercisable at June 30	**6,331,458**	**0.08**	**5,196,833**	**0.36**

Warrants issued in connection with loans

The following table summarises the warrant activity for the periods ended June 30, 2017 and June 30, 2016.

	Six months ended June 30			
	2017		2016	
	Number of warrants	Weighted average exercise price ($)	Number of warrants	Weighted average exercise price ($)
Outstanding at January 1	194,390,000	0.058	2,090,000	2.500
Expired	2,090,000	2.500	-	-
Outstanding at June 30	**192,300,000**	**0.031**	**2,090,000**	**2.500**
Exercisable at June 30	**192,300,000**	**0.031**	**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:

	Six months ended June 30	
	2017	**2016**
Loss before income taxes from continuing operations	(8,868)	(10,941)
Income tax rate	20%	20%
Expected income tax recovery	**1,774**	**2,188**
Decrease resulting from:		
Non-deductible expenses net of functional currency foreign exchange impact	(128)	(165)
Revisions in tax estimates and foreign exchange impact on tax pools	2,512	52
Impact of effective tax rates in other foreign jurisdictions	(954)	(1,518)
Losses and tax assets not utilised/recognised	(2,631)	(227)
	573	**330**
Current tax expense	(32)	(68)
Deferred tax expense	605	398
Total	**573**	**330**

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

	As at	
	June 30, 2017	**December 31, 2016**
Tax losses	95	208
Deferred tax asset	**95**	**208**
Capital assets	10,895	11,845
Other	277	68
Deferred tax liability	**11,172**	**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

Continuing operations	Units	Three months ended June 30 2017	2016	Six months ended June 30	
Loss for the purpose of basic and diluted loss attributable to ordinary shareholders	$'000	(3,905)	(4,776)	(8,295)	(10,453)
Weighted average shares	000s	508,136	396,066	508,136	368,776
Per share amount	$	(0.01)	(0.01)	(0.02)	(0.03)

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	5	99	-	104
June 30, 2017	**29,507**	**13,329**	**-**	**42,836**

8 Property, plant and equipment

	Oil and gas properties			Oil and gas equipment			Other fixed assets[1]			Total net book amount
	Cost	Amortisation	Total	Cost	Depreciation	Total	Cost	Depreciation	Total	
January 1, 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	116	-	116	906	-	906	2	-	2	1,024
Disposals	-	-	-	-	-	-	(278)	278	-	-
Amortisation and depletion	-	(3,573)	(3,573)	-	(1,414)	(1,414)	-	(83)	(83)	(5,070)
June 30, 2017	**167,994**	**(78,648)**	**89,346**	**26,249**	**(16,741)**	**9,508**	**4,030**	**(3,815)**	**215**	**99,069**

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

Tethys Petroleum Limited

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

(in thousands of US dollars)

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.

10 Financial liabilities

	Contractual interest rate per annum	Effective interest rate per annum	Maturity date	June 30, 2017	December 31, 2016
Current					
Rig loans	12.0%	14.8%	2018	1,615	3,724
Kazakh loan KZT	22.0%	23.6%	2019	3,040	2,823
Kazakh loan USD	11.0%	12.3%	2017	893	1,010
Corporate loans					
- USD6 million loan financing	10.5%	24.4%	2017	7,454	7,301
- AGR Energy No.1	9.0%	20.5%	2017	7,823	7,429
ALR loans	9.0%	10.6%	2020	-	5,089
Olisol loan	9.0%	9.0%	Note 1	6,125	5,873
				26,950	**33,249**
Non -current					
Rig loans	12.0%	14.8%	2018	1,436	-
ALR loans	9.0%	10.6%	2020	5,353	-
				6,789	**-**
Total				**33,739**	**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 June 30, 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 has not received confirmation from EGG that it has continued to make payments due to the bank and has been in discussions with the Kazakh bank to restructure the loan so that it becomes a direct loan to TAG.

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 by the borrower after surrender conditions were met 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 although at the date of this report these have not been finally agreed.

Annuity and Life Reassurance Ltd ("ALR") loans

The Company entered into two loan 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 an exercise 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 were due to mature June 30, 2017 and paid interest every six months at 9% per annum.

On January 27, 2017 the Company's 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 were 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 was accounted for as an embedded derivative and was valued by the Company at initial recognition at USD180,000.

The AGR Debentures pay interest every six months at the interest rate shown in the table above. The maturity date was June 30, 2017 and the Company has been in discussions with the lender regarding the terms of a proposed restructuring of the loan although at the date of this report these have not been finally agreed.

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 (the "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, 2017 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.

At the date of this report the action is continuing and is expected to take a considerable period of time to resolve through the Court process. It is not possible at this time to predict the outcome with any degree of certainty.

(in thousands of US dollars)

11 Share capital

Share capital and share premium

	June 30, 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 June 30, 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 June 30		**Six months ended June 30**	
	2017	**2016**	**2017**	**2016**
Condensed Statement of Financial Position:				
Trade and other receivables	387	1,461	203	(1,037)
Inventories	478	(32)	65	(25)
Trade and other payables	1,263	(488)	2,536	1,531
Change in working capital	2,128	941	2,804	469
Non-cash transactions	-	(959)	(501)	(646)
Net changes in working capital	**2,128**	**(18)**	**2,303**	**(177)**
Condensed Statement of Cash Flows:				
Operating activities	2,342	(79)	2,531	(216)
Investing activities	(214)	61	(228)	39
Net changes in working capital	**2,128**	**(18)**	**2,303**	**(177)**

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 it had been 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.

Since the claim on October 27, 2016 there have been a number of appeals, counter appeals and an amended claim made by EGG.

As a result of EGG's latest claim against TAG, restrictions remain in place over TAG's bank accounts at the date of this report. The next court date to hear TAG's appeal is scheduled for August 2, 2017. Whilst the Company is hopeful of a satisfactory resolution it is not possible at this time to predict the outcome with any degree of certainty.

Kazakhstan

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

General background

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

(in thousands of US dollars)

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-fulfilment. 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 for 2015 and 2016. 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 shown in the table below.

