Tethys Petroleum Limited

Condensed Consolidated Interim Financial Statements
(Unaudited)
September 30, 2019

NOTICE OF NO AUDITOR REVIEW
OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

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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 September 30, 2019.

For and on behalf of the Board

W. Wells
Chairman
October 25, 2019

A. Ogunsemi
Director
October 25, 2019

Tethys Petroleum Limited

Condensed Consolidated Interim Statements of Financial Position (unaudited)

(in thousands of US dollars)

	Note	As at September 30, 2019	December 31, 2018
Non-current assets			
Intangible assets		30,366	29,423
Property, plant and equipment		70,252	71,183
Restricted cash		75	3
Trade and other receivables		1,540	1,423
		102,233	**102,032**
Current assets			
Cash and cash equivalents		2,368	3,460
Trade and other receivables		4,637	2,932
Inventories		475	307
Restricted cash		-	1
		7,480	**6,700**
Total assets		**109,713**	**108,732**
Non-current liabilities			
Financial liabilities - borrowings		-	5,281
Deferred tax		8,155	8,214
Provisions		1,568	1,402
		9,723	**14,897**
Current liabilities			
Financial liabilities - borrowings		38,459	28,604
Current taxation		604	604
Trade and other payables		5,957	8,370
		45,020	**37,578**
Total liabilities		**54,743**	**52,475**
Equity			
Share capital		6,832	6,832
Share premium		360,769	360,769
Other reserves		45,556	45,556
Accumulated deficit		(358,187)	(356,900)
Total equity		**54,970**	**56,257**
Total equity and liabilities		**109,713**	**108,732**
Going concern	1		

The notes on pages 6 to 9 form part of these condensed consolidated interim financial statements. The condensed consolidated interim financial statements were approved by the Board on October 25, 2019 and were signed on its behalf.

W. Wells
Chairman
October 25, 2019

A. Ogunsemi
Director
October 25, 2019

Tethys Petroleum Limited

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

(in thousands of US dollars except per share information)

		Three months ended September 30		Nine months ended September 30	
	Note	**2019**	**2018**	**2019**	**2018**
Sales and other revenues	3	3,238	2,511	11,465	6,444
Production expenses		(523)	(996)	(2,227)	(3,176)
Depreciation, depletion and amortisation		(1,195)	(1,690)	(3,736)	(5,859)
Administrative expenses		(733)	(325)	(2,120)	(2,224)
Share based payments		-	(11)	-	(44)
Other gains		-	-	193	-
Gains on assets held for sale		-	419	-	419
Foreign exchange (loss)/gain		(42)	196	(281)	489
Finance costs		(1,461)	(830)	(4,636)	(3,821)
		(3,954)	(3,237)	(12,807)	(14,216)
Loss before tax from continuing operations		**(716)**	**(726)**	**(1,342)**	**(7,772)**
Taxation		220	403	55	1,219
Loss from continuing operations and total comprehensive loss		**(496)**	**(323)**	**(1,287)**	**(6,553)**
Loss per share attributable to shareholders:					
Basic - from continuing operations (USD)	4	(0.01)	(0.01)	(0.02)	(0.13)
Diluted - from continuing operations (USD)	4	(0.01)	(0.01)	(0.02)	(0.13)

No dividends were paid or are declared for the period (2018: none).

The notes on pages 6 to 9 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					
	Share capital	Share premium	Accumulated deficit	Other reserves	Non-controlling interest	Total equity
At January 1, 2018	**5,081**	**358,444**	**(357,357)**	**43,856**	**(2,082)**	**47,942**
Comprehensive loss for the period	-	-	(6,553)	-	-	(6,553)
Transactions with shareholders						
Ordinary shares issued	26	2,560	-	-	-	2,586
Share-based payments	-	-	-	44	-	44
Total transactions with shareholders	26	2,560	-	44	-	2,630
At September 30, 2018	**5,107**	**361,004**	**(363,910)**	**43,900**	**(2,082)**	**44,019**
At January 1, 2019	**6,832**	**360,769**	**(356,900)**	**45,556**	**-**	**56,257**
Comprehensive loss for the period	-	-	(1,287)	-	-	(1,287)
At September 30, 2019	**6,832**	**360,769**	**(358,187)**	**45,556**	**-**	**54,970**

Other reserves include reserves arising on the issuance of options, warrants and compound instruments and are denoted together as “other reserves” on the consolidated statement of financial position. These reserves are non-distributable.

The notes on pages 6 to 9 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 September 30		Nine months ended September 30	
	2019	**2018**	**2019**	**2018**
Cash flow from operating activities				
Loss before tax from continuing operations	(716)	(726)	(1,342)	(7,772)
Adjustments for:				
Share based payments	-	11	-	44
Other gains	-	-	(193)	1
Gains on assets held for sale	-	(419)	-	(419)
Net finance cost	1,461	830	4,636	3,821
Depreciation, depletion and amortisation	1,195	2,038	3,736	6,207
Net change in working capital	222	(1,835)	(2,293)	(1,394)
Cash from/(used in) operating activities	**2,162**	**(101)**	**4,544**	**487**
Corporation tax paid	(2)	-	(4)	-
Net cash from/(used in) operating activities	**2,160**	**(101)**	**4,540**	**487**
Cash flow from investing activities:				
Proceeds from assets held for sale	-	393	-	3,891
Expenditure on exploration and evaluation assets	(1,059)	(8)	(1,065)	(309)
Expenditure on property, plant and equipment	(1,443)	(85)	(2,751)	(946)
Movement in restricted cash	(72)	-	(71)	2
Movement in advances to construction contractors	-	47	-	49
Movement in value added tax receivable	(130)	333	(131)	504
Net change in working capital	(1,066)	(105)	(1,970)	297
Net cash (used in)/from investing activities	**(3,770)**	**575**	**(5,988)**	**3,488**
Cash flow from financing activities:				
Proceeds from shares issued	-	2,586	-	2,586
Repayment of borrowings	-	73	-	(2,791)
Interest paid on borrowings	-	(73)	-	(357)
Net cash from/(used in) financing activities	**-**	**2,586**	**-**	**(562)**
Effects of exchange rate changes on cash and cash equivalents	(24)	(727)	358	(690)
Net (decrease)/increase in cash and cash equivalents	**(1,634)**	**2,333**	**(1,090)**	**2,723**
Cash and cash equivalents at beginning of the period	4,002	467	3,460	77
Cash and cash equivalents at end of the period	**2,368**	**2,800**	**2,368**	**2,800**

The notes on pages 6 to 9 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, KY1-9005, Cayman Islands. Tethys is an oil and gas company operating within the Republic of Kazakhstan. 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 NEX Board of the Toronto Venture Exchange. 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 nine months ended September 30, 2019. The Company reported a loss of $1.3 million for the nine months ended September 30, 2019 (2018 full year: $4.5 million) and an accumulated deficit as at that date of $358.2 million (December 31, 2018: $356.9 million) and negative working capital of $37.5 million (December 31, 2018: negative $30.9 million). In addition, the Company reported cash flow from operating activities of $4.5 million for the nine months ended September 30, 2019 (2018 full year: $1.0 million).

Due to the facts and circumstances described below, there are material uncertainties that cast significant doubt on the Company's ability to continue as a going concern.

The Company currently does not have sufficient funding to fund its obligations for the next twelve months should all lenders call in their debts at once. The Company is currently in default on loan obligations as disclosed further in note 15 of the 2018 consolidated financial statements and has various commitments and contingencies as disclosed in note 21 of the 2018 consolidated financial statements. The Company has been in discussions and negotiations with the related counterparties to restructure the repayments that are currently due. In order to continue as a going concern, the Company will need to agree adequate terms with counterparties to restructure repayments. There is material uncertainty about the outcome of these negotiations which casts significant doubt on the Company's ability to continue as a going concern.

In order to support the Company's short term liquidity position and improve the Company's financial situation, we will need to:

- Resolve the disputed matters with DSFK Special Finance Company LLP and obtain a release of Tethys' pledged assets;
- Return to full gas production and gas sales;
- Complete the drilling of the Klymene well in the Kul-bas contract area and renew the contract which expires on November 11, 2019; and
- Agree repayment terms for overdue loans.

The Company's ability to continue as a going concern is dependent upon its ability to secure and deliver 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 oil & gas 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 realise 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, 2018.

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

New accounting policies

There were no new and revised standards adopted by the Company during the nine months ended September 30, 2019 that had an impact on the condensed consolidated interim financial statements.

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

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

3 Segmental Reporting

Geographical segments

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

The Board of Directors consider the business from predominantly a geographical perspective and the Company currently operates in two geographical markets: Kazakhstan and Rest of World (or Corporate).

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. The Company also operates a corporate segment which provides 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 nine months ended September 30, 2019:

	Kazakhstan	Corporate	Total	Eliminations	Group
Gas sales	10,885	-	10,885	-	10,885
Oil sales	580	-	580	-	580
Segment revenue and other income	**11,465**	**-**	**11,465**	**-**	**11,465**
Loss before taxation	3,931	(5,273)	(1,342)	-	(1,342)
Taxation	55	-	55	-	55
Loss for the period	**3,986**	**(5,273)**	**(1,287)**	**-**	**(1,287)**
Total assets	109,521	109,716	219,237	(109,524)	109,713
Total liabilities	124,930	39,337	164,267	(109,524)	54,743
Expenditure on exploration & evaluation assets, property, plant & equipment	3,816	-	3,816	-	3,816
Depreciation, depletion & amortization	3,736	-	3,736	-	3,736

The following is an analysis of the Company's revenue, results and assets by reportable segment for the nine months ended September 30, 2018:

	Kazakhstan	Corporate	Total	Eliminations	Group
Gas sales	4,537	-	4,537	-	4,537
Oil sales	1,893	-	1,893	-	1,893
Other income	14	-	14	-	14
Other operating income	-	81	81	(81)	-
Segment revenue and other income	**6,444**	**81**	**6,525**	**(81)**	**6,444**
Loss before taxation	(4,257)	(3,515)	(7,772)	-	(7,772)
Taxation	1,232	(13)	1,219	-	1,219
Loss for the period	**(3,025)**	**(3,528)**	**(6,553)**	**-**	**(6,553)**
Total assets	102,576	114,343	216,919	(104,668)	112,251
Total liabilities	127,881	45,019	172,900	(104,668)	68,232
Expenditure on exploration & evaluation assets, property, plant & equipment	1,255	-	1,255	-	1,255
Depreciation, depletion & amortization	6,177	30	6,207	-	6,207

4 Loss per share

		Three months ended September 30		Nine months ended September 30	
Continuing operations	**Units**	**2019**	**2018**	**2019**	**2018**
Loss for the purpose of basic and diluted loss attributable to ordinary shareholders	$'000	(496)	(323)	(1,287)	(6,553)
Weighted average shares - basic	000s	68,324	53,230	68,324	51,628
Loss per share - basic	$	(0.01)	(0.01)	(0.02)	(0.13)
Weighted average shares - diluted	000s	68,324	53,230	68,324	51,628
Loss per share - diluted	$	(0.01)	(0.01)	(0.02)	(0.13)

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.

5 Subsequent events

On October 2, 2019 the Company announced that, following letters received from DSFK Special Finance Company LLP, its gas customer in Kazakhstan had notified the Company of its intention to start restricting gas transportation. Production from a total of thirteen of the twenty-two gas wells was stopped and overall gas production reduced from approximately 373 thousand cubic metres per day to approximately 114 thousand cubic metres per day.

Tethys Petroleum Limited

Management's Discussion and Analysis
for the period ended September 30, 2019

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The following Management's Discussion and Analysis ("MD&A") is dated October 25, 2019 and should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and related notes for the period ended September 30, 2019 as well as the audited consolidated financial statements and the MD&A for the year ended December 31, 2018. 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 2018 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.tethys-group.com*.

Readers should also read the "Forward-Looking Statements" legal advisory wording contained at the end of this MD&A.

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. 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, KY1-9005, Cayman Islands. The domicile of Tethys is the Cayman Islands where it is incorporated.

The Company has its primary listing on the NEX Board of the Toronto Venture Exchange. The Company is also listed on the Kazakhstan Stock Exchange ("KASE").

Financial highlights

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

	Quarter ended September 30			Nine months ended September 30		
	2019	2018	Change	2019	2018	Change
Oil and gas sales and other revenues	3,238	2,511	29%	11,465	6,444	78%
Loss for the period from continuing operations	(496)	(323)	54%	(1,287)	(6,553)	(80%)
Loss (USD) per share from continuing operations - basic	(0.01)	(0.01)	-	(0.02)	(0.13)	(85%)
Adjusted EBITDA[1]	1,940	1,386	40%	7,030	1,533	359%

	As at September 30		
	2019	2018	Change
Total assets	109,713	112,251	(2%)
Cash & cash equivalents	2,368	2,800	(15%)
Short & long term borrowings	38,459	32,851	17%
Total non-current liabilities	9,723	14,247	(32%)
Net debt[1]	36,091	30,051	20%
Number of ordinary shares outstanding	68,324,430	63,517,013	8%

Note 1 Adjusted EBITDA and net debt are non-GAAP Measures, refer to page 17 for details.