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		5,562	365	3,905
Investments		2,267	134	1,809
Kyzyloi Production Contract (Gas)	2029			
Financial obligations, total		6,811	344	4,702
Investments		6,253	168	4,061
Akkulka Exploration Contract (Oil)	2019			
Financial obligations, total		6,871	991	5,076
Investments		5,525	556	3,535
Kul-Bas Exploration Contract	2017			
Financial obligations, total		3,629	11	3,301
Investments		3,439	-	3,114
Financial obligations, total		**22,873**	**1,711**	**16,984**
Investments, total (forms part of Financial obligations)		**17,484**	**858**	**12,519**

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 June 30, 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 June 30, 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 requests, 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 which now stand at USD12.7 million.

The Company's indirectly held subsidiary, Kulob Petroleum Limited ("KPL"), the contracting partner in the Bokhtar PSC, was informed by legal counsel representing the Partners, that in May 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 KPL's outstanding cash calls of USD9.0 million (now USD12.7 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 intervening period the 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.

Georgia

The Company has a 49% interest in three blocks in Eastern Georgia (Blocks XI^A, XI^M and XI^N).

On January 16, 2017 the Company announced that Tethys partner in Georgia, Georgia Oil and

(in thousands of US dollars)

Gas Limited ("GOG"), had been notified by the State Agency of Oil and Gas in the Ministry of Energy of Georgia (the "Agency") that GOG and Tethys would not be required to complete the previously agreed 50 km of 2D seismic acquisition in Block XI^N by July 1, 2017. Instead, the Agency will evaluate whether the Tethys and GOG should conduct 50 km of 2D seismic acquisition over an alternative prospective area.

Tethys and GOG wrote to the Agency in June 2017 seeking to retain Block XI^N if the Agency will agree to a new minimum work programme and confirms it will not levy any penalties for any past non-compliances (for which Tethys would be liable) and to retain Block XI^M if the Agency will agree amendments to the production sharing contract. In respect of Block XI^M Tethys has agreed to fund the cost of 30 km of seismic which is expected to be in the range of USD650,000-700,000. Tethys and GOG also wrote to the Agency to relinquish Block XI^A as work performed on the block indicates it has low prospectivity and Tethys and GOG do not wish to commit to further investment.

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:

	June 30, 2017	December 31, 2016
Less than 1 year	57	230
1 – 3 years	-	135
Greater than 3 years	-	-

16 Subsequent events

There are no material subsequent events to disclose.

Tethys Petroleum Limited

Management's Discussion and Analysis
for the period ended June 30, 2017

Contents

The following Management's Discussion and Analysis ("MD&A") is dated July 28, 2017 and should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and related notes for the period ended June 30, 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". 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 190 Elgin Avenue, George Town, Grand Cayman, KY1-9007, Cayman Islands. The domicile of Tethys is the Cayman Islands where it is incorporated.

Financial highlights

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

	Quarter ended June 30			Six months ended June 30		
	2017	2016	Change	2017	2016	Change
Oil and gas sales and other revenues	2,855	3,529	(19%)	3,335	6,984	(52%)
Loss for the period from continuing operations	(3,905)	(4,934)	(21%)	(8,295)	(10,611)	(22%)
Basic and diluted loss (USD) per share from continuing operations	(0.01)	(0.01)	0%	(0.02)	(0.03)	(33%)
Adjusted EBITDA[1]	(186)	(388)	(52%)	(1,611)	(1,322)	22%

	As at June 30		
	2017	2016	Change
Total assets	153,901	185,634	(17%)
Cash & cash equivalents	817	700	17%
Short & long term borrowings	33,739	30,502	11%
Total non-current liabilities	18,929	13,447	41%
Net debt[1]	32,922	29,802	10%
Number of ordinary shares outstanding	508,136,098	400,004,848	27%

Note 1 Adjusted EBITDA and net debt are non-GAAP Measures, refer to page 21 for details.

Second quarter 2017 versus second quarter 2016

- Oil and gas sales and other revenues decreased by 19% to USD2.9 million from USD3.5 million, however, net revenues increased by 2% to USD2.9 million from USD2.8 million because there were no sales expenses in the current quarter following termination of the previous marketing agreement in late 2016;
- Revenues in the current period were impacted by lower production volumes as a result of the natural decline from existing wells and a lower gas sales price. This was partly offset by a slightly higher oil price;
- Gas produced from January to the end of May 2017 was sold in the quarter i.e. representing five months' worth of production. The comparable period in 2016 includes sales of three months' gas produced in Q2 2016 when revenue was recognised evenly under an annual sales contract;
- The loss of USD3.9 million was lower than the Q2 2016 loss of USD4.9 million due mainly to the absence of restructuring costs and lower finance costs, partly offset by a higher non-cash tax charge;
- Adjusted EBITDA improved marginally to negative USD0.2 million from negative USD0.4 million mainly due to the absence of restructuring costs in the current quarter.

Financial highlights (continued)

Period to date

- Oil and gas sales and other revenues for the half year decreased by 52% to USD3.3 million from USD7.0 million (USD5.5 million after sales expenses, a reduction of 31%) due to the natural decline in production volumes and a lower gas price, although the oil price was marginally higher;
- Net revenues for the half year decreased by 40% to USD3.3 million from USD5.5 million because there were no sales expenses in the current quarter following termination of the previous marketing agreement in late 2016;
- Gas produced from January to the end of May 2017 was sold in the H1 2017 i.e. representing five months' worth of production. The comparable period in 2016 includes sales of six months' gas produced when revenue was recognised evenly under an annual sales contract;
- The loss for the period of USD8.3 million was lower than the loss in 2016 of USD10.6 million due to lower overall costs, in particular restructuring costs and finance costs, which more than offset the reduction in revenues;
- Adjusted EBITDA was negative USD1.6 million compared with negative USD1.3 million in 2016 as the reduction in costs were more than offset by the reduction in revenues;
- 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 investment agreement, however, Olisol failed to complete the transaction.

Operational highlights

	Units	Quarter ended June 30 2017	2016	Change	Six months ended June 30 2017	2016	Change
Kazakhstan							
Oil	bopd	752	965	(22%)	718	913	(21%)
Gas	boe/d	2,104	2,312	(9%)	2,099	2,377	(12%)
Total	boe/d	**2,856**	**3,277**	**(13%)**	**2,817**	**3,290**	**(14%)**
Oil							
Net production	Bbls	68,469	87,840	(22%)	129,887	166,206	(22%)
Net revenue	USD'000	332	615	(46%)	809	1,132	(29%)
Production costs	USD'000	434	679	(36%)	1,015	1,335	(24%)
Gross margin	USD'000	**(102)**	**(64)**	**59%**	**(206)**	**(203)**	**1%**
Oil price net	USD/bbl	7.91	6.96	14%	7.81	6.75	16%
Cost	USD/bbl	6.34	7.73	(18%)	7.81	8.03	(3%)
Gross margin	USD/bbl	**1.57**	**(0.77)**	**(304)%**	**0.00**	**(1.28)**	**(100%)**
Gas							
Gross production	Mcm	32,526	35,755	(9%)	64,547	73,514	(12%)
Gas revenue net	USD'000	2,510	2,203	14%	2,510	4,403	(43%)
Production costs	USD'000	1,065	602	77%	1,065	1,103	(3%)
Gross margin	USD'000	**1,445**	**1,601**	**(10%)**	**1,445**	**3,300**	**(56%)**
Sales price net	USD/Mcm	45.33	62.61	(28%)	44.83	60.82	(26%)
Cost	USD/Mcm	16.68	16.84	(1%)	16.50	15.00	10%
Gross margin	USD/Mcm	**28.65**	**45.77**	**(37%)**	**28.33**	**45.82**	**(38%)**

Note: Amounts shown above translated using average exchange rate for H1 2017 of USD1 = Tenge 318.7 (H1 2016: USD1 = Tenge 345.3) and for Q2 2017 of USD1 = Tenge 315.1 (Q2 2016: USD1 = Tenge 335.2)

Oil

- Oil production in Q2 2017 averaged 752 bopd compared with 965 bopd in Q2 2016 and 718 bopd in H1 2017 compared with 913 bopd in H1 2016, reflecting a natural decline in overall production. The ESP installed in early June has produced up to 2,483 bopd although some downtime due to generator issues meant it was not on production consistently throughout June ;
- Oil production cost per barrel in Q2 2017 reduced to USD6.34 compared with USD7.73 in Q2 2016 and was USD7.81 in H1 2017 compared with USD8.03 in H1 2016, despite the lower production volume as a result of ongoing cost optimisation;
- Oil prices averaged USD7.91 in the quarter compared with USD6.96bbl in Q2 2016, an increase of 14% and USD7.81 in H1 2017 compared with USD6.75 in H1 2016, reflecting better contract terms from the customer and a stronger Kazakhstan Tenge.

Gas

- Current quarter gross gas production averaged 2,104 boe/d compared with 2,312 boe/d in Q2 2016 and H1 2017 gross gas production averaged 2,099 boe/d compared with 2,377 boe/d in H1 2016, reflecting a natural decline in overall production. Some down-time with the compressors also impacted production volumes;
- Gas production cost per Mcm in the current quarter decreased to USD16.68 compared with USD16.84 in Q2 2016 due to the timing of recognition of some costs and for H1 2017, increased to USD16.50 compared with USD15.00 in H1 2016, reflecting the decrease in gas production and non-variable costs of production. Costs were also higher in USD from the strengthening of the Kazakhstan Tenge;
- Gas was sold at a net price equivalent to USD45.33 per Mcm for the quarter compared with USD62.61 in Q2 2016 and USD44.83 per Mcm for H1 2017 compared with USD60.82 in H1 2016.

Operational Review

Outlook

The information provided under this heading is considered as forward looking information; as such please refer to page 25 – "*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 the Republic of Kazakhstan, Republic of Tajikistan and Georgia. The Company was served with a withdrawal notice from its partners in Tajikistan during 2015 although is currently 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"), Olisol Petroleum Limited and Olisol Investments Limited (together "Olisol");
- Work with the Company's other major shareholders in Kazakhstan to market the Company's oil and gas for better pricing, including potential export pricing for gas, and obtain direct 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;
- Increase gas production from the new shallow gas well drilling programme, well work-overs and tie-in of already drilled wells;
- Seek drilling company partners, or other investors, to fund other drilling activities in the Company's Kazakhstan licence areas on a deferred payment or contingent production sharing basis. These include 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 the Tajikistan and Georgia assets; and
- Implement further restructuring and cost optimisation across the business.

Significant events and transactions for the six months ended June 30, 2017

- *Georgia work programme commitments*

  On January 16, 2017 the Company announced that its partner in Georgia, Georgia Oil and Gas Limited ("GOG"), had been notified by the State Agency of Oil and Gas in the Ministry of Energy of Georgia ("the Agency") 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 would evaluate whether the partners should instead conduct 50 km of 2D seismic acquisition over an alternative prospective area.

  A further update is given below under *"Significant events and transactions subsequent to the period end".*

- *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 and that Tethys also plans to relocate its main administrative office from Almaty to Aktobe 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 is the main regional centre.

  On June 8, 2017 the Company announced that the relocation to Aktobe will be completed on schedule and the Company expects to achieve annualized cost savings of at least USD600,000 from amalgamating the two offices.

- *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 an Extraordinary General Meeting ("EGM") and announced that all resolutions put to shareholders at the meeting 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. Several days later EGG submitted an amended claim to the Court which resulted in new restrictions being imposed on most of TAG's bank accounts and these remain in place at the date of this MD&A.

- *Announcement from Olisol*

  On February 10, 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.

- *Cancellation of listing in the United Kingdom*

  On March 24, 2017 the Company announced that it had applied to the United Kingdom Listing Authority ("UKLA") to cancel the standard listing of the Company's ordinary shares (the "Shares") from the Official List of the UKLA and the cancellation of trading in the Shares on the Main Market of the London Stock Exchange (together, the "Cancellation"), following a determination by the Company that the costs of maintaining a dual listing on the London and Toronto stock exchanges is unnecessarily expensive for a company of Tethys' size. Following the Cancellation, the Shares will continue to trade on the Toronto Stock Exchange which should provide shareholders with liquidity and places sufficient corporate governance requirements upon the Company. Further, the Company's conclusion, that the London listing be cancelled, is supported by the limited trading and liquidity of the Shares on the London Stock Exchange (meaning that limited benefit is brought by that listing).