Third quarter 2019 versus third quarter 2018

- Oil and gas sales and other revenues increased by 29% to USD3.2 million from USD2.5 million due to significantly higher gas revenues. Gas revenues increased from USD2.0 to USD3.2 million due to 6% higher production and a 57% increase in average price. Oil revenues reduced from USD0.6 million to USD nil due to production ceasing in March 2019;
- The loss for the quarter was USD0.5 million compared to a loss of USD0.3 million in the third quarter of 2018. The loss was higher due the prior year quarter including a gain on assets held for sale of $0.4 million, foreign exchange gain and larger deferred tax credit. In addition, administrative expenses and finance costs were higher in the current quarter;
- Adjusted EBITDA was USD1.9 million compared with USD1.4 million as a result of the higher gross margin from gas sales partly offset by higher administrative expenses.

Period to date

- Oil and gas sales and other revenues increased by 78% to USD11.5 million from USD6.4 million due to significantly higher gas revenues. Gas revenues increased from USD4.5 to USD10.9 million due to 12% higher production and a 115% increase in average price. Oil revenues reduced from USD1.9 million to USD0.6 million due to production ceasing in March 2019;
- The loss for six months was USD1.3 million compared to a loss of USD6.6 million in the same period in 2018. The loss was lower due to the higher gas revenue and lower DD&A and production expenses in the current period although oil revenue was lower and finance costs were higher. The prior year period also included a larger foreign exchange gain and deferred tax credit;
- Adjusted EBITDA was USD7.0 million compared with USD1.5 million as a result of the higher gross margin from gas sales offset by a loss from oil operations as a result of the cessation of oil production in March 2019.

Operational Highlights

	Units	Quarter ended June 30			Nine months ended June 30		
		2019	2018	Change	2019	2018	Change
Kazakhstan							
Oil	bopd	-	368	(100%)	49	619	(92%)
Gas	boe/d	2,138	2,024	6%	2,208	1,977	12%
Total	boe/d	**2,138**	**2,393**	**(11%)**	**2,257**	**2,596**	**(13%)**
Oil							
Net production	Bbls	-	33,832	(100%)	13,496	168,880	(92%)
Net revenue	USD'000	-	558	(100%)	580	1,893	(69%)
Production costs	USD'000	142	548	(74%)	1,133	1,922	(41%)
Gross margin	USD'000	**(142)**	**10**	**(152%)**	**(553)**	**(29)**	**1807%**
Oil price net	$/bbl	-	17.61	(100%)	33.94	11.55	194%
Cost	$/bbl	-	16.91	(100%)	83.95	11.38	550%
Gross margin	$/bbl	**-**	**0.70**	**(100%)**	**(50.01)**	**0.17**	**(29518%)**
Gas							
Gross production	Mcm	33,415	31,626	6%	102,400	91,712	12%
Gas revenue net	$'000	3,238	1,950	66%	10,885	4,537	140%
Production costs	$'000	381	448	(15%)	1,094	1,243	(12%)
Gross margin	$'000	**2,857**	**1,502**	**90%**	**9,791**	**3,294**	**197%**
Sales price net	$/Mcm	98.67	62.70	57%	108.03	50.32	115%
Cost	$/Mcm	11.40	14.17	(20%)	10.68	13.55	(21%)
Gross margin	$/Mcm	**87.27**	**48.53**	**80%**	**97.35**	**36.77**	**165%**

Oil

- Oil production ceased in March 2019 as the AKD-01 well stopped producing at economic levels and there was no production in Q3 2019. Production averaged 49 bopd for the nine months to September 2019 compared with 619 bopd for the same period in 2018 reflecting a steady decline in production after an ESP was installed in May 2017 to maximise production over the well's remaining life;
- Oil production costs were minimal in Q3 as the Company has eliminated most costs due to the cessation of production. Production costs were $0.1 million for the quarter compared with $0.5 million in Q3 2018 and $1.1 million for the nine months compared with $1.9 million for the same period in 2018, a reduction of 41%;
- Oil sales for the nine months were made at an average price of $33.94/bbl compared with $11.55/bbl in 2018, an increase of 194% reflecting improved market pricing and the end of a fixed price contract. No sales were made in the current quarter whilst the average oil price in Q3 2018 was $17.61/bbl

Gas

- Gas production for the quarter averaged 2,138 boe/d compared with 2,024 boe/d in Q3 2018, a 6% increase. For the nine months gas production averaged 2,208 boe/d compared with 1,977 boe/d for the same period in 2018, an increase of 12%. The increases are due to new wells coming onto production and upgrading of gas compression facilities;
- Gas production cost per Mcm in the current quarter decreased to $11.40 from $14.17 in Q3 2018. For the nine months the cost per Mcm reduced to $10.68 from $13.55. The reductions are due to lower overall production costs and the higher level of production;
- Gas was sold at a net average price equivalent to $98.67 per Mcm for the quarter compared with $62.70 in Q3 2018. For the nine months the average sales price was $108.03 compared with $50.32 in 2018. The increases reflect a significantly improved price from September 1, 2018.

Operational Review

Outlook

The information provided under this heading is considered as forward looking information; as such please refer to page 20 – “*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. The Company currently produces natural gas in Kazakhstan. The Company also produced oil in Kazakhstan until March 2019 and intends to recommence production if future drilling and workover activities are successful.

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 disputed matters with DSFK Special Finance Company LLP and obtain a release of Tethys’ pledged assets;
- Return to full gas production and gas sales;
- Complete the drilling of the Klymene well in the Kul-bas contract area and renew the contract which expires on November 11, 2019; and
- Agree repayment terms for overdue loans.

Significant events and transactions for the nine months ended September 30, 2019

- *Definitive Agreement for Acquisition of Control*

  On March 29, 2019 the Company announced that it had signed a binding arrangement agreement with respect to a potential acquisition by Jaka Partners FSC ("Acquiror") of Tethys' outstanding ordinary shares it did not already own pursuant to a scheme of arrangement under the companies law of the Cayman Islands, and applicable Canadian securities laws. Such proposed acquisition is referred to hereafter as the "Proposed Transaction".

  The Proposed Transaction received the required approval of the NEX board of the TSX Venture Exchange (the "NEX"), shareholders at a special meeting convened for the purpose held on June 28, 2019, the Grand Court of the Cayman Islands on July 16, 2019 and the Ministry of Energy of the Republic of Kazakhstan on August 29, 2019.

  On September 9, 2019 the Company announced that the Acquiror had exercised its contractual right to terminate the arrangement agreement by delivering a termination notice to Tethys. The Proposed Transaction was therefore cancelled and the scheme of arrangement will not be implemented. Tethys understands that the Acquiror was not prepared to proceed with the Proposed Transaction whilst the dispute with DSFK Special Finance Company LLP remained unresolved, see below for further details.

- *Drilling Plans for Klymene Prospect*

  On June 25, 2019 the Company announced plans to drill the KBD-02 ("Klymene") prospect commencing mid-July 2019. This well is planned to be drilled to a depth of between 2,500 – 3,000 metres and is expected to take around four months to drill with testing to follow.