  The Cancellation took effect at 8:00 am on Tuesday May 2, 2017.

  The Company has previously had two share registers, a register maintained by Capita Asset Services in the UK and a register maintained by TSX Trust Company in Canada. The shareholdings on the Capita register were transferred to the TSX Trust register following the Company's Annual General Meeting ("AGM") on June 23, 2017 which will result in further cost savings for the Company.

- *Update on gas drilling program*

  On March 29, 2017 the Company announced a new shallow gas well drilling programme and said that it hoped to commence drilling in early May. The tender was awarded to drilling company Great Wall and contracts were signed on April 28, 2017. Drilling operations were delayed from the original planned date, however, whilst the Company renegotiated some of the contractual terms, including the price, with the outcome being a price reduction achieved of around 12 percent. The cost of the drilling programme is approximately USD5.1 million (USD5.7m including recoverable VAT) at the current exchange rate with most of the payments deferred until 2018 when the Company expects to be able to pay from increased production.

  Great Wall are now fully engaged, they have mobilised, delivered equipment to the drilling site and commenced drilling operations which are expected to be completed in November. Wells are typically 650m and take up to 14 days to drill with testing usually taking up to 10 days post completion. No results of testing are available at this time.

  The initial plan was for a ten well drilling programme. Additionally, the Company would work over three existing wells and tie in two wells drilled but not tied into production.

  Because drilling has begun later than originally intended, discussions are now underway to modify the programme. This would involve reducing the number of wells drilled in 2017 from ten to eight, obtaining and interpreting new seismic then drilling the two wells not drilled in 2017 in early 2018 based on the new data and adding 2-3 additional wells. This would result in a 4-5 well drilling program in 2018 with the intention of maintaining and improving shallow gas production on a continuing basis.

  While these are Tethys' current intentions and plans, all plans are subject to unforeseen circumstances (such as those experienced to date) that will naturally arise and which may lead to further revisions.

- *Results of Annual General Meeting*

  On June 23, 2017 the Company held its AGM and announced that all resolutions put to shareholders at the meeting were passed on a poll at the meeting, including over 99% of all votes cast in favour of the re-election of the current board members.

- *Requisition of Extraordinary General Meeting*

  On May 25, 2017 the Company announced that a member's requisition had been served on the Company by Olisol requiring the convening of an EGM pursuant to paragraph 35(B) of the Company's Articles of Association (the "Requisition"). The Requisition proposed changes to the composition of the Board of Directors of the Company and certain other matters.

  On June 26, 2017 the Company announced that the EGM has been postponed until further notice as a result of Olisol's failure to provide certain information regarding its proposed directors that the Company has requested and which the Company is required to include in the management information circular to be sent to shareholders (the "Required Information").

  The Board believes that the Required Information could be material to shareholders in deciding whether to vote for a proposed director and has therefore decided to postpone the Meeting under Regulation 38 of the Articles. The Board will announce a new date for the Meeting if Olisol provides the Required Information in a timely manner.

- *Successful Installation of ESP*

  On June 2, 2017 the Company announced that it had successfully completed the installation of an Electrical Submersible Pump ("ESP") in its main oil producing well, AKD-01.

  AKD-01 has been producing under natural pressure since first oil in September 2010 and to date has produced approximately three million barrels of oil. Production from AKD-01 has experienced a natural decline and was producing an average of approximately 700 bopd until the well was shut-in for the ESP to be installed. The ESP is intended to significantly increase oil production for the remaining life of the well.

  The installation of the ESP is the first stage in the Company's 2017 plans to enhance oil and gas production from existing wells alongside the previously announced shallow gas well drilling programme.

  The ESP has been operating as expected although some periods of downtime have been experienced due to issues with generators and the availability of trucking, in part due to extreme weather conditions. AKD-01 was therefore not on production throughout the whole of June and July although these issues have now been overcome and current production from the well is circa 2,100 bopd with an approximate 55% water-cut.

Operational Review - continued

Significant events and transactions subsequent to the period end

- *Proposed amendments to licenses in Georgia*

Tethys and its partner GOG have proposed to the Agency to amend the existing minimum work programmes for License Blocks XIM and XIN to allow further time to evaluate, through additional geological studies, the possibility of running 2D seismic surveys on the license areas or, alternatively, to relinquish the licenses and terminate the PSCs without application of any sanctions or penalties. The Agency has responded positively to the proposals and confirmed in writing that it has commenced the legal process to review and amend the PSCs.

Tethys and GOG also notified the Agency of their decision to relinquish License Block XIA and terminate the PSC as work performed to date indicates it has low prospectivity and Tethys and GOG do not wish to commit further investment to it.

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	16,850	105,988	78,366	91	861
Q2	21,334	134,186	68,469	91	752	20,987	132,002	87,840	91	965
Total	**39,035**	**245,522**	**129,887**	**181**	**718**	**37,837**	**237,990**	**166,206**	**182**	**913**

The Company produces oil from the AKD01 well under a pilot production license and the well has 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, which has conducted a hydrodynamic study of the Jurassic Carbonates. The geomechanics part of the study is yet to be completed and a final report is expected by the end of July 2017.

Oil operations update

General

Oil production averaged 718 barrels per day in H1 from AKD01 only. The well has been producing with a newly installed ESP with a Flowing Tubing Head Pressure ("FTHP") of 77.5 psi and an approximate 50% water-cut. The water-cut stabilised six days after the initial deployment of ESP.

AKD05 has been offline since November 2015 and could be brought back on and possibly AKD06 as well depending on the oil price. The current oil price is the equivalent of USD7.91 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 ESP has demonstrated very good results and proved its effectiveness. Once the Schlumberger study on AKD05 has been completed, the Company will decide whether to drill the new horizontal section in the well, in order to increase production from the Jurassic Carbonates. If the AKD05 project is also successful, the Company would then, subject to funding, invest in the required gas utilisation facilities and apply for oil export consent which would enable significantly higher sales prices to be achieved.