  The Klymene prospect is located in the Kul-Bas Exploration and Production Contract to the west of the Company's previously producing assets in the Akkulka exploration contract area. The prospect was identified from 2D seismic and indicates a four-way closure with bright spots at two of three prospective stratigraphic levels within the Cretaceous and Jurassic sequence, both of which were productive in the Company's Doris oilfield some 60 km to the east.

- *Annual General and Special Meeting*

  On June 28, 2019 the Company held its 2019 Annual General and Special Meeting and all resolutions were passed on a poll at the meeting.

- *Update on Kazakhstan Loan*

  On August 24, 2019 the Company provided an update to its announcement of April 20, 2018 regarding its Kazakhstan subsidiary, Tethys Aral Gas LLP ("TAG"), Special Financial Company DSFK LLP ("DSFK") and a loan originally provided to Eurasia Gas Group LLP ("EGG") by Bank RBK JSC ("RBK") in 2012.

  In 2012, TAG pledged certain of its oil and gas assets as collateral for RBK loans to EGG including gas pipelines, gas compressors and other property assets. The assets of the Aral Oil Terminal LLP ("AOT") in which the Company has a 50% interest were also pledged. TAG's exploration and production contracts under which it is entitled to produce oil and gas were not pledged. EGG was

TAG's former oil customer and acted as a conduit, advancing certain of the funds received from RBK to TAG and AOT as loans, which were used by TAG to fund its oil & gas operations, including the drilling of wells and by AOT in the construction of an oil terminal. Tethys management believes EGG's loan to TAG has been fully repaid by TAG (although the AOT loan remains outstanding) but understands that EGG has not fully repaid its loans to RBK.

Tethys understands that the ordinary shares in the Company which Olisol Petroleum Limited ("Olisol" an affiliate of EGG) owns have been pledged as security for further loans made by RBK Bank to EGG in 2016 of USD11 million and that the owners of EGG and Olisol gave personal guarantees to RBK for these further loans. Tethys does not believe DSFK has any rightful claim against TAG's assets in respect of these further loans by DSFK to EGG. The Company understands that part of this loan was used by Olisol to provide a working capital loan to Tethys. This loan was expected to be converted into Tethys ordinary shares pursuant to an investment agreement in 2016, however, Olisol failed to fulfil its obligations under the investment agreement by the longstop date in October 2016 and the working capital loan which has a current balance of approximately USD7 million remains outstanding.

In December 2017, RBK's loans to EGG were assigned to DSFK (an affiliated company of RBK) following a restructuring of RBK. DSFK wrote to EGG on April 5, 2018 to demand repayment of the loans because of EGG's failure to make certain scheduled repayments. On the same date, DSFK wrote to TAG regarding EGG's default and subsequent failure to repay the loans and informed TAG that it would take all measures to collect the debts, including but not limited to court collateral collection on the pledged assets.

Following a ruling by the Supreme Court of the Republic of Kazakhstan on December 29, 2017 in favor of TAG, which established that TAG had paid back the monies it had received from EGG, TAG sought to have its asset pledges cancelled but was unsuccessful, in part, due to EGG not having repaid its loans to RBK.

Tethys did not have transparency into what payments or loan drawdowns were being made by EGG to RBK and whether payments made by TAG to EGG went to make loan payments to RBK.

Tethys received further information following a court ruling on January 4, 2019 where DSFK applied for and received court approval to take enforcement action against EGG, its principals Alexander Skripka, Fedor Ossinin and Alexander Abramov as well as TAG and AOT (the "Defendants"). The Defendants appealed against the court decision however the appeal court upheld the earlier decision on July 1, 2019.

Tethys had understood that EGG and DSFK would be prepared to enter into a settlement agreement as proposed and set out in draft form as Schedule H to the arrangement agreement dated March 19, 2019 between the Company and Jaka Partners FZC, which provided for Tethys issuing 18 million ordinary shares to Olisol in exchange for settlement of the USD7 million working capital loan and a release of TAG's asset pledges, however, this now appears not to be the case.

EGG and DSFK subsequently proposed a different workout solution whereby TAG would agree to provide oil production to EGG in sufficient volumes and at prices that would allow EGG to repay the full amounts still owing to DSFK and would involve TAG implicitly guaranteeing EGG's repayment obligations to DSFK including the $11 million loan which TAG has no responsibility for. This would also require Tethys to issue 18 million ordinary shares to Olisol to repay the USD7 million working capital loan. While the Tethys board and shareholders approved the issuance of

18 million shares to Olisol to settle the working capital loan and for a full release of TAG's asset pledges as part of the proposed "Schedule H" settlement agreement, it did not agree to provide oil in volumes and at prices that would allow EGG to repay the full amount of its approximately USD18 million loan owing to DSFK. The board has refused this additional obligation and Tethys has made alternative proposals to have TAG's asset pledges released including a buy-out of the pledge agreements or a purchase of the EGG loan from DSFK but so far Tethys proposals have been rejected by DSFK

- *DSFK Dispute and gas production*

On August 23, 2019 DSFK sent a letter to TAG's gas customer containing factually incorrect information and demanding that TAG's gas customer should discontinue its purchases of gas produced by TAG. TAG subsequently received written notification from its gas customer that, following receipt of the letter from DSFK, it intended to reduce its acceptance of gas produced by TAG by 50%.

Tethys considers the actions of DSFK to be illegal interference with a commercial contract and has engaged an international law firm operating in the Republic of Kazakhstan to assist it to resolve the disputed matters with DSFK. Tethys' legal counsel notified DSFK that TAG is ready to consider applying to courts and other law-enforcement agencies in the Republic of Kazakhstan to (i) prevent the unlawful interference in its operations; and (ii) recover any losses from DSFK that may be caused by such unlawful actions (including any damage to its business reputation caused by the dissemination of knowingly false information).

Tethys wrote to its gas customer to explain that there was no legal basis for DSFK's demand and the Company announced on September 19, 2019 that, as of that date, TAG's gas customer had not reduced its purchases of gas and it had not been necessary for TAG to stop production from any gas wells.

Following receipt of a further letter from DSFK, TAG's gas customer notified TAG of its decision to start restricting gas transportation. Regrettably, the Tethys board was informed that production from a total of thirteen of the twenty-two producing gas wells was stopped from September 23, 2019 and overall gas production reduced from approximately 373 thousand cubic meters per day to approximately 114 thousand cubic meters per day.

Tethys believes that it should be possible to resolve the disputed matters with DSFK on reasonable commercial terms for TAG, to release the pledges on TAG's assets and to return gas production and sales to previous levels although, at this time, it is uncertain if this will happen or how long this process will take. At the same time, Tethys is considering what legal action it can take to protect its legitimate commercial interests and assets.

Tethys is also currently re-evaluating its development activities and its ability to meet its financial obligations and other commitments given the significant effect on its revenues from the reduction in gas production.

Significant events and transactions subsequent to the period end

At the date of this MD&A, other than the matters reported above, there were no other matters to report.

Operational Review - continued

Results of Operations and Operational Review - Kazakhstan

Oil production – Akkulka Contract

	2019					2018				
	Gross fluid		Net	Net production		Gross fluid		Net	Net production	
	m³	barrels	barrels	days	bopd	m³	barrels	barrels	days	bopd
Q1	29,462	185,312	13,496	90	150	52,034	327,285	79,217	90	880
Q2	-	-	-	91	-	47,420	298,261	55,831	91	614
Q3	-	-	-	92	-	44,465	279,673	33,832	92	368
Total	**29,462**	**185,312**	**13,496**	**273**	**49**	**143,919**	**905,219**	**168,880**	**273**	**619**

Oil operations update

The Company stopped producing oil from the AKD-01 well in March 2019 and there was no oil production in the quarter (Q3 2018: 368 bopd). The well had been producing with an ESP installed in May 2017 and this initially boosted oil production significantly but thereafter production declined steadily and the water content reached 93% until production was no longer economic.

The Company reviewed its five year development in late 2018 following contract extensions through to March 2022 and the priority is to conduct the works required to fulfil the work programs and maintain the licence. Subject to funding, these works will include the drilling of three new deep wells AKD-12, 13 and 14.

The Company recently worked over the nearby AKD-03 well, however, whilst oil was confirmed present the water content was approximately 96%. Further works will be required to decide if it will be possible to produce oil from this well.

Historically, the Company has produced oil under a pilot production license which requires all production to be sold domestically. Depending on the success of AKD-12, 13 and 14 it may be possible to apply for a full commercial production licence in future if production reaches commercial levels and the necessary infrastructure is put in place such as a gas utilisation facility for associated gas and transportation. A commercial production licence would enable a percentage (possibly around 75%) of oil to be exported and higher prices to be realised.

Joint Venture – Aral Oil Terminal (“AOT”)

The Company has a 50% interest in the AOT which was previously used to tranship oil produced by the Company after it was trucked to the AOT by the Company’s oil buyer. The Company is considering its options with regard to the future of its interest in the terminal since there are other transport routes now available.

Operational Review - continued

Gas production – Kyzyloi and Akkulka Contracts

	2019				2018			
	Mcm	Mcf	Mcm/d	Boe/d	Mcm	Mcf	Mcm/d	Boe/d
Kyzyloi								
Q1	22,942	810,068	255	1,500	13,512	477,103	150	884
Q2	24,247	856,167	266	1,568	17,057	602,295	187	1,103
Q3	24,638	869,948	268	1,577	16,219	572,676	176	1,038
Total	**71,827**	**2,536,183**	**263**	**1,549**	**46,788**	**1,652,074**	**171**	**1,009**
Akkulka								
Q1	11,606	409,812	129	759	15,317	540,827	170	1,001
Q2	10,190	359,816	112	659	14,200	501,397	156	918
Q3	8,777	309,924	95	561	15,407	544,022	167	986
Total	**30,573**	**1,079,552**	**112**	**659**	**44,924**	**1,586,246**	**165**	**968**
Grand total	**102,400**	**3,615,735**	**375**	**2,208**	**91,712**	**3,238,320**	**336**	**1,977**

Gas operations update

Gas production for the quarter increased by 6% to 363 Mcm per day compared with 343 Mcm per day in Q3 2018 reflecting the natural decline in production from existing wells offset by the increase in production from the connection of new wells as well as improvements to the gas compress facilities.

During the period, the Company produced dry gas from a total of 22 wells at a depth of approximately 480-600m below surface, comprising 13 producing wells in the Kyzyloi field and nine in the Akkulka field. From September 23, 2019 the 13 producing wells in the Kyzyloi field were closed, as described above in the section headed *Significant events and transactions for the nine months ended September 30, 2019 - DSFK Dispute and gas production.*

The completed Bozoi-Shymkent-China gas pipeline means that Tethys has two potential gas export routes that provide alternatives to sell its gas; the route taking gas to the more populous south eastern part of Kazakhstan and, ultimately to China, and the Bukhara-Urals trunk line that transports gas from Central Asia into Russia. Export to China, if this can be achieved, 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.

On January 11, 2018 the Company announced that it had completed drilling seven new shallow gas wells out of the previously announced eight well program. All seven wells were tested successfully for gas at a depth of between 470 and 550 meters. In addition to the new wells drilled, one existing well was successfully worked over.

By January 1, 2018 five wells, comprising one existing well and four new wells, had been tied in to the Company’s existing pipelines and added to production. The other new wells, which were furthest from the Company’s existing pipelines, were connected in December 2018 and January 2019 resulting in average production of over 400 Mcm per day in February 2019.

There had been a longstanding need for repairs and parts replacement of parts at the compressor station to increase capacity. There are five compressors at the compressor station of which three are operating 24 hours a day at any one time. An offsite overhaul of Engine No. 3 was completed in Q1 2019. In addition, eight new cylinders were installed in January 2019 and a further four new cylinders in late March 2019. Together these works should help ensure improved overall efficiency of gas production and continuity of operations should issues arise with one of the compressors.

Exploration - update

The KBD02 ("Klymene") prospect is planned to be drilled to a total depth of between 2,500 and 3,000 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. The Klymene prospect has the potential to be an order of magnitude bigger than the Doris oil discovery and surrounding prospects in the Akkulka contract area which has produced over four million barrels of oil (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 seismic acquired and interpreted.

The extension of the appraisal period for the Kul-bas block for two years to November 11, 2019 includes an obligation to drill and test Klymene. On June 25, 2019 the Company announced plans to drill the prospect commencing mid-July 2019 and drilling is expected to take around 4 months followed by testing. At the date of this MD&A drilling towards the target depth is well advanced and on schedule, although testing results are not available at this time. The Company has also been working to obtain a further extension to the Kul-bas contract and has successfully completed several important stages of the process which is likely to continue beyond the November 11, 2019 expiry date.