Joint Venture – Aral Oil Terminal ("AOT")

Oil produced and sold by the Company in H1 2017 has not been trans-shipped through the AOT as customers have 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	568,922	177	1,042
Q2	19,327	682,427	212	1,250	17,039	601,656	187	1,102
Total	**36,697**	**1,295,752**	**203**	**1,193**	**33,151**	**1,170,578**	**182**	**1,072**
Akkulka								
Q1	14,651	517,319	163	958	21,647	764,340	238	1,400
Q2	13,199	466,067	145	854	18,716	660,855	206	1,210
Total	**27,850**	**983,386**	**154**	**906**	**40,363**	**1,425,195**	**222**	**1,305**
Grand total	**64,547**	**2,279,138**	**357**	**2,099**	**73,514**	**2,595,773**	**404**	**2,377**

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 IntergasCentral Asia ("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 9% (36 Mcm per day) in the current quarter compared with the same quarter in the prior year and 12% for the half year (47 Mcm per day) primarily as a result of natural decline in the fields.

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 H1 2017 being 357 Mcm/d (2016: 404 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 exported via pipeline from Central Asia and that Chinese demand will increase over the medium to long term, especially with the substitution in China of a greater percentage of energy use from gas instead of coal.

Shallow gas drilling is planned to restart with the drilling of KYZ111 followed by 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. They have now mobilised and delivered equipment to the drilling site and have commenced drilling operations . 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.

In May 2017 the Company received a positive decision from the Ministry of Energy to extend the license (appraisal period) for the next two years up to November 11, 2019. This extension of appraisal period for two years includes an obligation to drill and test KBD-02 (Klymene) and test KBD-01 (Kalypso). At the moment the Company is working on obtaining approval and signing Addition #9 to the contract which will include the work programme for 2018 and 2019.

Results of Operations and Operational Review - Tajikistan

Since completion of the farm-out to Total and CNPC (the "Partners") in 2013, the joint operating company, Bokhtar JOC, 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, Bokhtar JOC 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 acquired along the dip lines.

Due to the Company being in default under the joint operating agreement it has not been provided with the seismic data although is aware from the Partner's submissions to the arbitration tribunal described below that the results were inconclusive and that due to this, the current economic climate in Tajikistan and depressed oil prices, together with the Company's cash call default, the Partners do not intend to invest further in the project at this time.

The Company's indirectly held subsidiary, Kulob Petroleum Limited ("KPL"), the contracting partner in the Bokhtar PSC, was informed by legal counsel representing the Partners, that in May 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 KPL's 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 intervening period the 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.

Results of Operations and Operational Review - Georgia

In January 2014, the Company acquired a 56% interest (now 49%) in the Georgian license areas: Blocks XI^A, XI^M and XI^N. 2D seismic had been acquired in 2013 prior to the Company acquiring its interest and activities since then 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 and 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. Field acquisition was completed in late July 2015 with 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 completed. In parallel, approvals to the changes in the work programme were passed successfully through several State entities and the final Government ratification was received in October 2015. This stipulated the main requirement to be a minimum of 50km of 2D seismic to be finished and evaluated by July 1, 2017 in Block XI^N at an estimated cost to Tethys of USD1.1 million with a potential block non-compliance fine to Tethys of USD2.0 million.

On January 16, 2017 the Company announced that Tethys partner in Georgia, Georgia Oil and Gas Limited ("GOG"), had been notified by the State Agency of Oil and Gas in the Ministry of Energy of Georgia (the “Agency”) that GOG and Tethys would not be required to complete the previously agreed 50 km of 2D seismic acquisition in Block XI^N by July 1, 2017. Instead, the Agency will evaluate whether the Tethys and GOG should conduct 50 km of 2D seismic acquisition over an alternative prospective area.

Tethys and GOG wrote to the Agency in June 2017 seeking to retain Block XI^N if the Agency will agree to a new minimum work programme and confirms it will not levy any penalties for any past non-compliances (for which Tethys would be liable) and to retain Block XI^M if the Agency will agree amendments to the production sharing contract. In respect of Block XI^M, Tethys has agreed to fund the cost of 30 km of seismic which in the range of USD650,000-700,000. Tethys and GOG also wrote to the Agency to relinquish Block XI^A as the work performed indicates it has low prospectivity and Tethys and GOG do not plan to invest in it further.

Financial Review

Summary of Quarterly Results

	Q2, 2017	Q1, 2017	Q4, 2016	Q3, 2016	Q2, 2016	Q1, 2016	Q4, 2015	Q3, 2015
Oil & gas sales and other revenues	2,855	480	1,631	3,119	3,529	3,455	3,607	5,736
Loss for the period								
– continuing operations	(3,905)	(4,390)	(32,203)	(4,036)	(4,934)	(5,677)	(43,593)	(3,698)
– discontinued operations	-	-	-	-	-	-	60	(11)
Basic & diluted loss ($) per share – continuing operations	(0.01)	(0.01)	(0.08)	(0.01)	(0.01)	(0.02)	(0.13)	(0.01)
Adjusted EBITDA[1]	(186)	(1,425)	(1,093)	(838)	(338)	(934)	(4,248)	(637)
Capital expenditure	109	999	354	318	342	394	374	1,938
								-
Total assets	153,901	156,298	159,904	187,323	185,634	189,103	190,595	225,170
Cash & cash equivalents	817	69	449	1,800	700	1,133	3,272	4,286
Short & long term borrowings	(33,739)	(33,460)	(33,249)	(34,167)	(30,502)	(30,532)	(32,032)	(32,479)
Total non-current liabilities	(18,929)	(19,053)	(12,867)	(12,908)	(13,447)	(31,628)	(34,644)	(24,264)
Net debt[1]	(32,922)	(33,391)	(32,800)	(32,367)	(29,802)	(29,399)	(28,760)	(28,193)
Number of common shares outstanding	508,136,098	508,136,098	508,136,098	400,004,848	400,004,848	374,400,429	336,960,387	336,839,315

Note 1 Adjusted EBITDA and net debt are non-GAAP Measures, refer to page 21 for details.

Financial Review – continued

Loss for the period

	Quarter ended June 30			Six months ended June 30		
	2017	**2016**	**Change**	**2017**	**2016**	**Change**
Sales and other revenue	2,855	3,529	(19%)	3,335	6,984	(52%)
Sales expenses	-	(733)	(100%)	-	(1,467)	(100%)
Production expenses	(1,513)	(1,328)	14%	(2,108)	(2,524)	(16%)
Depreciation, depletion & amortization	(2,503)	(2,927)	(14%)	(5,070)	(5,783)	(12%)
Administrative expenses	(1,392)	(1,230)	13%	(2,566)	(3,025)	(15%)
Restructuring costs	17	(676)	(103%)	(101)	(1,423)	(93%)
Share based payments	(51)	(81)	(37%)	(107)	(163)	(34%)
Profit on sale of fixed assets	-	-	0%	-	10	(100%)
Foreign exchange (loss)/gain	(153)	50	(406%)	(171)	123	(239%)
Fair value gain on derivative financial instruments	-	65	(100%)	-	269	(100%)
Finance costs	(977)	(2,012)	(51%)	(2,080)	(3,942)	(47%)
Loss before taxation from continuing operations	**(3,717)**	**(5,343)**	**(30%)**	**(8,868)**	**(10,941)**	**(19%)**
Taxation	(188)	409	(146%)	573	330	74%
Loss for the period	**(3,905)**	**(4,934)**	**(21%)**	**(8,295)**	**(10,611)**	**(22%)**

The Company recorded a net loss after taxation of USD3.9m for the current quarter compared with USD4.9m in Q2 2016 and USD8.3m for the six months ended June 30, 2017 (2016: USD10.6m), the principal variances being:

- Lower sales revenue after sales expenses in 2017 due to a natural decline in production volumes of oil and gas and a lower gas price;
- Non-recurring restructuring costs in 2016;
- Lower costs across most cost categories which more than offset the reduction in net revenues.
- Lower finance costs from the unwinding of effective interest costs.

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

Sales & other revenue

	Quarter ended June 30			Six months ended June 30		
	2017	**2016**	**Change**	**2017**	**2016**	**Change**
Summary						
Oil	332	615	(46%)	809	1,132	(29%)
Gas	2,510	2,936	(15%)	2,510	5,870	(57%)
Other	13	(22)	(159%)	16	(18)	(189%)
Total	**2,855**	**3,529**	**(19%)**	**3,335**	**6,984**	**(52%)**
By region						
Kazakhstan - Oil	332	615	(46%)	809	1,132	(29%)
Kazakhstan - Gas	2,510	2,936	(15%)	2,510	5,870	(57%)
Kazakhstan - Other	12	(21)	(157%)	15	(18)	(183%)
Other	1	(1)	(200%)	1	-	0%
Total	**2,855**	**3,529**	**(19%)**	**3,335**	**6,984**	**(52%)**

Financial Review – continued

Kazakhstan – Oil revenue and price

	Gross sales bbls	Revenue $000	Realised price at wellhead $/bbl	Compensation $000	VAT $000	Net sales $000	Net price excluding VAT at wellhead $/bbl
2017							
Q1	61,575	534	8.67	-	57	477	7.75
Q2	41,970	373	8.89	-	41	332	7.91
Total	**103,545**	**907**	**8.76**	**-**	**98**	**809**	**7.81**
2016							
Q1	79,251	592	7.47	12	63	517	6.52
Q2	88,417	702	7.94	14	73	615	6.96
Total	**167,668**	**1,294**	**7.72**	**26**	**136**	**1,132**	**6.75**

- 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 and half year revenue were affected by the natural decline in production volumes offset to a small extent by a slightly higher oil price.

Kazakhstan - Gas revenue and price

- Gas produced from January to the end of May 2017 was sold in Q2 2017 i.e. representing five months' production. No sales expenses were incurred, unlike in 2016. The comparable period in 2016 reflects sales of the three months gas produced in Q2 2016 (and six month's gas produced in H1 2016) when revenue was recognised evenly under an annual sales contract;
- Gas sales in H1 2017 were at a constant local currency price equivalent to USD44.82 per Mcm for compared with USD60.81 (net of sales expenses) in H1 2016;
- Gas contracts are subject to exchange rate risk – refer to page 23 – "*Sensitivities*".

Sales expenses

Sales expenses in the prior period represent marketing agent commissions for gas sales. This contract was terminated in 2016 and so there are no equivalent expenses in 2017.

Financial Review – continued

Production expenses

	Units	Quarter ended June 30 2017	2016	Change	Six months ended June 30 2017	2016	Change
Kazakhstan							
Oil production	USD000's	434	679	(36%)	1,015	1,335	(24%)
Gas production	USD000's	601	602	(0%)	1,065	1,103	(3%)
Gas costs from Q1 recognised Q2	USD000's	464	-	100%	-	-	-
Other	USD000's	14	47	917%	28	86	(67%)
Total	USD000's	**1,513**	**1,328**	**14%**	**2,108**	**2,524**	**(16%)**
Oil							
Net production	bbls	68,469	87,840	(22%)	129,887	166,206	(22%)
Cost	USD/bbl	6.34	7.73	(18%)	7.81	8.03	(3%)
Gas							
Production	boe	191,428	210,432	(9%)	379,880	432,656	(12%)
Cost	USD/boe	3.14	2.86	9%	2.80	2.55	10%
Weighted average cost per boe	USD/boe	3.98	4.29	(7%)	4.08	4.07	0%

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. However, oil production costs reduced in the quarter and for the half year and cost per barrel of oil produced also reduced due to a continuing focus on cost optimisation given the low oil price.