Financial Review

Summary of Quarterly Results

	Q3, 2019	Q2, 2019	Q1, 2019	Q4, 2018	Q3, 2018	Q2, 2018	Q1, 2018	Q4, 2017
Oil & gas sales and other revenues	3,238	3,570	4,656	3,895	2,511	2,017	1,916	2,070
(Loss)/profit for the period	(496)	(1,533)	743	11,074	(323)	(1,894)	(4,333)	(36,302)
(Loss)/earnings ($) per share	(0.01)	(0.02)	0.01	0.18	(0.01)	(0.04)	(0.09)	(0.70)
Adjusted EBITDA[1]	1,940	1,801	3,289	2,945	1,386	529	(382)	(2,216)
Capital expenditure	2,502	858	455	2,759	93	365	797	3,705
Total assets	109,713	110,667	110,817	108,732	112,251	113,622	115,679	116,923
Cash & cash equivalents	2,368	4,002	2,379	3,460	2,800	467	29	77
Short & long term borrowings	38,459	36,850	35,341	33,885	32,851	32,103	33,829	31,588
Total non-current liabilities	9,723	9,994	9,450	14,897	14,247	14,359	14,784	13,737
Net debt[1]	36,091	32,848	32,962	30,425	30,051	31,636	33,800	31,511
Number of common shares outstanding	68,324,430	68,324,430	68,324,430	68,324,430	63,517,013	50,813,609	50,813,609	50,813,609

Note 1 Adjusted EBITDA and net debt are non-GAAP Measures, refer to page 17 for details.

Loss for the period

	Quarter ended September 30			Nine months ended September 30		
	2019	2018	Change	2019	2018	Change
Sales and other revenue	3,238	2,511	29%	11,465	6,444	78%
Production expenses	(523)	(996)	(47%)	(2,227)	(3,176)	(30%)
Depreciation, depletion & amortization	(1,195)	(1,690)	(29%)	(3,736)	(5,859)	(36%)
Administrative expenses	(733)	(325)	126%	(2,120)	(2,224)	(5%)
Share based payments	-	(11)	(100%)	-	(44)	(100%)
Other gains	-	-	-	193	-	-
Gain on assets held for sale	-	419	(100%)	-	419	(100%)
Foreign exchange (loss)/gain	(42)	196	(121%)	(281)	489	(157%)
Finance costs	(1,461)	(830)	76%	(4,636)	(3,821)	21%
	(3,954)	**(3,237)**	**22%**	**(12,807)**	**(14,216)**	**(10%)**
Loss before taxation from continuing operations	**(716)**	**(726)**	**(1%)**	**(1,342)**	**(7,772)**	**(83%)**
Taxation	220	403	(45%)	55	1,219	(95%)
Loss for the period	**(496)**	**(323)**	**54%**	**(1,287)**	**(6,553)**	**(80%)**

Loss after tax for the quarter was $0.5 million compared with $0.3 million in Q3 2018 and for the nine months was $1.3 million compared with $6.6 million, the principal variances being:

- Higher gas revenues from higher production and significantly improved pricing, offset by lower oil revenue due to lower production from the AKD01 well which ceased producing in March 2019;
- Lower production expenses from lower oil production volumes and cost cutting;

Financial Review - continued

- Lower depreciation, depletion and amortization charges due to the lower oil production;

- Higher administrative expenses for the quarter due to one-off credits in the prior year quarter, although for the year to date administrative expenses were lower than the prior year;

- A foreign exchange loss in 2019 compared with a gain in 2018, mainly from movements in the KZT:USD exchange rate;

- Higher finance costs due to accruing loan interest and no loan payments being made, except for the rig loans which were fully repaid in May 2018; and

- Lower deferred tax credit in 2019 periods due to accounting versus taxation timing differences i.e. non-cash movements.

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 September 30			Nine months ended September 30		
	2019	**2018**	**Change**	**2019**	**2018**	**Change**
Kazakhstan - Oil	-	558	(100%)	580	1,893	(69%)
Kazakhstan - Gas	3,238	1,950	66%	10,885	4,537	140%
Kazakhstan - Other	-	4	(100%)	-	15	(100%)
Total	**3,238**	**2,512**	**29%**	**11,465**	**6,445**	**78%**

Kazakhstan – Oil revenue and price

	Gross sales bbls	Gross sales $000	Realised price at wellhead $/bbl	VAT $000	Net sales revenue $000	Net price $/bbl
2019						
Q1	14,213	540	37.99	58	482	33.91
Q2	2,876	109	37.90	11	98	34.08
Q3	-	-	-	-	-	-
Total	**17,089**	**649**	**37.98**	**69**	**580**	**33.94**
2018						
Q1	74,850	734	9.80	79	655	8.75
Q2	57,389	762	13.28	82	680	11.85
Q3	31,688	625	19.69	67	558	17.61
Total	**163,927**	**2,121**	**12.93**	**228**	**1,893**	**11.55**

- Under the pilot production licence oil can only be sold in the domestic Kazakhstan market and is priced in local currency, the Tenge;

- Sale price is determined at the wellhead where the oil is sold and therefore the Company incurred no transportation or marketing costs;

- There were no oil sales in the current quarter compared with revenue of $0.6 million in Q3 2018 with a realised price of $17.61/bbl. For the nine months revenue was $0.6 million compared with $1.9 million in 2018 and the realised sales price was $33.94/bbl (2018: $11.55/bbl). The effect of the increase in price on revenue was more than offset by the lower production volume sold. An

ESP was installed in the AKD-01 well in May 2017 and production initially increased significantly to around 2,500 bopd before declining steadily until March 2019 when the well reached the end of its producing life and production ceased.

Kazakhstan - Gas revenue and price

- Gas revenues were 66% higher for the quarter and 140% higher for the nine months due to higher production, which was up by 6% and 12% respectively, following new wells coming online in late 2018 and early 2019 and a significantly higher gas price from September 1, 2018;
- Gas production for the quarter was sold in local currency, Kazakhstan Tenge at an average US dollar price of $98.67 per 1,000 cubic metres, plus 12% VAT compared with $62.70 per 1,000 cubic metres in Q3 2018, representing an increase of 57%. For the nine months the average price was $108.03 (2018: $50.32), representing an increase of 115%. A significantly higher gas price was received from September 1, 2018 and the price varies from month-to-month depending on local supply and demand factors. The price received is higher over the winter months;
- Gas contracts are subject to exchange rate risk – refer to page 19 – "*Sensitivities*".

Production expenses

		Quarter ended September 30			**Nine months ended September 30**		
	Units	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Kazakhstan							
Oil production	$000's	142	548	(74%)	1,133	1,922	(41%)
Gas production	$000's	381	448	(15%)	1,094	1,243	(12%)
Other	$000's	-	-	-	-	11	(100%)
Total	$000's	**523**	**996**	**(47%)**	**2,227**	**3,176**	**(30%)**
Oil							
Net production	bbls	-	33,832	(100%)	13,496	168,880	(92%)
Cost	$/bbl	n/a	16.19	n/a	83.95	11.38	550%
Gas							
Production	boe	196,658	186,128	6%	602,661	539,754	12%
Cost	$/boe	1.94	2.41	(20%)	1.82	2.30	(21%)
Weighted average cost per boe	$/boe	2.66	4.53	(41%)	3.61	4.47	(19%)

Kazakhstan – oil production

Oil production costs incurred in Q3 were much reduced following the end of production from the AKD-01 well in March 2019. Whilst there was no production in the current quarter the Company continued to incur some costs as it seeks to re-establish production from other wells and maintain some limited capability. Production costs were $0.1 million for the quarter compared with $0.5 million in Q3 2018 and $1.1 million for the nine months compared with $1.9 million for the same period in 2018, a reduction of 41%.