Kazakhstan – gas production

Gas production costs were higher for the quarter because costs in Q1 2017 were deferred and recognised in Q2 2017 when the gas was sold in order to match revenues recognised although were similar for the half year compared to 2016, notwithstanding the reduction in production, because there is a significant fixed cost element including the operation of compressor stations. 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 USD2.5 million (2016: USD2.9 million) and for H1 2017 was USD5.1 million (2016: USD5.8 million) mainly relating to the Kazakh production assets but also on oil and gas equipment. The decrease in DD&A expense mainly reflects the decrease in production volumes against 2016.

Financial Review – continued

Administrative expenses

	Quarter ended June 30			Six months ended June 30		
	2017	**2016**	**Change**	**2017**	**2016**	**Change**
Staff	684	680	1%	1,218	1,578	(23%)
Travel	92	83	11%	158	216	(27%)
Office	51	104	(51%)	120	266	(55%)
Professional fees	326	163	100%	611	428	43%
Regulatory	46	75	(39%)	144	156	(8%)
Marketing costs	66	79	(16%)	116	153	(24%)
Non-executive director fees	55	48	15%	100	174	(43%)
Other costs	72	(2)	(3700%)	99	54	83%
Total	**1,392**	**1,230**	**13%**	**2,566**	**3,025**	**(15%)**
G&A expenses per boe (USD)	5.36	4.12	30%	5.03	5.05	(0%)

- Staff costs were similar for the quarter although in Kazakh local currency terms staff costs were lower. Staff number reductions continued to be made during the second half of 2016 resulting in lower staff costs for the current half year by 23%. The company completed the closure of its Almaty office and amalgamation of functions with its Aktobe office in Kazakhstan on June 30, 2017 and expects to achieve annualized cost savings of at least USD600,000 the majority of which will be staff costs;
- Reductions in travel expenses for the half year reflect management's focus to reduce costs in this area and are also lower due to reductions in staff levels across the business. For the quarter travel costs were higher due to timing of spend;
- Office costs were significantly lower in the current quarter mainly due to favourable lease terms obtained for the Company's London office. For the half year office costs were also significantly lower following the closure of a number of offices in 2016 including the Company's Guernsey office where functions were amalgamated in London. With the closure of the Almaty office in June, 2017, the Tethys group now has offices in Aktobe and London with the Company's registered office being in the Cayman Islands;
- Professional and regulatory fees were higher in the quarter and the half year as a result of higher legal fees. Legal fees and court costs were incurred in respect of the Company's January EGM, Canadian legal proceedings being pursued by the Company against Olisol, defending actions against the Company in Kazakhstan and the costs of several arbitration proceedings;
- Marketing costs include mandatory corporate social responsibility obligations in Kazakhstan and also investor relations costs. These costs were lower in the quarter and half year due to lower activity and a focus on cost reduction;
- Non-executive director fees for quarter are higher as there only three directors for part of Q2 2016 compared with four throughout Q2 2017. For the half year director costs were significantly lower as there were four directors in H1 2017 compared with up to seven;
- Other costs, which include bank charges, vehicles costs and insurance are higher in the quarter and half year. Other costs in Q2 2016 were unusually low and not representative due to the reversal of some previously accrued costs from prior periods.

Restructuring costs

Costs associated with restructuring have been shown separately from administrative expenses. For the half year these represent contractual payments to former management whilst for the prior period they also include legal and financial advisory fees and office closures costs. There is a small credit for the current quarter due to the adjustment to the provision which is expected to be fully utilised in July 2017.

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. The amounts recorded mainly reflect movements between the US Dollar, Kazakhstan Tenge and British Pound.

Fair value gain on derivative financial instruments

The fair value gain of USD0.3 million in H1, 2016 was due to the revaluation of warrants issued in connection with corporate loans and also loans with conversion features. The warrants were revalued to nil in the course of 2016 and hence there is no gain or loss reflected in the current periods.

Finance costs - net

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

Taxation

A reconciliation of the loss before income tax to the income tax expense is provided in note 5 of the condensed consolidated interim financial statements. The majority of the tax charge or credit reflected in each period is a non-cash deferred tax movement.

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, received from oil and gas revenues, 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 June 30		
	2017	**2016**	**Change**
Total financial liabilities - borrowings	33,739	30,502	11%
Less: cash and cash equivalents	(817)	(700)	17%
Net debt	**32,922**	**29,802**	**10%**
Total equity	85,040	127,426	(33%)
Total capital	**117,962**	**157,228**	**(25%)**

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 June 30			Six months ended June 30		
	2017	**2016**	**Change**	**2017**	**2016**	**Change**
Net cash generated from/(used in) operating activities	**2,042**	**(1,636)**	**(225%)**	**694**	**(3,562)**	**(119%)**
Capital expenditure	(109)	(342)	(68%)	(1,108)	(736)	51%
Net changes in working capital	(214)	(79)	171%	(228)	(216)	6%
Other investing cash flows	(221)	173	(228%)	2,746	665	313%
Net cash (used in)/generated from investing activities	**(544)**	**(248)**	**119%**	**1,410**	**(287)**	**(591%)**
Proceeds from loan financing	-	1,500	(100%)	-	3,500	(100%)
Loan principal and interest payments	(636)	(778)	(18%)	(1,498)	(2,287)	(34%)
Other financing cash flows	-	(21)	**(100%)**	(21)	(68)	**(69%)**
Net cash (used in)/generated from financing activities	**(636)**	**701**	**(191%)**	**(1,519)**	**1,145**	**(233%)**
Effect of exchange rates	(114)	750	(115%)	(217)	132	(264%)
Net increase/(decrease) in cash	**748**	**(433)**	**(273%)**	**368**	**(2,572)**	**(114%)**
Cash & cash equivalents at beginning of period	69	1,133	(94%)	449	3,272	(86%)
Cash & cash equivalents at end of period	**817**	**700**	**17%**	**817**	**700**	**17%**

Operating activities

The increase in net cash used in operating activities in the current quarter is primarily due to receipt of payment for gas sales for the period mid-December to May 2017 and lower payments to employees and suppliers than in the prior period. For the half year the increase is due to lower payments which more than offset the reduction in oil and gas receipts.

Investing activities

The decrease in net cash from investing activities for the quarter was mainly a result of higher payments for items classified as capital items and higher net VAT payments. For the half year the main reason for the increase in net cash from investing activities was a result of the reclassification of restricted cash to unrestricted cash following the removal of restrictions imposed by a Kazakhstan court.

Financing activities

Loan repayments includes scheduled repayments on the Company's rig loans which include principal and interest as well as interest payments on other borrowings. These were lower for the quarter and half year as no repayments were made during 2016 for the Kazakh loan pending resolution of the dispute with EGG, following the restructuring of the ALR loans which no longer require interest payments and due to the interest on some corporate loans remaining unpaid pending finalisation of loan restructurings. 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 June 30, 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.

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 June 30			Six months ended June 30		
	2017	**2016**	**Change**	**2017**	**2016**	**Change**
Adjusted EBITDA	(186)	(388)	(52%)	(1,611)	(1,322)	22%
Depreciation, depletion and amortization	(2,503)	(2,927)	(14%)	(5,070)	(5,783)	(12%)
Share based payments	(51)	(81)	(37%)	(107)	(163)	(34%)
Fair value gain on derivative financial instrument - net	-	65	(100%)	-	269	(100%)
Finance costs - net	(977)	(2,012)	(51%)	(2,080)	(3,942)	(47%)
Loss before taxation	**(3,717)**	**(5,343)**	**(30%)**	**(8,868)**	**(10,941)**	**(19%)**

Net debt / (funds)

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

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

Stockholder Equity

As at June 30, 2017 the Company had authorised share capital of 1,450,000,000 ordinary shares of which 508,136,098 (2016: 400,004,848) had been issued and 50,000,000 preference shares of which none had yet been issued. The preference shares have the rights as set out in the Memorandum and Articles of Association of the Company.

As at June 30, 2017, a total of 40,374,320 (2016: 40,374,320) ordinary shares were reserved under the Company's Long Term Stock Incentive Plan. The number of options outstanding as at June 30, 2017 is 16,389,375 of which 6,331,458 were exercisable. The number of warrants outstanding is 192,300,000 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:

	Total	Payments due by period			
Contractual obligations		**Less than 1 year**	**1 – 3 years**	**4 – 5 years**	**After 5 years**
Borrowings	37,327	34,715	2,612	-	-
Operating leases	57	57	-	-	-
Kazakhstan work programme commitments	23,196	16,333	6,863	-	-
Trade and other payables	22,420	22,396	24	-	-
Total contractual obligations	83,000	73,501	9,499	-	-

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 for 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 KZT319 to the USD to KZT382 for example, would result in a net price reduction of USD7.39 per Mcm. Based on a sales volume of 128,000 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 800 bopd, a movement of USD1 per barrel on the price received by the Company would result in a plus or minus movement in oil sales revenue of USD0.3 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 June 30, 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 June 30, 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 June 30, 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 June 30, 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 Company's belief 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, the Company's expectation that annualized cost savings of at least USD600,000 will be achieved from amalgamating its Almaty and Aktobe offices, that the shallow gas well drilling program will cost approximately USD6 million, that the Company will be able to spread payment of these costs until the end of 2018 and will be able to pay from increased production, that the program will add ten or more new wells to existing production, that drilling operations will commence imminently, that a final report from Schlumberger will be received by the end of July 2017, that exports to China could commence at any time, that funds will be available for the capital and operating expenditure required to meet the Company's commitments and development plans, the Company's plans to enhance oil and gas production from existing wells, to drill the KBD02 ("Klymene") prospect to a total depth of 2,750 metres targeting a large structure in the south west of the Kul-Bas block, Tethys' intention to enforce its rights and legitimate interests to the fullest extent permitted by law in relation to the Olisol and EGG disputes, for the ESP to significantly increase oil production for the remaining life of the well, Tethys targeting of the Kyzyloi sandstone horizon, the Akkulka Tasaran sandstone horizon, the deeper exploration potential in Tajikistan and the deep targets described in an independent resource report and Tethys projections of whether cash flow is sufficient to service debt and support ongoing operations.

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: risks of exploration and production licenses, contracts and permits being cancelled due to non-fulfilment of contractual commitments or not being renewed when they expire (these include the Akkulka pilot production and associated gas flaring permissions under which oil is currently produced which expire on December 31, 2017, the Akkulka Production Contract which expires on December 31, 2018 and the Kul-bas Exploration Contract which expires on November 11, 2017, although the Kazakhstan authorities have indicated in writing this latter contract will be extended for a further two years); volatility of and assumptions regarding oil and gas prices; fluctuations in currency and interest rates; ability to successfully complete proposed debt or equity financings or restructuring; product supply and demand; market competition; ability to realise current market gas prices; risks inherent in the Company's and its subsidiaries' marketing operations, including credit risks; imprecision of reserve estimates and estimates of recoverable quantities of oil and natural gas and other sources not currently classified as proved; the Company's and its subsidiaries' ability to replace and expand oil and gas reserves; unexpected cost increases or technical difficulties in constructing pipeline or other facilities; unexpected delays in its drilling operations; delays in the delivery of its drilling rigs; unexpected difficulties in transporting oil or natural gas; risks associated with technology; the 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 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 and contradictions in local laws and their interpretation and application in local jurisdictions in which the Company operates; the risk of international war, hostilities and terrorist threats, civil insurrection and instability affecting countries in which the Company and its subsidiaries operate; risks associated with existing and potential future lawsuits and regulatory actions made against the Company and its subsidiaries; and other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by Tethys.

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

Glossary

AIF	Annual Information Form
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
EBITDA	Earnings before interest, taxes, depreciation and amortisation
EGG	Eurasia Gas Group LLP
ESP	Electrical submersible pump
FTHP	Flowing tubing head pressure
GAAP	Generally accepted accounting principles
GOG	Georgia Oil and Gas Limited
H1	Six month period commencing January 1 and ending June 30
H2	Six month period commencing July 1 and ending December 31
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
Olisol	Olisol Investments Limited and Olisol Petroleum Limited
PSC	Production sharing contract
psi	Pounds per square inch
Q1	Three month period commencing January 1 and ending 31 March
Q2	Three month period commencing April 1 and ending 30 June
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