Kazakhstan – gas production

Gas production costs decreased in the current quarter by 15% and 12% for the nine months due to a weakening of the Kazakhstan Tenge and also cost efficiencies, although gas production, generally more so than the oil, has a significant fixed cost element which includes compressor supplies denominated in US dollars and consequently, as production declines, the production cost per Mcm (or boe) generally increases.

Financial Review - continued

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

DD&A for the quarter was $1.2 million (Q3 2018: $1.7 million) and for the nine months $3.7 million (2018: $5.9 million) mainly relating to the Kazakh producing assets. The decrease in DD&A expense reflects lower oil production volumes, partly offset by higher gas production and a reassessment of oil and gas reserves at December 31, 2018.

Administrative expenses

	Quarter ended September 30			Nine months ended September 30		
	2019	**2018**	**Change**	**2019**	**2018**	**Change**
Staff	354	331	7%	902	1,567	(42%)
Non-executive director fees	51	81	(37%)	151	195	(23%)
Professional fees	148	(34)	(535%)	493	293	68%
Other administrative expenses	180	(53)	(440%)	574	169	240%
Total	**733**	**325**	**126%**	**2,120**	**2,224**	**(5%)**
G&A expenses per boe ($)	3.73	1.48	152%	3.44	3.14	10%

- Staff costs decreased significantly in the nine months as a result of personnel and salary reductions, although for the quarter were slightly higher;
- Professional fees were higher due to legal fees associated with the scheme of arrangement and legal disputes and were a credit in the 2018 quarter due to release of accruals no longer required; and
- Other administrative expenses were higher due to higher socio economic contributions in Kazakhstan and regulatory compliance costs. In addition, the prior year amounts were lower than normal due to reversals of accruals for regulatory compliance and vehicles costs no longer required.

Share based payments

Share based payments were nil in 2019 as no option awards have been made since March 2016 and the cost of vested options was fully recognised by the end of 2018.

Other gains

Other gains includes the gain arising on deconsolidating the liabilities of a subsidiary which was dissolved in the period.

Gain on assets held for sale

Gain on assets held for sale in the prior period relates to the sale of the Company's drilling rigs which was completed in Q3 2018.

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. These have mainly arisen in Kazakhstan and also in 2018 from the revaluation of the GBP denominated rig loans.

Finance costs - net

Finance costs comprise interest expense net of interest income and are higher due to accumulating interest on loans where no repayments of principal or interest have been made in either period, apart from the rig loans which were fully repaid in May 2018.

Taxation

The deferred tax credit was lower for the quarter and nine months due mainly due to property, plant & equipment timing differences for accounting and tax purposes.

Liquidity and Capital Resources

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 nine months ended September 30, 2019. The Company reported a loss of $1.3 million for the nine months ended September 30, 2019 (2018 full year: $4.5 million) and an accumulated deficit as at that date of $358.2 million (December 31, 2018: $356.9 million) and negative working capital of $37.5 million (December 31, 2018: negative $30.9 million). In addition, the Company reported cash flow from operating activities of $4.5 million for the nine months ended September 30, 2019 (2018 full year: $1.0 million).

Due to the facts and circumstances described below, there are material uncertainties that cast significant doubt on the Company's ability to continue as a going concern.

The Company currently does not have sufficient funding to fund its obligations for the next twelve months should all lenders call in their debts at once. The Company is currently in default on loan obligations as disclosed further in note 15 of the 2018 consolidated financial statements and has various commitments and contingencies as disclosed in note 21 of the 2018 consolidated financial statements. The Company has been in discussions and negotiations with the related counterparties to restructure the repayments that are currently due. In order to continue as a going concern, the Company will need to agree adequate terms with counterparties to restructure repayments. There is material uncertainty about the outcome of these negotiations which casts significant doubt on the Company's ability to continue as a going concern.

In order to support the Company's short term liquidity position and improve the Company's financial situation, we will need to:

- Resolve the disputed matters with DSFK Special Finance Company LLP and obtain a release of Tethys' pledged assets;
- Return to full gas production and gas sales;
- Complete the drilling of the Klymene well in the Kul-bas contract area and renew the contract which expires on November 11, 2019; and
- Agree repayment terms for overdue loans.

The Company's ability to continue as a going concern is dependent upon its ability to secure and deliver 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 oil & gas 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 realise its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

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 September 30			Nine months ended September 30		
	2019	2018	Change	2019	2018	Change
Net cash from/(used in) operating activities	**2,160**	**(101)**	**(2239%)**	**4,540**	**487**	**832%**
Proceeds from assets held for sale	-	393	(100%)	-	3,891	(100%)
Capital expenditure	(2,502)	(93)	2590%	(3,816)	(1,255)	204%
Net changes in working capital	(1,066)	(105)	915%	(1,970)	297	(763%)
Other investing cash flows	(2)	380	(101%)	(202)	555	(136%)
Net cash (used in)/from investing activities	**(3,770)**	**575**		**(5,988)**	**3,488**	**(272%**
Loan principal and interest payments	-	-	-	-	(3,148)	(100%)
Proceeds from shares issued	-	2,586	(100%)	-	2,586	(100%)
Net cash from/(used in) financing activities	**-**	**2,586**	**(100%)**	**-**	**(562)**	**(100%)**
Effect of exchange rates	(24)	(727)	(97%)	358	(690)	(151%)
Net increase in cash	**(1,634)**	**2,333**	**(170%)**	**(1,090)**	**2,723**	**(140%)**
Cash & cash equivalents at beginning of period	4,002	467	757%	3,460	77	4394%
Cash & cash equivalents at end of period	**2,368**	**2,800**	**(15%)**	**2,368**	**2,800**	**(15%)**

Operating activities

Net cash from operating activities in the current quarter and nine months was higher due to higher receipts for gas sales and lower payments for operating costs following cost reductions.

Investing activities

Capital expenditure comprised payment of debts due for gas wells drilled in H2 2017, the re-entry of the AKD-03 oil well, commencement of drilling of the Klymene prospect and seismic acquisition in the Akkulka contract area and in the prior year payments for the shallow gas well drilling program.

Financing activities

There were no cash flows from financing activities in either period.

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 September 30, 2019 condensed consolidated interim financial statements. Refer to note 4 of the 2018 consolidated financial statements for full details of the Company's accounting policies and information on the Company's significant judgments and assumptions and critical estimates.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Financial Review - continued

Non-GAAP Measures

Adjusted EBITDA

Adjusted EBITDA is defined as "Profit or loss 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 loss before taxation to Adjusted EBITDA to for the period is as follows:

	Quarter ended September 30			Nine months ended September 30		
	2019	**2018**	**Change**	**2019**	**2018**	**Change**
Loss before taxation	(716)	(726)	(1%)	(1,342)	(7,772)	(83%)
Depreciation, depletion and amortization	1,195	1,690	(29%)	3,736	5,859	(36%)
Share based payments	-	11	(100%)	-	44	(100%)
Gain on assets held for sale	-	(419)	(100%)	-	(419)	(100%)
Finance costs - net	1,461	830	76%	4,636	3,821	21%
Adjusted EBITDA	**1,940**	**1,386**	**40%**	**7,030**	**1,533**	**359%**

Net debt

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

	As at September 30		
	2019	**2018**	**Change**
Total financial liabilities - borrowings	38,459	32,851	17%
Less: cash and cash equivalents	(2,368)	(2,800)	(15%)
Net debt	**36,091**	**30,051**	**20%**
Total equity	54,970	44,019	25%
Total capital	**91,061**	**74,070**	**23%**

Refer to the section above *"Liquidity and capital resources"* for a description of the Company's plans to reduce net debt.

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 September 30, 2019 the Company had authorised share capital of 145,000,000 (2018: 145,000,000) ordinary shares of which 68,324,430 (September 30, 2018: 63,517,013) had been issued and 50,000,000 (September 30, 2018: 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.

Financial Review - continued

The number of ordinary shares issued and outstanding at the date of this MD&A was 68,324,430 and the number of preference shares issued and outstanding was nil.

As at September 30, 2019, a total of 4,037,432 (September 30, 2018: 4,037,432) ordinary shares were reserved under the Company's Long Term Stock Incentive Plan. The number of options outstanding as at September 30, 2019 was 1,362,188 (September 30, 2018: 1,371,187) all of which were exercisable (September 30, 2018: 945,458) and the number of warrants outstanding is 14,422,500 (September 30, 2018: 19,230,000) all of which were exercisable. Loan facilities are in place which were convertible into a total of up to 18,631,606 (September 30, 2018: 18,631,606) ordinary shares.

On November 28, 2018 the Company completed a 10 for 1 share consolidation and all figures shown above are on a post-consolidation basis.

Dividends

There were no dividends paid or declared in the period.

Transactions with Related Parties

There were no transactions with related parties requiring disclosure.

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 note 21 of the 2018 consolidated financial statements.

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

Contractual obligations	Total	Payments due by period Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Borrowings	38,459	38,459	-	-	-
Kazakhstan work programme commitments	56,864	16,097	19,247	5,294	16,226
Trade and other payables	5,957	5,957	-	-	-
Provisions	1,568	140	272	-	1,156
Total contractual obligations	**102,848**	**60,653**	**19,519**	**5,294**	**17,382**

Risks, uncertainties and other information

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 2019 to include:

(1) Liquidity and going concern;

(2) Retention and extension of existing licences;

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

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

Financial Risk Management

The Company's activities expose it to a variety of financial risks including: market risk, credit risk, liquidity risk, interest rate, commodity price and foreign exchange risk. Details of the Company's exposure to these risks and how this is managed is given in note 3 to the consolidated financial statements for the year ended December 31, 2018. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

The Board of Directors of the Company has overall responsibility for the Company's management of risk, including the identification and analysis of risks faced by the Company and the consideration of controls that monitor changes in risk and minimise risk wherever possible.

Sensitivities

The price of gas sales from gas produced from both the Kyzyloi and Akkulka gas fields under gas sales contracts denominated in Tenge is sensitive to a fluctuation in exchange rates. A 20% devaluation of the Tenge, from KZT380 to the $ to KZT456 for example, would result in a net price reduction of $18.01 per Mcm based the average price received for the nine months to September 30, 2019. Based on a sales volume of 130,000 Mcm per annum, this would result in a reduction of $2.3 million in gas revenues.

The price of oil sales is sensitive to movements in the market price. On a production level of 250 bopd, a movement of $1 per barrel on the price received by the Company would result in a plus or minus movement in oil sales revenue of $0.1 million per annum. Note, the Company's last oil sales were made in April 2019.

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 2018 Consolidated Financial Statements - note 2 *Summary of Significant Accounting Policies* and Note 4 – *Critical Judgements and Accounting Estimates* – for further details.

Derivative Financial Instruments

The Company has not recognised any derivative financial instruments.

Significant equity investees

Details of significant equity investees are discussed in note 19 of the consolidated financial statements for the year ended December 31, 2018.

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.

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: 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; 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; 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; 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 oil and 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; unexpected difficulties in transporting oil or natural gas; risks associated with technology; the timing and the costs of well and pipeline construction; the Company's and its subsidiaries' ability to secure adequate product transportation; changes in royalty, tax, environmental and other laws or regulations or the interpretations of such laws or regulations; political and economic conditions in the countries in which the Company and its subsidiaries operate; the risk associated with the uncertainties, inconsistencies and contradictions in local laws and their interpretation and application in local jurisdictions in which the Company operates; the risk of international war, hostilities and terrorist threats, civil insurrection and instability affecting countries in which the Company and its subsidiaries operate; risks associated with existing and potential future lawsuits and regulatory actions made against the Company and its subsidiaries; and other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by Tethys.

Forward-looking statements - continued

With regard to forward looking information contained in this MD&A, the Company has made assumptions regarding, amongst other things, the continued existence and operation of existing pipelines; the proposed increase in the selling price for the delivery of gas to China; future prices for 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

AKD	Akkulka Deep
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
EOR	Enhanced oil recovery
ESP	Electrical submersible pump
GAAP	Generally accepted accounting principles
H1	Six month period commencing January 1 and ending 30 June
H2	Six month period commencing July 1 and ending 31 December
IFRS	International Financial Reporting Standards
KASE	Kazakhstan Stock Exchange
KZT	Kazakhstani Tenge
m3	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
NPV	Net present value
NEX	NEX Board of the TSX Venture Exchange
Olisol	Olisol Investments Limited and Olisol Petroleum Limited
Q1	Three month period commencing January 1 and ending 31 March
Q2	Three month period commencing April 1 and ending 30 June
Q3	Three month period commencing July 1 and ending 30 September
Q4	Three month period commencing October 1 and ending 31 December
sq.km	Square kilometre
TAG	Tethys Aral Gas LLP
$	United States Dollar
TSX	Toronto Stock Exchange
TSXV	TSX Venture Exchange
$/bbl	$ per barrel
$/Mcm	$ per thousand cubic metre
VAT	Value added tax
YTD	Year to date cumulative